Exposure Draft

Proposed Accounting Standards Update

Issued: November 26, 2012
Comments Due: December 21, 2012

Balance Sheet (Topic 210)

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

This Exposure Draft of a proposed Accounting Standards Update of Topic 210 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director
File Reference No. 2012-250

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by December 21, 2012. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2012-250
- Sending written comments to "Technical Director, File Reference No. 2012-250, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The main objective in developing this proposal is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* Stakeholders have told the Board that because the scope in Update 2011-11 is unclear, diversity in practice may result. Recent feedback from stakeholders is that standard commercial provisions of many contracts would equate to a master netting arrangement. Stakeholders questioned whether it was the Board's intent to require disclosures for such a broad scope, which would significantly increase the cost of compliance. The objective of this proposed Update is to clarify the scope of the offsetting disclosures and address any unintended consequences.

What Are the Main Provisions?

The proposed amendments would clarify that the scope of Update 2011-11 would apply to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to a master netting arrangement or similar agreement.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect entities that have derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to a master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also would be affected as they would no longer be subject to the disclosure requirements in Update 2011-11.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The proposed amendments would clarify the intended scope of the disclosures required by Section 210-20-50. The Board believes that the clarified scope would significantly reduce the operability concerns expressed by preparers while still providing decision-useful information about certain transactions involving master netting arrangements. The proposed amendments would provide a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

When Would the Amendments Be Effective?

The proposed amendments would require an entity to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity would provide the required disclosures retrospectively for all comparative periods presented. The proposed effective date is consistent with the effective date in Update 2011-11.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

The disclosures required by the amendments in Update 2011-11 are the result of a joint project between the FASB and the International Accounting Standards Board (IASB), which was intended to provide comparable information between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments in this proposed Update would clarify that the scope of the disclosures under U.S. GAAP is limited to include derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to a master netting arrangement or similar agreement.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: The proposed amendments would require an entity to provide the disclosures required by Section 210-20-50 for derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreements. Do you believe that there are other instruments that should be included in the proposed scope that would provide useful information to users of financial statements as it relates to reconciling differences as a result of offsetting between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with IFRS?

Question 2: Do you foresee any significant operability or auditing concerns or constraints in implementing the revised scope of the disclosures based on the proposed amendments in Question 1?

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Scope and Scope Exceptions (210-20-50)	The proposed amendments would amend the scope of the related disclosures.
Implementation Guidance (210-20-55)	The proposed amendments would supersede the implementation guidance related to scope.
Conforming Amendments	Subtopics 815-10 and 860-30 would be linked to the proposed amendments.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–10. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 210-20

3. Amend paragraphs 210-20-50-1 through 50-2 and their related heading, with a link to transition paragraph 210-20-65-2, as follows:

Balance Sheet—Offsetting

Disclosure

> Offsetting of Derivatives, ~~Financial Assets,~~ Repurchase Agreements, and ~~Financial Liabilities~~Securities Lending Transactions

210-20-50-1 The disclosure requirements in paragraphs 210-20-50-2 through 50-5 apply to ~~both~~all of the following:

a. Subparagraph superseded by Accounting Standards Update 201X-XX. ~~Recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45~~
b. Subparagraph superseded by Accounting Standards Update 201X-XX. ~~Recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.~~
c. Recognized **derivative instruments**, **{add glossary link to 2nd definition}repurchase agreements{add glossary link to 2nd definition}** and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either Section 210-20-45 or Section 815-10-45
d. Recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

210-20-50-2 An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial ~~position.~~position for recognized assets and liabilities within the scope of the preceding paragraph. This includes the effect or potential effect of **rights of setoff** associated with an entity's recognized assets and recognized liabilities that are in the scope of the preceding paragraph.

4. Supersede paragraphs 210-20-55-2 through 55-5 and their related heading, with a link to transition paragraph 210-20-65-2, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

~~> > Scope~~

210-20-55-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The disclosures in paragraphs 210-20-50-2 through 50-6 are required for all recognized financial instruments and derivative instruments that are subject to offsetting in accordance with either Section 210-20-45 or Section 815-10-45. In addition, derivative instruments and other financial instruments and transactions are within the scope if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.~~

210-20-55-3 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Similar agreements include the following agreements and any related rights to financial collateral:~~

a. ~~Derivative clearing agreements~~
b. ~~Global master repurchase agreements~~
c. ~~Global master securities lending agreements.~~

210-20-55-4 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Similar financial instruments and transactions as referred to in paragraph 210-20-55-2 include the following:~~

a. ~~Derivatives~~
b. ~~Sale and repurchase agreements and reverse sale and repurchase agreements~~
c. ~~Securities borrowing and securities lending agreements.~~

210-20-55-5 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Examples of financial instruments that are not within the scope of the disclosure requirements in paragraphs 210-20-50-2 through 50-6 include the following:~~

a. ~~Loans and customer deposits at the same institution (unless they are offset in the statement of financial position)~~
b. ~~Financial instruments that are only subject to a collateral agreement.~~

5. Amend paragraph 210-20-55-7, with a link to transition paragraph 210-20-65-2, as follows:

> > Disclosure of the Gross Amounts of Recognized Assets and Liabilities

210-20-55-7 The disclosures required by paragraph 210-20-50-3(a) relate solely to ~~recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45, or to recognized financial instruments or derivative instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting guidance.~~recognized assets and liabilities within the scope of paragraph 210-20-50-1. ~~However, the disclosures required by paragraph 210-20-50-3(a) do not relate to any amounts recognized as a result of collateral agreements that do not meet the offsetting guidance in either Section 210-20-45 or Section 815-10-45. Instead, such amounts should be disclosed in accordance with paragraph 210-20-50-3(d).~~

6. Add paragraph 210-20-55-10A, with a link to transition paragraph 210-20-65-2, as follows:

210-20-55-10A An entity also may elect to include all recognized derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions in the scope of paragraph 210-20-50-1 to reconcile to the individual line item amount(s) presented in the statement of financial position. For instruments not subject to an enforceable master netting arrangement or similar agreement, the amounts disclosed in accordance with paragraph 210-20-50-3(a) would equal the amounts disclosed for those instruments in accordance with both paragraph 210-20-50-3(c) and paragraph 210-20-50-3(e).

7. Amend paragraph 210-20-65-1 as follows:

> Transition Related to Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*

210-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*:

a. The pending content that links to this paragraph, except for paragraphs 210-20-55-2 through 55-5, which are superseded as of the issuance of Accounting Standards Update 201X-XX, shall be effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods.
b. The pending content that links to this paragraph shall be applied retrospectively for any period presented that begins before the date of initial application of the guidance.

8. Add paragraph 210-20-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 201X-XX, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

210-20-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*:

a. The pending content that links to this paragraph shall be effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods.
b. The pending content that links to this paragraph shall be applied retrospectively for any period presented that begins before the date of initial application of the guidance.

Amendments to Subtopic 815-10

9. Add paragraph 815-10-50-7A, with a link to transition paragraph 210-20-65-2, as follows:

Derivatives and Hedging—Overall

Disclosure

> Balance Sheet Offsetting

815-10-50-7 A reporting entity's accounting policy to offset or not offset in accordance with paragraph 815-10-45-6 shall be disclosed.

815-10-50-7A A reporting entity also shall disclose the information required by paragraphs 210-20-50-1 through 50-6 for all recognized derivative instruments that are either:

a. Offset in accordance with either Section 210-20-45 or Section 815-10-45
b. Subject to an enforceable master netting arrangement or similar agreement.

Amendments to Subtopic 860-30

10. Add paragraph 860-30-50-6 and its related heading, with a link to transition paragraph 210-20-65-2, as follows:

Transfers and Servicing—Secured Borrowing and Collateral

Disclosure

> Disclosures for Repurchase Agreements and Securities Lending Transactions

860-30-50-6 A reporting entity also shall disclose the information required by paragraphs 210-20-50-1 through 50-6 for both of the following that are either offset in accordance with Section 210-20-45 or subject to an enforceable master netting arrangement or similar agreement:

a. Recognized repurchase agreements and reverse repurchase agreements
b. Securities borrowing and securities lending transactions.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this proposed Update would clarify the scope of the disclosures required by Section 210-20-50. The proposed scope would include:

a. Recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either Section 210-20-45 or Section 815-10-45
b. Recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

BC3. The proposed amendments would not affect the effective date of the disclosures required by Section 210-20-50.

Background Information

BC4. In December 2011, the Board issued Update 2011-11 as a result of a joint project with the IASB on the disclosures about offsetting assets and liabilities. Update 2011-11 required an entity to provide disclosures about offsetting assets and liabilities for both of the following:

a. Recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45
b. Recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

BC5. Once preparers of financial statements began preparing for implementation, they raised questions about the intended scope of the requirements, noting that many contracts include standard commercial provisions allowing either party to net in the event of default, which would be similar to an enforceable master netting arrangement. They noted that implementing that broad scope would require a comprehensive review of all contracts to determine whether each contract contained those provisions and, therefore, was within the scope of the disclosures.

BC6. Additionally, broker-dealer preparers questioned whether receivables and payables from unsettled regular-way trades would be in scope. The Board received feedback in drafting Update 2011-11 that unsettled regular-way trades would not be in scope because they were not subject to a master netting arrangement or similar agreement. Upon further review, broker-dealer preparers noted that the contracts had evolved and they now believe that the contracts were equivalent to a master netting arrangement or similar agreement.

Scope

BC7. In reviewing the initial scope in light of new feedback, the Board considered many factors, including the objective of Update 2011-11, operability, analysis of costs versus benefits, and usefulness of information about transactions containing enforceable master netting arrangements, including providing users of financial statements with comparable information as it relates to reconciling differences for the in-scope instruments between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with IFRS. Users of financial statements consistently communicated this in relation to three products specifically: derivatives, repurchase agreements, and securities lending transactions.

BC8. Stakeholders noted that the Boards specifically excluded both (a) loans and customer deposits at the same institution (unless they are offset in the statement of financial position) and (b) financial instruments that are only subject to a collateral agreement, citing concerns about operability. In the basis for conclusions of Update 2011-11, the Boards noted that these rights of offset are primarily a credit enhancement and not a primary source of credit mitigation. These same factors could be analogized to both trade payables and trade receivables and unsettled regular-way trades.

BC9. Preparers of financial statements also noted that the cost of preparing the disclosures would be significant and the benefits would be minimal. The broad scope requires an entity to analyze comprehensively all contracts to determine whether any contract for a financial instrument or derivative instrument is a master netting arrangement or similar agreement. Management notes that including a clause that allows all receivables and payables with a particular counterparty to be net in an event of default is a standard commercial provision of many contracts today. As discussed earlier, this clause is seen as a credit enhancement and not a primary source of credit mitigation. In order to offset trade receivables and trade payables in financial statements, an entity would need to meet all criteria for a right of setoff, including the intent to net settle in the ordinary course of business. The Board believes that, generally, trade receivables and trade payables that the entity has the intent to settle on a net basis in the ordinary course of business would be presented similarly on a net basis on both financial statements prepared in accordance with U.S. GAAP and financial statements prepared in accordance with IFRS. Additionally, preparers of financial statements also noted that deliberations leading up to the issuance of Update 2011-11 and most of the communication from auditors and others that they had heard on the project related to the impact on derivatives, repurchase agreements, and securities lending transactions.

BC10. As it relates to trade date receivables and payables related to unsettled regular-way trades, there is a longstanding industry practice in the United States to present on a net basis the short-term receivables and payables that arise before settlement. While developing Update 2011-11, the Board was informed by stakeholders that these instruments were not subject to a master netting arrangement and, therefore, were not in the Update's scope. However, upon closer review, the Board was informed by stakeholders that the contracts governing these arrangements would be considered a master netting arrangement. Also, there is an option under IFRS to record these instruments on a trade-date basis or a settlement-date basis. Therefore, disclosing the gross amounts of these transactions would not facilitate comparison of the amounts recorded under U.S. GAAP and those recorded under IFRS.

BC11. Given the uncertainty about the intended scope, the Board decided to limit the scope of the disclosures required by Section 210-20-50 to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to a master netting arrangement or similar agreement.

Effective Date and Transition

BC12. The Board decided that the amendments in this proposed Update should be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required retrospectively for all comparative periods presented. The Board decided that the proposed scope clarification would alleviate issues that have arisen in implementing Update 2011-11 while providing users of financial statements with the needed comparable information. The Board also believes that the considerations are similar for nonpublic entities; that is, because the proposed scope was clearly communicated in Update 2011-11, there is no need to provide a deferral for nonpublic entities. Users of financial statements have consistently communicated that they need comparable information as it relates to the instruments within the scope of this proposed Update in order to compare financial statements prepared in accordance with U.S. GAAP to those prepared in accordance with IFRS.

Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. Preparers of financial statements have said that many entities would incur significant costs in applying the scope of Update 2011-11 if it were applied broadly. The Board believes that the scope clarification contained in this proposed Update will reduce the costs associated with implementing the disclosures, while still providing users of financial statements with the requested comparable information for those instruments within the scope of paragraph 210-20-50-1 between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with IFRS.

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this proposed Update.