

22 April 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

IASB EXPOSURE DRAFT – Offsetting Financial Assets and Financial Liabilities

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB Exposure Draft – Offsetting Financial Assets and Financial Liabilities

We appreciate the IASB and FASB's collaborative efforts to develop this joint proposal on offsetting financial assets and financial liabilities in the statement of financial position. The ED established common principles for offsetting and we support IASB's decision to retain and clarifying the existing guidance for offsetting in IAS 32 Financial Instruments: Presentation.

Our detailed responses are enclosed in the Appendix of this letter. If you need further clarification or have any queries regarding this letter, please contact Ms Christine Lau at +603 2240 9200 or by email at christine@masb.org.my

Yours sincerely



Mohammad Faiz Azmi
Chairman

Appendix

Question 1—Offsetting criteria: unconditional right and intention to settle net or simultaneously

The proposals would require an entity to offset a recognised financial asset and a recognised financial liability when the entity has an unconditional and legally enforceable right to set off the financial asset and financial liability and intends either:

- (a) to settle the financial asset and financial liability on a net basis or
- (b) to realise the financial asset and settle the financial liability simultaneously.

Do you agree with this proposed requirement? If not, why? What criteria would you propose instead, and why?

In principle we agree with the proposal to require an entity to offset a recognised financial asset and a recognised financial liability when, and only when, the entity has an unconditional and legally enforceable right to set off and intends to settle the financial asset and financial liability on a net basis or simultaneously.

Question 2—Unconditional right of set-off must be enforceable in all circumstances

It is proposed that financial assets and financial liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of set-off. The proposals specify that an unconditional and legally enforceable right of set-off is enforceable in all circumstances (ie it is enforceable in the normal course of business and on the default, insolvency or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?

We agree with the proposed requirement that unconditional right of set-off must be enforceable in all circumstances.

Question 3—Multilateral set-off arrangements

The proposals would require offsetting for both bilateral and multilateral set-off arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements? If not, why? What would you propose instead, and why? What are some of the common situations in which a multilateral right of set-off may be present?

We agree with the Boards that whilst it is difficult to satisfy all other conditions including having a legally enforceable right of set-off under multilateral arrangements, there is no basis to exclude multilateral netting arrangements from the scope of offsetting if all other criteria are met for that transaction.

Appendix

Question 4—Disclosures

Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements, and why?

We agree with the proposed disclosure requirements as the disclosures would provide information that is necessary for a user to understand the entity's rights of set-off and related arrangements as well as the effect of those related arrangements on the entity's financial position, particularly on the transactions with unconditional rights to set-off.

But the industry players have concerns over the same extensive disclosures required on conditional rights. They are of the view that the usefulness of this information is much less as the possibility of offsetting may not be probable and in some cases even remote. Thus, we propose that such disclosures should only be required if the set-off is assessed to be probable for any conditional rights held.

Also, the requirements relating to disclosures of collateral agreements in respect of financial assets and financial liabilities seem to be overlapping with IFRS 7's requirements. We propose for the Board to streamline these requirements and include them under IFRS 7.

Question 5—Effective date and transition

- (a) Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?
- (b) Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.

We agree with the requirement to apply the provisions of the ED retrospectively.