FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2011-11
December 2011

Balance Sheet (Topic 210)

Disclosures about Offsetting Assets and Liabilities

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

Accounting Standards Update 2011-11

Balance Sheet (Topic 210)

Disclosures about Offsetting Assets and Liabilities

December 2011

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Summary

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

Offsetting (netting) assets and liabilities is an important aspect of presentation in financial statements. The differences in the offsetting requirements in U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) account for a significant difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP and in the amounts presented in those statements prepared in accordance with IFRS for certain institutions. This difference reduces the comparability of statements of financial position. As a result, users of financial statements requested that the differences should be addressed expeditiously. In response to those requests, the FASB and the IASB are issuing joint requirements that will enhance current disclosures. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison 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.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50.

What Are the Main Provisions?

The amendments in this Update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position.

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

The amendments in this Update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) 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. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update.

When Will the Amendments Be Effective?

An entity is required to apply the amendments 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 by those amendments retrospectively for all comparative periods presented.

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

The differences in the offsetting requirements in U.S. GAAP and IFRS account for a significant difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP and in the amounts presented in those statements prepared in accordance with IFRS for certain institutions. This Update is the result of a joint project conducted by the FASB and the IASB to enhance disclosures and provide converged disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. Entities are required to provide both net and gross information for these assets and liabilities in order to enhance comparability 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.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the changes 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 underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 210-20

2. Add Section 210-20-50, with a link to transition paragraph 210-20-65-1, as follows:

Balance Sheet—Offsetting

Disclosure

General

> Offsetting of Derivatives, Financial Assets, and Financial Liabilities

210-20-50-1 The disclosure requirements in paragraphs 210-20-50-2 through 50-5 apply to 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.

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. 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.

210-20-50-3 To meet the objective in the preceding paragraph, an entity shall disclose at the end of the reporting period the following quantitative information separately for assets and liabilities that are within the scope of paragraph 210-20-50-1:

a. The gross amounts of those recognized assets and those recognized liabilities
b. The amounts offset in accordance with the guidance in Sections 210-20-45 and 815-10-45 to determine 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 not otherwise included in (b):
    1. The amounts related to recognized financial instruments and other derivative instruments that either:
        i. Management makes an accounting policy election not to offset.
        ii. Do not meet some or all of the guidance in either Section 210-20-45 or Section 815-10-45.
    2. The amounts related to financial collateral (including cash collateral).
e. The net amount after deducting the amounts in (d) from the amounts in (c).

210-20-50-4 The information required by the preceding paragraph shall be presented in a tabular format, separately for assets and liabilities, unless another format is more appropriate. The total amount disclosed in accordance with paragraph 210-20-50-3(d) for an instrument shall not exceed the amount disclosed in accordance with paragraph 210-20-50-3(c) for that instrument.

210-20-50-5 An entity shall provide a description of the rights of setoff associated with an entity's recognized assets and recognized liabilities subject to an enforceable master netting arrangement or similar agreement disclosed in accordance with paragraph 210-20-50-3(d), including the nature of those rights.

210-20-50-6 If the information required by paragraphs 210-20-50-1 through 50-5 is disclosed in more than a single note to the financial statements, an entity shall cross-reference between those notes.

3. Add Section 210-20-55, with a link to transition paragraph 210-20-65-1, as follows:

Implementation Guidance and Illustrations

General

> Implementation Guidance

210-20-55-1 This Section provides additional guidance and illustrations that address the application of the disclosures for derivative instruments and other financial instruments.

> > Scope

210-20-55-2 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 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 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 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.

> > Disclosure of Quantitative Information for Recognized Assets and Liabilities within the Scope of Paragraph 210-20-50-1

210-20-55-6 Instruments disclosed in accordance with paragraph 210-20-50-3 may be subject to different measurement attributes (for example, a payable related to a repurchase agreement may be measured at amortized cost, while a derivative will be measured at fair value). An entity should include instruments at their recognized amounts and describe any resulting measurement differences in the related disclosures.

> > 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. 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).

> > Disclosure of the Amounts Offset in Accordance with Sections 210-20-45 and 815-10-45

210-20-55-8 Paragraph 210-20-50-3(b) requires that entities disclose the amounts offset in accordance with Sections 210-20-45 and 815-10-45 to determine the net amounts presented in the statement of financial position. The amounts of both the recognized assets and the recognized liabilities subject to setoff under the same arrangement will be disclosed in the respective tables; however, the amounts included in the tables are limited to the amount that is subject to setoff. For example, an entity may have a recognized derivative asset and recognized derivative liability that meet the offsetting guidance in Section 815-10-45. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the asset disclosure table will include the entire amount of the derivative asset and the entire amount of the derivative liability. The liability disclosures table, however, will include the entire amount of the derivative liability, but it will only include the amount of the derivative asset equal to the amount of the derivative liability.

> > Disclosure of the Net Amounts Presented in the Statement of Financial Position

210-20-55-9 If an entity has instruments that meet the scope of the disclosures but that do not meet the offsetting guidance in either Section 210-20-45 or Section 815-10-45 or that management does not elect to offset, the amounts required to be disclosed by paragraph 210-20-50-3(c) would equal the amounts required to be disclosed by paragraph 210-20-50-3(a).

210-20-55-10 The amounts required by paragraph 210-20-50-3(c) must be reconciled to the individual line item amount(s) presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line items provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in accordance with paragraph 210-20-50-3(c) to the statement of financial position.

> > Disclosure of Amounts Subject to an Enforceable Master Netting Arrangement or Similar Agreement Not Otherwise Included in Paragraph 210-20-50-3(b)

210-20-55-11 Paragraph 210-20-50-3(d) requires that entities disclose other amounts for instruments that are within the scope of paragraph 210-20-50-1 but are not included in paragraph 210-20-50-3(b). These amounts include those that meet the guidance in either Section 210-20-45 or Section 815-10-45 to qualify for offsetting but management elects not to offset.

210-20-55-12 An entity should also disclose the fair value amounts related to cash or financial instrument collateral received or pledged (see paragraph 210-20-50-3(d)(2)).

> > Limits on the Amounts Disclosed in Paragraph 210-20-50-3(d)

210-20-55-13 When disclosing amounts in accordance with paragraph 210-20-50-3(d), an entity must take into account the effect of overcollateralization by instrument. To do so, an entity must first deduct the amounts disclosed in accordance with paragraph 210-20-50-3(d)(1) from the amount disclosed in accordance with paragraph 210-20-50-3(c). An entity should then limit the amounts disclosed in accordance with paragraph 210-20-50-3(d)(2) to the remaining amount for the related instrument. However, if rights to collateral can be enforced across financial instruments, such rights may be included in the disclosure provided in accordance with 210-20-50-3(d).

> > Description of the Rights of Setoff Subject to Enforceable Master Netting Arrangements and Similar Agreements

210-20-55-14 An entity should describe the types of rights of setoff and similar agreements disclosed in accordance with paragraph 210-20-50-3(d), including the nature of those rights. For example, for a conditional right of setoff, an entity should describe the related condition(s). For any financial collateral received or pledged, an entity should describe the terms of the collateral agreement (for example, when the collateral is restricted).

> > Disclosure by Type of Financial Instrument or by Counterparty

210-20-55-15 The disclosures required by paragraph 210-20-50-3(a) through (e) may be grouped by type of instrument or transaction (for example, derivatives, repurchase and reverse agreements, and securities borrowing and lending agreements).

210-20-55-16 Alternatively, an entity may group the information required by paragraph 210-20-50-3(a) through (c) by type of instrument and paragraph 210-

20-50-3(c) through (e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of the counterparties (Counterparty A, Counterparty B, Counterparty C, and so forth) should remain consistent from year to year to maintain comparability, and qualitative disclosures should be considered to give further information about the types of counterparties. When disclosure of the amounts in paragraph 210-20-50-3(c) through (e) is provided by counterparty, the amounts related to individually significant counterparties with respect to total counterparty amounts should be separately disclosed, and the remaining individually insignificant counterparties should be aggregated into one line item.

>> Other Considerations

210-20-55-17 The disclosures required by paragraphs 210-20-50-3 through 50-5 are minimum requirements, and to meet the objective in paragraph 210-20-50-2 an entity may need to supplement the disclosures with additional (qualitative) disclosures depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of setoff and their effect or potential effect on the entity's financial position.

210-20-55-18 An entity should present the disclosures in a manner that clearly explains to users of its financial statements the nature of rights of setoff and related arrangements and their effect on the entity's assets and liabilities in the scope of paragraph 210-20-50-1 and its financial position. An entity should determine how much detail it must provide to satisfy the disclosure requirements. The entity must strike a balance between obscuring important information because of excessive aggregation and obscuring important information because of excessive detail that may not help users of financial statements to understand the entity's financial position. For example, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of rights of setoff or related arrangements.

> Illustrations

210-20-55-19 The following Examples illustrate ways to meet the quantitative disclosure requirements in paragraphs 210-20-50-1 through 50-5 by type of financial instrument or other derivative instrument.

> > Example 1: Disclosure by Type of Financial Instrument

210-20-55-20 In this Example, the reporting entity has entered into transactions subject to an enforceable master netting arrangement or other similar agreement with the following counterparties. The reporting entity has the following recognized financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 210-20-50-1. This Example has the following assumptions.

a. Counterparty A:

1. The reporting entity has a derivative asset (fair value of $100 million) and a derivative liability (fair value of $80 million) with Counterparty A. Assume that the entity qualifies for and makes an accounting policy election to offset in accordance with Section 815-10-45. Cash collateral also has been received from Counterparty A for a portion of the net derivative asset ($10 million). The derivative liability and the cash collateral received are set off against the derivative asset in the statement of financial position, resulting in the presentation of a net derivative asset of $10 million.

b. Counterparty B:
   1. The reporting entity had entered into a sale and repurchase agreement with Counterparty B that is accounted for as a collateralized borrowing. The carrying value of the financial asset (bonds) used as collateral and held by the reporting entity for the transaction is $79 million, and their fair value is $85 million. The carrying value of the collateralized borrowing (repo payable) is $80 million.
   2. The reporting entity also has entered into a reverse sale and repurchase agreement with Counterparty B that is accounted for as a collateralized lending. The fair value of the asset (bonds) received as collateral (and not recognized in the statement of financial position) is $105 million. The carrying value of the secured lending (reverse repo receivable) is $90 million.
   3. Assume that the transactions are not offset.

[For ease of readability, the tables are not underlined as new text.]

Application of Paragraph 210-20-50-3(a)–(e)

Offsetting of Financial Assets and Derivative Assets

$ million As of December 31, 20XX	(i)	(ii)	(ii) = (i) – (ii)	(iv)		(v) = (iii) – (iv)
				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Description						
Derivatives	$ 100	$ (90)	$ 10	$ –	$ –	$ 10
Reverse repurchase, securities borrowing, and similar arrangements	90	–	90	(90)	–	–
Other financial instruments	–	–	–	–	–	–
Total	$ 190	$ (90)	$ 100	$ (90)	$ –	$ 10

Offsetting of Financial Liabilities and Derivative Liabilities

$ million As of December 31, 20XX	(i)	(ii)	(iii) = (i) – (ii)	(iv) Gross Amounts Not Offset in the Statement of Financial Position		(v) = (iii) – (iv)
Description	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Liabilities Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
Derivatives	$ 80	$ (80)	$ –	$ –	$ –	$ -
Repurchase, securities lending, and similar arrangements	80	–	80	(80)	–	–
Other financial instruments	–	–	–	–	–	–
Total	$ 160	$ (80)	$ 80	$ (80)	$ –	$ -

> > Example 2: Disclosure by Type of Financial Instrument and Type of Counterparty

210-20-55-21 The following table illustrates how an entity might provide the quantitative disclosure requirements in paragraph 210-20-50-3(a) through (c) by type of instrument and the information required in paragraph 210-20-50-3(c) through (e) by counterparty.

[For ease of readability, the tables are not underlined as new text.]

Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty

Offsetting of Financial Assets and Derivative Assets

$ million

As of December 31, 20XX	(i) Gross Amounts of Recognized Assets	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) – (ii) Net Amounts of Assets Presented in the Statement of Financial Position
Description			
Derivatives	$ 100	$ (90)	$ 10
Reverse repurchase, securities borrowing, and similar arrangements	90	–	90
Other financial instruments	–	–	–
Total	$ 190	$ (90)	$ 100

Financial Assets, Derivative Assets, and Collateral Held by Counterparty

$ million

As of December 31, 20XX	(iii)	(iv) Gross Amounts Not Offset in the Statement of Financial Position		(v) = (iii) – (iv)
	Net Amount of Assets in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Counterparty A	$ 10	$ –	$ –	$ 10
Counterparty B	90	(90)	–	–
Other				
Total	$ 100	$ (90)	$ –	$ 10

Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty

Offsetting of Financial Liabilities and Derivative Liabilities

$ million

As of December 31, 20XX	(i) Gross Amounts of Recognized Liabilities	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) – (ii) Net Amounts of Liabilities Presented in the Statement of Financial Position
Description			
Derivatives	$ 80	$ (80)	$ –
Repurchase, securities lending, and similar arrangements	80	–	80
Other financial instruments	–	–	–
Total	$ 160	$ (80)	$ 80

Financial Liabilities, Derivative Liabilities, and Collateral Pledged by Counterparty

$ million

As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		Gross Amounts Not Offset in the Statement of Financial Position		
	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
Counterparty A	$ –	$ –	$ –	$ –
Counterparty B	80	(80)	–	–
Other				
Total	$ 80	$ (80)	$ –	$ –

> > Example 3: Sophisticated Entity Disclosure by Type of Financial Instrument and Type of Counterparty

210-20-55-22 The following table illustrates how a sophisticated entity who engages in significant derivative activity might provide the quantitative disclosure requirements in paragraph 210-20-50-3(a) through (c) by type of instrument and paragraph 210-20-50-3(c) through (e) by type of counterparty. In this Example, the entity further disaggregates the derivative line item into underlying risk as discussed in paragraph 815-10-50-4D, with further disaggregation based on how the derivative is transacted.

[For ease of readability, the tables are not underlined as new text.]

Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty

Offsetting of Financial Assets and Derivative Assets

$ million

As of December 31, 20XX	(i)	(ii)	(iii) = (i) – (ii)
	Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Assets Presented in the Statement of Financial Position**
Description			
Derivatives			
Interest rate contracts			
Over the counter	$XX,XXX	$XX,XXX	$XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Foreign exchange contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Equity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Commodity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Credit contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Other contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Total derivatives, subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives, not subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives	XX,XXX	XX,XXX	XX,XXX
Reverse repurchase, securities borrowing, and similar arrangements	XX,XXX	XX,XXX	XX,XXX
Other financial instruments	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX

Financial Assets, Derivative Assets, and Collateral Held by Counterparty

$ million

As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		Gross Amounts Not Offset in the Statement of Financial Position		
	Net Amount of Assets in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Counterparty A	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
Counterparty B	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Other	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty

Offsetting of Financial Liabilities and Derivative Liabilities
$ million

As of December 31, 20XX	**(i)** Gross Amounts of Recognized Liabilities	**(ii)** Gross Amounts Offset in the Statement of Financial Position	**(iii) = (i) – (ii)** Net Amounts of Liabilities Presented in the Statement of Financial Position
Description			
Derivatives			
Interest rate contracts			
Over the counter	$XX,XXX	$XX,XXX	$XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Foreign exchange contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Equity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Commodity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Credit contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Other contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Total derivatives, subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives, not subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives	XX,XXX	XX,XXX	XX,XXX
Reverse repurchase, securities borrowing, and similar arrangements	XX,XXX	XX,XXX	XX,XXX
Other financial instruments	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX

Financial Liabilities, Derivative Liabilities, and Collateral Held by Counterparty

$ million				
As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		Gross Amounts Not Offset in the Statement of Financial Position		
	Net Amount of Liabilities in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
Counterparty A	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
Counterparty B	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Other	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

4. Add paragraph 210-10-65-1 and its related heading 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 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.

5. Amend paragraph 210-20-00-1 as follows:

210-20-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
210-20-50-1 through 50-6	Added	2011-11	12/16/2011
210-20-55-1 through 55-22	Added	2011-11	12/16/2011
210-20-65-1	Added	2011-11	12/16/2011

Amendments to Subtopic 270-10

6. Amend paragraph 270-10-50-1 by adding item q, with a link to transition paragraph 210-20-65-1, as follows:

Interim Reporting—Overall

Disclosure

> Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

270-10-50-1 Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP]). If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

q. The gross information and net information required by paragraphs 210-20-50-1 through 50-6.

7. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
270-10-50-1	Amended	2011-11	12/16/2011

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Messrs. Linsmeier, Siegel, and Smith dissented.

Messrs. Linsmeier, Siegel, and Smith dissent to the issuance of this Accounting Standards Update because they believe that it does not represent an overall improvement to financial reporting and unnecessarily diverges from IFRS. They would have preferred a converged set of principles that only would require net presentation when there is an unconditional right of setoff and intent to offset. As noted in paragraph BC6 of the basis for conclusions, most respondents supported the Boards' efforts toward the converging of offsetting criteria and requirements. Additionally, Messrs. Linsmeier and Siegel would prefer a more robust disclosure requirement to provide a more comprehensive and complete picture of financial position and economic risk exposure.

Messrs. Linsmeier, Siegel, and Smith believe that requiring net presentation only when there is an unconditional right and intent to set off would be consistent with the objectives of financial reporting and the criteria for recognition of assets and liabilities. Furthermore, they believe that there would be significant benefits to financial statement users in removing the single largest financial reporting difference between U.S. GAAP and IFRS for certain large financial institutions.

Messrs. Linsmeier, Siegel, and Smith believe that the Boards' conceptual frameworks do not specifically address the net presentation of recognized assets and liabilities on the statement of financial position. They believe that the most relevant sections of the conceptual frameworks for presentation are the objective of financial reporting and the recognition criteria for assets and liabilities.

Consistent with Chapter 1 of Concepts Statement No. 8, *Conceptual Framework for Financial Reporting,* Messrs. Linsmeier, Siegel, and Smith note that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. As such, they believe that users' decisions are based on the prospects for future cash flows to them from their investments, which in turn are related to the prospects for future cash flows that will accrue to the reporting entity. Messrs. Linsmeier, Siegel, and Smith believe that to assess the future net cash flows to the entity, users require information about the nature and amounts of the entity's resources as well as the claims against the entity. They believe that offsetting recognized assets and liabilities on the statement of financial position generally obfuscates this information and limits the ability of the user to assess the future net cash flows to the entity. They believe that net presentation in the case of a master netting arrangement does not faithfully represent the financial position for those instruments because even if there is a single default on an instrument, one of the parties must still invoke the agreement before payments due on all instruments subject to the agreement can be legally set off. Messrs. Linsmeier, Siegel, and Smith believe that the Exposure Draft proposed a clear, converged set of principles that permitted offsetting if and only if, on the basis of the rights and obligations related to a financial asset and a financial liability, the entity effectively has a right to (or an obligation for) the net amount. They further note that when those offsetting criteria are met, net information would be most relevant to users because it would allow them to assess the likely future cash flows of the entity.

Messrs. Linsmeier, Siegel, and Smith also look to Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, which discusses four fundamental recognition criteria. They note that those criteria (definitions, measurability, relevance, and reliability) do not contemplate the notion that once recognized, certain financial assets and liabilities should be presented net in the statement of financial position. They disagree with the notion that a conditional right of setoff, such as close-out netting in a master netting arrangement, fundamentally changes the economics of a going-concern entity and deserves special presentation requirements. They do, however, agree that when a master netting arrangement's conditional provisions are invoked, net presentation would be relevant information to financial statement users and would faithfully represent the entity's resources and claims.

Messrs. Linsmeier, Siegel, and Smith believe that in many circumstances, information about both the gross and net positions is relevant for financial statement users and note that, for certain large financial institutions, the differences in offsetting requirements between U.S. GAAP and IFRS represents the single biggest impediment to comparability for users of these financial statements. They believe, given the large differences in reported amounts under these divergent requirements, that convergence in accounting requirements is paramount. They also believe that the decision to diverge is unnecessary particularly given their understanding that neither solely net information nor gross information is sufficient to serve users' needs.

With regard to the disclosures in this Update, Messrs. Linsmeier and Siegel appreciate the effort to create common disclosure requirements with the objective of helping users compare financial information of entities with differing presentations in the statement of financial position. Messrs. Linsmeier and Siegel prefer the disclosures that were proposed in the Exposure Draft. As noted in paragraph BC9 of the basis for conclusions, there was nearly unanimous support from financial statement users for those disclosures.

Additionally, Messrs. Linsmeier and Siegel believe that while the columnar disclosures required by the Exposure Draft would have provided separate transparency as to unconditional versus conditional rights of setoff, the disclosures required by the final Update will not show any distinction between situations where there is unconditional right of setoff, or payment netting, as compared with situations where there is only conditional right of setoff. They believe that this obscures the difference in financial position when cash flows are going to be settled net on a going-concern basis (unconditional netting) as compared with when cash flows are going to be settled net only upon default or bankruptcy (conditional netting). Messrs. Linsmeier and Siegel also note that the requirements do not allow users to reconcile directly the U.S. GAAP amounts shown on the statement of financial position with those presented in accordance with IFRS. Furthermore, while the Exposure Draft required that the disclosures be provided on a consistent basis of disaggregation, by class of instrument, the final Update allows for flexibility in the disaggregation, permitting disaggregation by class of instrument or by counterparty. Messrs. Linsmeier and Siegel believe this would introduce further noncomparability, which is the primary objective of the disclosures.

Lastly, Messrs. Linsmeier and Siegel note that the disclosure requirements proposed in the Exposure Draft differentiated the form of collateral received between cash and all other. The disclosure requirements in this Update do not explicitly require such differentiation. They believe that the distinction between cash and other forms of collateral could be very relevant to financial statement users seeking to assess the quality and liquidity of the collateral received.

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 the Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background

BC2. Following requests from financial statement users, the FASB and the IASB added a project to their respective agendas to potentially bring to convergence offsetting requirements for financial instruments and derivative instruments. The different requirements are the cause of the significant difference in amounts presented in statements of financial position prepared in accordance with U.S. GAAP and IFRS for certain financial institutions that are heavily involved in derivatives.

BC3. In January 2011, the Board published an Exposure Draft, *Balance Sheet (Topic 210): Offsetting,* and the IASB published a similar Exposure Draft, which proposed converged offsetting requirements that would have replaced the requirements in U.S. GAAP and IFRS for offsetting eligible assets and eligible liabilities. The proposed approach would have required an entity to offset a recognized financial asset and a recognized financial liability and to present the net amount in the statement of financial position if, and only if, it has an unconditional and legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously.

BC4. The proposals would have eliminated the exceptions in U.S. GAAP permitting offsetting for derivatives and repurchase agreements meeting specified, restrictive criteria. These criteria relate to arrangements in which the ability to set off is conditional. The Exposure Draft also included additional disclosures about eligible assets and eligible liabilities subject to setoff rights and related arrangements (such as collateral agreements) and the effect of those rights and arrangements on an entity's financial position.

BC5. The Boards received 162 comment letters on the Exposure Draft and held roundtables in the United States, Europe, and Asia to discuss feedback received. The Boards conducted extensive outreach as follows, including meetings and teleconferences with users of financial statements, legal experts and firms, preparers, regulators, clearinghouses, industry groups, and auditors:

a. Representatives from the banking sector provided an overview of their organizations' netting policy and practice and also industry practice with respect to netting.
b. Legal experts on financial law provided an overview of (1) the legal meaning, basis, and effect of setoff rights in master netting and other agreements, (2) differences in setoff rights for contracts subject to a master netting agreement and contracts settled through central counterparties, and (3) the interaction of setoff rights with bankruptcy laws and relevant cross-border implications.
c. Representatives of the International Swaps and Derivatives Association and clearinghouses provided a general overview of the master netting arrangement framework, how various aspects (that is, confirmations, schedules, the master agreement, and other documents) of the framework relate to each other, how the framework is intended to work and the workings, and rules of clearinghouses and exchanges.
d. Auditors. The staff also sent a request for information to some accounting firms. Most of the firms asked the Boards to establish a principle for what the statement of financial position is intended to communicate to users and said that offsetting in the statement of financial position should follow that principle.
e. Users. The staff and the Boards met with users of financial statements, including analysts from asset management firms, investment banks, user groups, and rating agencies to discuss their views on offsetting. The staff also invited users of financial statements to respond to an online survey on the question.

BC6. Most respondents supported the Boards' efforts to achieve convergence of offsetting criteria or requirements; however, responses varied about the offsetting criteria as outlined in the proposals. Many who already applied IAS 32, *Financial Instruments: Presentation,* agreed with the proposals, stating that the underlying principle and proposed criteria were similar to those in IAS 32 and reflects an entity's credit and liquidity exposure to such instruments. Some preparers and auditors who supported the proposals were concerned that the criteria as drafted were more restrictive than IAS 32, especially about the definition of simultaneous settlement as well as enforceability in all circumstances. Others asked for clarification on the treatment of collateral and the unit of account.

BC7. Most U.S. stakeholders stated that, for derivatives and repurchase agreements, existing U.S. GAAP, which permits net presentation on the basis of a conditional right of setoff (for example, close-out netting in a master netting arrangement that would be upheld in the event of bankruptcy), taking into account cash collateral posted, more faithfully represents both the economic substance of the overall arrangement and how they manage their business and risk exposures. Most U.S. preparers noted a preference for current U.S. GAAP offsetting guidance as set out in Sections 210-20-45 and 815-10-45 augmented by enhanced disclosures because they said that this would provide more relevant balance sheet information about the entity's credit and liquidity risks for derivatives and repurchase agreements.

BC8. Some respondents also requested that the Boards further analyze whether all the proposed disclosure requirements were necessary and useful. Many questioned the scope of the disclosures and whether detailed information for loans, receivables, and other types of financial instruments was needed, particularly if amounts were collateralized but not subject to other setoff arrangements that would meet the offsetting requirements in accordance with either U.S. GAAP or IFRS. Many asked whether the disclosures should be limited to derivatives and repurchase/reverse repurchase and similar agreements that are most frequently managed net in practice. They also questioned whether information about nonfinancial collateral should be required. They asked the Boards to revisit the costs and benefits of requiring detailed information by class of financial instruments and to consider requiring information on the basis of other factors to align with how such arrangements are managed (that is, by counterparty). However, there was nearly unanimous support for the proposed disclosures in meeting the investors' and other financial statement users' needs for information.

BC9. Most users of financial statements supported converged guidance or enhanced disclosure so that the financial statements prepared in accordance with U.S. GAAP and IFRS would be more readily comparable. However, they provided mixed views, and there was no clear consensus on whether gross presentation or net presentation in the statement of financial position was preferable. Irrespective of their views, users of financial statements were in agreement that both gross information and net information are useful and necessary to analyze the financial statements. They also welcomed quantitative disclosures in a tabular format and emphasized that information in the notes should be clearly reconciled to the amounts in the statement of financial position. Some users indicated that they preferred the proposed disclosures by instrument, others said by counterparty, and others wanted both. Some also noted it was important to know whether the derivatives are traded via exchanges or central clearinghouses to determine whether the values are independently verifiable amounts (valuation and credit mitigation), especially because the capital charges on some over-the-counter products are greater than exchange traded products.

BC10. As a result of feedback received, in June 2011, the FASB and the IASB discussed the following alternative approaches for offsetting eligible assets and eligible liabilities on the statement of financial position:

a. An approach that would require (1) a right of setoff that is exercisable both in the normal course of business and in bankruptcy, insolvency, and default and (2) intent to settle an eligible asset and eligible liability net or simultaneously.

b. An approach that would require (1) a right of setoff that is legally enforceable in the normal course of business and (2) intent to settle an eligible asset and eligible liability net or simultaneously.

c. An approach for derivative instruments that would provide an exception from the general offsetting criteria, which would allow offsetting of fair value amounts recognized for derivatives and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instrument(s) recognized at fair value with the same counterparty under a master netting arrangement. This approach would require a right of setoff that is only enforceable in bankruptcy, insolvency, or default of one of the counterparties.

The IASB supported the approach in (a) while most of the FASB Board supported the approach in (c). After examining the feedback received and outreach performed, the Boards decided to maintain their current guidance on when offsetting is appropriate in the statement of financial position. The key difference between these models relates to the existing exceptions for derivatives and repurchase agreements that meet specified, restrictive criteria in U.S. GAAP. However, they considered whether additional disclosures were necessary to meet the needs of users of financial statements.

BC11. The Board considered many factors in determining the appropriate model for offsetting, including, but not limited to, feedback from outreach performed, the information content of the amounts presented on the statement of financial position under the model as outlined in the Exposure Draft versus current U.S. GAAP, the relevant sections of the FASB conceptual framework, and an analysis of the costs versus benefits of transitioning to the proposed offsetting model. The feedback from U.S. stakeholders as outlined in paragraph BC8 was generally in favor of retaining current U.S. GAAP, with users of financial statements expressing mixed views. Those opposed to the offsetting model proposed in the Exposure Draft expressed concern that by allowing netting in a narrower set of circumstances, the risks associated with derivatives and repurchase arrangements that meet the current requirements for offsetting in accordance with U.S. GAAP would be misrepresented. Many users said that they use the net information in their analysis but also need to see the gross information to assess the level of activity and the types of contracts being entered into.

BC12. The Board also considered the information content of the amounts that would be presented on the statement of financial position under the model as proposed in the Exposure Draft versus the amounts that would be presented in accordance with current U.S. GAAP as it relates to liquidity, market, and credit risk. Some who support gross presentation said that it provides better insight into the risks associated with derivatives and repurchase agreements. However, the Board questioned whether the amounts shown on the statement of financial position are intended to or can portray liquidity or market risk. Derivatives are required to be presented at fair value, which reflects the expected net cash inflows and outflows of the contract at a point in time. Therefore, even a single derivative contract would require supplemental disclosure to provide information about liquidity risk, including the timing and uncertainty of cash flows relating to derivatives. Market risk is the sensitivity of potential future changes in the underlying, which cannot be expressed as an amount on the balance sheet (as that amount would have to be as of a point in time). The Board noted that the amount of credit risk exposure, which is the loss that the entity might incur if the counterparties of their derivatives failed to perform, is one indicator of the uncertainty of future cash flows from those instruments. The net position for derivatives under a legally enforceable master netting arrangement portrays the remaining credit exposure under that arrangement, in the event that the counterparty was to default and the close-out netting provision of the master netting arrangement was invoked.

BC13. The Board decided that the aggregate fair value amounts of the individual transactions within the statement of financial position would not provide more information about the uncertainty of future cash flows from those contracts than the net amount would for derivatives under a legally enforceable master netting arrangement. The Board continues to support the rationale expressed in the basis for conclusions of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts,* and FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. The Board agreed, however, that the disclosure requirements applicable to these arrangements should be improved.

BC14. The conceptual framework explains that for financial information to be useful, it must not only provide relevant information, it must also faithfully represent the phenomena that it purports to represent. The Boards noted that faithful representation requires provision of all relevant information that is necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. As noted in paragraph BC8, users consistently communicated that both gross information and net information were relevant in their analyses. Also, net presentation based on a conditional right of setoff faithfully represents the credit risk of an entity when a master netting arrangement exists and is invoked.

BC15. The Board concluded that a conditional right of setoff, such as close-out netting in a master netting arrangement, fundamentally changes the economics of a going-concern entity and deserves special presentation requirements. Some who support gross presentation said that presenting assets and liabilities net generally limits the ability of users of financial statements to assess the future economic benefits available to, and obligations of, the entity.

BC16. The Board considered the cost versus benefits of the offsetting model as outlined in the Exposure Draft. The FASB issued Interpretation 39 and

Interpretation 41 to address concerns expressed at the time that gross reporting of arrangements meeting very restrictive criteria was misleading, primarily by overstating credit risk and an entity's obligations. As noted previously, users of financial statements expressed the need for both gross information and net information about offsetting positions, but there was not a strong demand for a change to the balance sheet reporting of these arrangements. The Board noted that the change would require, at a minimum, updates to systems and an analysis of all financial instruments and other derivative instruments under new netting guidance to determine whether each of the instruments was required to be offset. The Board also considered the benefit of having consistent international guidance for offsetting of financial instruments and other derivative instruments. On the basis of the considerations outlined, the Board concluded that there was not an adequate basis to change the offsetting model in the United States.

BC17. The Boards noted that because they were unable to agree on a common treatment for offsetting arrangements in the statement of financial position, providing common disclosures of gross information and net information would be helpful for users of financial statements. Accordingly, despite their decisions to maintain their respective offsetting criteria, the Boards decided to move forward with developing converged disclosure requirements by amending the disclosures initially proposed in the Exposure Draft.

Scope

BC18. The disclosures in the Exposure Draft would have applied to all recognized financial assets, derivative assets, derivative liabilities and financial liabilities subject to a right of setoff, and/or for which an entity had either received or pledged cash or other financial instruments as collateral.

BC19. Respondents to the Exposure Draft noted that current U.S. GAAP and IFRS already require disclosures about financial instrument collateral received and pledged and other credit enhancements. Therefore, if an entity has no financial assets or financial liabilities subject to a right of setoff (other than collateral agreements), the Boards concluded that there would be no incremental value in providing additional disclosure information. Additionally, some respondents were concerned that including conditional rights to set off loans and customer deposits at the same financial institution would be a significant operational burden. Such rights are often a result of statute, and entities do not typically manage their credit risk related to such amounts on the basis of these rights of setoff. In addition, entities that have contractual rights to setoff customer deposits with loans only in situations such as events of default see these rights as a credit enhancement and not the primary source of credit mitigation. Respondents argued that the costs of including these amounts in the amended disclosures would outweigh the benefits because users of financial statements did not request information related to these instruments when discussing the offsetting disclosure requirements.

BC20. The Boards agreed and decided to limit the scope of the disclosures to (a) all instruments that meet the respective offsetting models and (b) recognized financial instruments and derivative instruments not offset that are subject to an enforceable master netting arrangement or a similar agreement. The Boards specifically excluded loans and customer deposits with the same financial institution from the scope of these requirements (except in the limited cases when they are offset on the statement of financial position). This reduced scope still responds to users' needs for information about amounts that have been set off in accordance with U.S. GAAP and amounts that have been set off in accordance with IFRS. The types of instruments that fall within the scope of these disclosures include the instruments that result in significant differences between amounts presented in statements of financial position prepared in accordance with U.S. GAAP and those prepared in accordance with IFRS.

BC21. If there is an associated collateral agreement for such instruments as well as a master netting or other setoff arrangement, an entity would disclose amounts in accordance with all agreements in order to provide the potential effect on the entity's financial position.

BC22. Other respondents requested that the scope of the proposed disclosures be further amended to exclude financial instruments for which a lender has the right to set off the related nonfinancial collateral in the event of default. Although nonfinancial collateral agreements may exist for some financial instruments, those preparers do not necessarily manage the credit risk related to such financial instruments on the basis of the nonfinancial collateral held.

BC23. A few respondents were concerned that the proposals would impose requirements on nonfinancial institutions that seem to be designed for financial institutions. They questioned the benefit that such disclosures would provide to stakeholders in nonfinancial entities.

BC24. Although the Boards acknowledged that financial institutions would be among the most affected, they did not agree that the disclosures are only relevant for financial institutions. Other industries have similar financial instrument activities and use enforceable master netting arrangements or similar agreements to mitigate exposure to credit risks in the normal course of business as well as the events of default, insolvency, and bankruptcy of the reporting entity or any of the counterparties. Consequently, the Boards concluded that the required disclosures will provide useful information about an entity's arrangements that fall within the scope, irrespective of the nature of an entity's business.

Disclosures

Disclosure of Quantitative Information for Recognized Assets and Recognized Liabilities in the Scope of Paragraph 210-20-50-1 (Paragraph 210-20-50-3)

BC25. The Boards appreciate that recognized financial instruments included in the disclosure requirements in paragraph 210-20-50-3 may be subject to different measurement requirements. For example, a payable related to a repurchase agreement may be measured at amortized cost, while a derivative asset or liability subject to the same disclosure requirements (for example, in paragraph 210-20-50-3(a)) will be measured at fair value. In addition, the fair value amount of any financial instrument collateral received or pledged and subject to paragraph 210-20-50-3(d)(ii) should be included in the disclosures to provide users with the best information about an entity's exposure. Consequently, a financial asset or financial liability disclosure table may include financial instruments measured at different amounts. To provide users with information they need to evaluate the amounts disclosed in accordance with paragraph 210-20-50-3, the Boards decided that an entity should describe any resulting measurement differences in the related disclosure.

Disclosure of the Net Amounts Presented in the Statement of Financial Position (Paragraph 210-20-50-3(c))

BC26. In their comments on the Exposure Draft, users emphasized that information in the notes should be clearly reconciled to the amounts in the statement of financial position. The Boards agree and therefore decided that if an entity determines that the aggregation or disaggregation of individual financial statement line items provides more relevant information when disclosing amounts in accordance with paragraph 210-20-50-3(c), the entity must still reconcile the amounts disclosed in paragraph 210-20-50-3(c) to the statement of financial position.

Disclosure of Amounts Subject to an Enforceable Master Netting Arrangement or Similar Agreement Not Otherwise Included in Paragraph 210-20-50-3(b) (Paragraph 210-20-50-3(d))

BC27. Paragraph 210-20-50-3(d)(1) requires disclosure of amounts subject to rights of setoff that are not offset in accordance with Sections 210-20-45 and 815-10-45. For example, management makes an accounting policy election not to offset, or the amounts do not meet the offsetting guidance. Users are interested in arrangements an entity has entered into that mitigate its exposure in the events of bankruptcy, default, or insolvency of the counterparty.

BC28. Paragraph 210-20-50-3(d)(2) also requires disclosure of amounts of cash and financial instrument collateral (whether recognized or unrecognized) that either (a) do not meet the guidance for offsetting in the statement of financial position or (b) management elects not to offset. Depending on the terms of the collateral arrangement, collateral will often reduce an entity's exposure in the events of bankruptcy, default, or insolvency of a party to the contract. Collateral received or pledged against financial assets and liabilities may often be liquidated immediately upon an event of default. Consequently, the Boards concluded that the amounts of collateral that are not offset in the statement of financial position and that are associated with other setoff arrangements should be included in the amounts disclosed as required by paragraph 210-20-50-3(d).

Limits on the Amounts Disclosed (Paragraph 210-20-50-4)

BC29. The Boards concluded that an aggregate disclosure of the amount of cash collateral or the fair value of collateral in the form of other financial instruments would be misleading when some assets and liabilities are overcollateralized and others have insufficient collateral. To prevent an entity from inappropriately obscuring undercollateralized financial instruments with others that are overcollateralized, paragraph 210-20-50-4 restricts the amounts of cash and/or financial instrument collateral to be disclosed in respect of a recognized instrument to more accurately reflect an entity's exposure. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided. Undercollateralization should not be obscured.

Disclosure by Type of Financial Instrument or by Counterparty

BC30. The Exposure Draft proposed that the disclosures should be provided by class of instrument. An entity would have been required to group the assets and liabilities separately into classes that were appropriate to the nature of the information disclosed, taking into account the characteristics of those instruments and the applicable rights of setoff. Many preparers were concerned that the costs of disclosing amounts related to rights of setoff in the events of default and insolvency or bankruptcy by class of financial instrument would outweigh the benefits. They indicated that they manage credit exposure by counterparty and not necessarily by class of financial instrument.

BC31. Many users of financial statements indicated that disclosure of recognized amounts subject to conditional rights of setoff, including collateral, would be useful irrespective of whether the amounts were disclosed by counterparty or by type or by class of financial instrument, as long as they can reconcile these amounts to the statement of financial position. In evaluating whether the disclosures should be provided by type of financial instrument or by counterparty, the Boards noted that the objective of these disclosures (paragraph 210-20-50-2) is that an entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The differences in the offsetting requirements in U.S. GAAP and IFRS account for a significant difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP and in the amounts presented in those prepared in accordance with IFRS for certain financial institutions.

BC32. The Boards decided to reduce the burden on prepares by requiring disclosures by type of financial instrument rather than by class. Disclosure by type of financial instrument may (or may not) differ from the class of financial instrument used for other disclosures in this Update, but is appropriate in circumstances where a difference would better achieve the objective of the disclosures required by these amendments. The Boards also decided to provide flexibility as to whether the required information is presented by type of financial instrument or by counterparty. Disclosure by counterparty will allow preparers to present the disclosures in the same way that they manage their credit exposure.

Other Considerations

Reconciliation between U.S. GAAP and IFRS

BC33. Some users asked for information to help them reconcile differences in offsetting models between U.S. GAAP and IFRS offsetting models. The Boards recognized that the amounts disclosed in accordance with paragraph 210-20-50-3(b) through (d) will probably be different for U.S. GAAP and IFRS. However, amounts disclosed in accordance with paragraph 210-20-50-3(a) and 210-20-50-3(e) are generally not affected by the offsetting criteria applied in the statement of financial position. Such amounts are important for users to understand the effects of netting arrangements on an entity's financial position in the events of default and insolvency or bankruptcy.

BC34. Therefore, while the amended disclosure requirements do not directly reconcile the U.S. GAAP and IFRS amounts, they provide both gross and net exposure information on a comparable basis. The Boards did not consider that requiring a full reconciliation between U.S. GAAP and IFRS was necessary, in particular given the relative costs and benefits of such a proposal. Such reconciliation would have required preparers to track any changes to the requirements and contracts in the related jurisdictions and apply two sets of accounting requirements.

Tabular Information

BC35. The amended disclosures require that the quantitative disclosure be presented in a tabular format, unless another format is more appropriate. The Boards concluded that a tabular format would best convey an understanding of an entity's financial position and the effect of any right of setoff and other related arrangements. The Boards also concluded that using tables would improve the transparency of information about rights of setoff and related arrangements and their effect on an entity's financial position.

Cost-Benefit Considerations

BC36. 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.

BC37. During redeliberations, the Boards considered feedback related to the costs of providing the disclosures proposed in the Exposure Draft. As described in greater detail in other sections of this basis for conclusions, the Boards decided to refine the scope of the disclosures and to allow entities to provide the disclosures required by paragraph 210-20-50-3(c) through (e) either by type of financial instrument or by counterparty, because these changes would reduce the costs to preparers while still providing the information that users of financial statements had requested.

BC38. Based on the considerations described in the basis for conclusions of these amendments, and summarized in the preceding paragraphs, the Boards believe that the benefits outweigh the costs.

Effective Date and Transition Requirements

BC39. The Exposure Draft proposed a retrospective transition that would have required an entity to apply the new requirements to all periods presented. This would maximize consistency of financial information between periods. Retrospective transition also would facilitate analysis and understanding of comparative accounting data.

BC40. Most respondents agreed with retrospective application of the requirements for all comparative periods presented for the statement of financial position. They supported the Boards' view that retrospective application enhances consistency and comparability. However, many were concerned that the level of detail in the proposed disclosures would be difficult to provide because it is not currently captured by financial reporting systems.

BC41. Based on feedback on the Exposure Draft and further outreach with users of financial statements, the Boards decided to reduce the required scope of the disclosures and require less granular information than originally proposed. As a result of these amendments, the Boards also concluded that retrospective application for the amended disclosures would no longer be as burdensome for preparers, especially because the information should be readily available to preparers on the basis of their systems today. The Boards affirmed their view that retrospective transition would maximize consistency of financial information between periods and would facilitate analysis and understanding of comparative accounting data, especially because the Boards will continue to maintain their respective offsetting criteria.

BC42. The Exposure Draft did not propose an effective date but, instead, asked respondents for information about the time and effort that would be needed for implementing the proposed requirements. The Boards indicated that they would use that feedback, as well as the responses in their Discussion Paper, *Effective Dates and Transition Methods,* and any other planned accounting and reporting standards, to determine an appropriate effective date for the proposals in the Exposure Draft.

BC43. Some also suggested that the offsetting proposals should have the same effective date as IFRS 9, *Financial Instruments.* If an earlier date was required, some respondents argued that application should be restricted only to the accounting period being presented, rather than providing comparative information, because of the potential burden of applying the amended disclosure requirements. The Boards noted that the primary purpose of this project was to provide information to assist users in comparing offsetting requirements for financial statements prepared in accordance with U.S. GAAP and IFRS. Retrospective application is therefore crucial to providing comparable converged disclosure information.

BC44. As of the date of this Update's issuance (December 2011) IFRS 9 was not yet mandatorily effective, and the FASB's financial instrument classification and measurement project was not complete. However, the Boards do not believe these projects would change the offsetting disclosures. The Boards also noted that the original offsetting project was a result of requests from users to bring about convergence of the offsetting requirements between U.S. GAAP and IFRS to increase comparability. Users of financial statements will benefit from the increased comparability provided by the amended disclosures, if the converged disclosures are effective as early as possible. Aligning the effective date of this Update and the effective date of other financial instruments projects could result in postponing the effective date of the converged disclosures, which would delay the benefit of convergence for users of financial statements.

BC45. The Board concluded that a long transition period was unnecessary because the amendments relate only to disclosures and are based on information that management utilizes to manage its business. Additionally, this Update has a narrower scope and requires less granular information than originally proposed in the Exposure Draft. The Boards also noted that the effective date should be as early as possible so that users of financial statements can benefit from the additional information and increased comparability. The

Boards decided that the effective date for these amendments should be for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods and the disclosures should be provided for comparative periods presented to allow comparability within the disclosed information.

Amendments to the XBRL Taxonomy

The FASB will expose for public comment the changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that are a result of this Update. The proposed changes to the UGT will be available on the FASB website on or about February 15, 2012.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its Action Alert email service.