



Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* and amendments to HKFRS 7 *Financial Instruments: Disclosures – Disclosures – Offsetting Financial Assets and Financial Liabilities*

HKICPA Standard Setting Department Staff Summary (January 2012)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* clarifies the requirements for offsetting financial instruments and amendments to HKFRS 7 *Financial Instruments: Disclosures – Disclosures-Offsetting Financial Assets and Financial Liabilities* help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.
2. The amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014. However, the new offsetting disclosure requirements are effective sooner – for annual periods beginning on or after 1 January 2013. The amendments need to be provided retrospectively to all comparative periods.

Reasons for issuing amendments to HKAS 32 and HKFRS 7

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKAS 32 and HKFRS 7 is to maintain international convergence arising from the issuance of amendments to IAS 32 and IFRS 7 by the International Accounting Standards Board (IASB).
4. Amendments to HKAS 32 address inconsistencies in current practice when applying the offsetting criteria in the standard, while amendments to HKFRS 7 provide common disclosure requirements to help investors compare financial statements prepared in accordance with HKFRSs/IFRSs with those prepared in accordance with US GAAP.

Main features of amendments

5. The amendments to HKAS 32 clarify:
 - The meaning of 'currently has a legally enforceable right of set-off'; and
 - That some gross settlement systems may be considered equivalent to net settlement.

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts

6. To meet this criterion, the right of set-off:
 - a. Must not be contingent on a future event; and
 - b. Must be legally enforceable in all of the following circumstances:
 - i. The normal course of business;
 - ii. The event of default; and
 - iii. The event of insolvency or bankruptcy of the entity and all of the counterparties.
7. The laws applicable to the relationships between the parties (eg contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in all of the above-mentioned circumstances.

Some gross settlement systems may be considered equivalent to net settlement

8. One of the offsetting criteria contained in paragraph 42 of HKAS 32 requires the reporting entity to intend either to settle on a net basis, or to realize that asset and settle the liability simultaneously. Paragraph 48 of the standard further states that simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange.
9. However, feedback received during outreach indicated that there was diversity in practice related to the interpretation of 'simultaneous settlement'. Many preparers and accounting firms have interpreted paragraph 48 of the standard to mean that settlement through a clearing house always meets the simultaneous settlement criterion even if not occurring at the same moment.
10. In order to reduce diversity in practice, the amendments clarify that if an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

Disclosures

11. An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. To meet this objective, an entity shall disclose the following quantitative information separately for recognised financial assets and recognised financial liabilities that are set off in accordance with HKAS 32:
 - a. The gross amounts of those recognised financial assets and recognised financial liabilities;
 - b. The amounts that are set off in accordance with the criteria in HKAS 32 when determining the net amounts presented in the statement of financial position;
 - c. The net amounts presented in the statement of financial position;



- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b);
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

Other references on Amendments to IAS 32 and IFRS 7

1. Deloitte IFRS in Focus on IASB clarifies requirements for offsetting financial assets and financial liabilities and amends disclosures
<http://www.iasplus.com/iasplus/1112offsetting.pdf>
2. Ernst & Young "IFRS developments" on Offsetting of financial instruments
[http://www.ey.com/Publication/vwLUAssets/FAASW_6Jan2011/\\$FILE/IFRS-Developments-Issue-22.pdf](http://www.ey.com/Publication/vwLUAssets/FAASW_6Jan2011/$FILE/IFRS-Developments-Issue-22.pdf)
3. KPMG 'Financial Reporting Update' on financial assets and liabilities offsetting
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/Financial-Reporting-Update/Documents/Financial-Reporting-Update-1201-69.html>
4. KPMG 'In the headlines' on offsetting financial assets and financial liabilities
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/In-the-headlines/Documents/In-the-headlines-O-201112-40.pdf>
5. IASB Project Summary on Amendments to IFRS 7 – *Disclosures-Offsetting Financial Assets and Financial Liabilities*
http://www.ifrs.org/NR/rdonlyres/7A951B35-DE05-47CA-911D-C93E2BDE2E51/0/DisclosuresOffsettingFAssetsandFLiabilities_AmdmentstoIFRS7_WEBSITE.pdf