

Heads Up

In This Issue:

- Background
- Key Proposed Changes
- Impact on Convergence With IFRSs

The proposal is intended to address preparer concerns that the scope of the disclosure requirements under ASU 2011-11 is overly broad and that the related compliance costs would exceed any benefits ultimately realized by financial statement users.

FASB Proposes Scope Clarification of Offsetting Disclosures

by Mark Bolton and Heidi Suzuki, Deloitte & Touche LLP

On November 26, 2012, the FASB issued a [proposed ASU](#)¹ that would clarify which instruments and transactions are subject to the disclosure requirements under ASU 2011-11² for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The proposal is intended to address preparer concerns that the scope of the disclosure requirements under ASU 2011-11 is overly broad and that the related compliance costs would exceed any benefits ultimately realized by financial statement users. Like the requirements under ASU 2011-11, the proposed requirements would be effective for fiscal years beginning on or after January 1, 2013, and interim periods therein. Retrospective application would be required for any period presented that begins before the entity's initial application of the new requirements. Comments on the proposal are due by December 21, 2012.

Background

The offsetting project began as a joint effort by the FASB and the IASB to eliminate the significant presentation differences created by their respective offsetting models under U.S. GAAP and IFRSs. Because the boards could not agree on a single, converged offsetting presentation model, they ultimately decided at the end of last year to retain their existing offsetting models and to develop converged requirements under which entities would disclose information about their gross and net exposures.³ Those requirements apply to all financial and derivative instruments that are offset in the statement of financial position in accordance with ASC 210-20-45 or ASC 815-10-45⁴ or that are subject to an enforceable master netting arrangement or similar agreement. For further information, see Deloitte's December 20, 2011, [Heads Up](#) on ASU 2011-11.

In planning to implement the new requirements, some preparers became concerned that the scope of the standard was broader than they had originally assumed. In particular, they noted that many of their trade receivable and trade payable agreements contained standard commercial provisions allowing either party to offset in the event of default. They believed that such provisions were similar to an enforceable master netting arrangement and that those receivables and payables would therefore be subject to the new disclosure requirements. Broker-dealer preparers also questioned whether the receivables and payables resulting from their unsettled regular-way trades were subject to agreements similar to master netting arrangements and thus within the scope of the guidance. These preparers asked the FASB to reconsider whether the benefits of including such instruments in the offsetting disclosures justified the costs that preparers would incur to perform a comprehensive review of all of their agreements to determine whether the agreements contained netting provisions similar to a master netting arrangement.

¹ FASB Proposed Accounting Standards Update, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*.

² FASB Accounting Standards Update No. 2011-11, *Disclosures About Offsetting Assets and Liabilities* (subsequently codified in FASB Accounting Standards Codification Subtopic 210-20, *Balance Sheet: Offsetting*).

³ The joint project culminated in the FASB's issuance of ASU 2011-11 and the IASB's corresponding amendments to IFRS 7, *Financial Instruments: Disclosures*, and IAS 32, *Financial Instruments: Presentation*.

⁴ FASB Accounting Standards Codification Subtopic 815-10, *Derivatives and Hedging: Overall*.

Key Proposed Changes

To respond to these concerns, the FASB proposes to limit the scope of the offsetting disclosures to the following instruments or transactions:

- “Recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either [ASC] 210-20-45 or [ASC] 815-10-45.”
- “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 [ASC] 210-20-45 or [ASC] 815-10-45.”

Under the proposal, an entity is also permitted to include in the tabular offsetting disclosures all other recognized derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to facilitate reconciliation to line items in the statement of financial position.

The proposal would not change the format or content of the offsetting disclosures. See Deloitte’s December 20, 2011, *Heads Up* for a detailed discussion of those disclosure requirements and for illustrative disclosures.

If the FASB’s proposal is finalized, fewer financial instruments would be subject to the offsetting disclosure requirements under U.S. GAAP than under IFRSs.

Editor’s Note: In explaining its rationale for narrowing the scope from all financial instruments and derivatives to those specified in the proposal, the Board noted that (1) constituent concerns about presentation differences between U.S. GAAP and IFRSs focused predominantly on derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing arrangements and (2) it does not believe that, in practice, there are significant U.S. GAAP–IFRS presentation differences for trade receivables and payables or unsettled regular-way trades.

In its proposal, the FASB asks respondents to indicate whether there are other instruments that should be included in the scope of the guidance “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[s].”

Impact on Convergence With IFRSs

Concurrently with the FASB’s issuance in 2011 of ASU 2011-11, the IASB issued amendments to IFRS 7 with a comparable effective date and essentially the same disclosure requirements as those under ASU 2011-11. Accordingly, if the FASB’s proposal is finalized, fewer financial instruments would be subject to the offsetting disclosure requirements under U.S. GAAP than under IFRSs.

At a recent IASB meeting, the IASB staff updated the IASB on the FASB’s decisions regarding the scope of the offsetting disclosures and indicated that it did not recommend that the IASB consider changing the scope of the disclosures under IFRSs. The session was informational, and the IASB was not asked to make any decisions. It is uncertain whether the IASB will revisit this issue in the future.

Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy & tax.
- Corporate governance.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Risk intelligence.
- Sustainability.
- Technology.
- Transactions & business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join *Dbriefs*](#) to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [Financial Reporting for Taxes Webcast: Quarterly Update and Hot Topics](#) (December 10, 2 p.m. (EST)).

Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. Technical Library subscribers also receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

In addition, Technical Library subscribers have access to *Deloitte Accounting Journal* entries, which briefly summarize the newest developments in accounting standard setting.

For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

Heads Up is prepared by the National Office Accounting Standards and Communications Group of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.