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Calendar year-end public filers will need to include the disclosures in their first-quarter Form 10-Q filings for 2013.

FASB Clarifies Scope of Offsetting Disclosure Requirements

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The FASB recently issued ASU 2013-01,[1] which clarifies which instruments and transactions are subject to the offsetting disclosure requirements[2] established by ASU 2011-11.[3] The new ASU addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11 was overly broad and imposed unintended costs that were not commensurate with estimated benefits to financial statement users.[4] In choosing to narrow the scope of the offsetting disclosures, the Board determined that it could make them more operable and cost effective for preparers while still giving financial statement users sufficient information to analyze the most significant presentation differences between financial statements prepared in accordance with U.S. GAAP and those prepared under IFRSs.

Like ASU 2011-11, ASU 2013-01 is effective for all entities (public and nonpublic) for fiscal years beginning on or after January 1, 2013, and interim periods therein. Therefore, calendar year-end public filers will need to include the disclosures in their first-quarter Form 10-Q filings for 2013. Retrospective application is required for any period presented that begins before the entity's initial application of the new requirements.

Key Changes

ASU 2013-01 limits the scope of the offsetting disclosures to the following instruments or transactions:

- "Recognized derivative instruments accounted for in accordance with [ASC] 815, including bifurcated embedded derivatives, 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."[5]
- "Recognized derivative instruments accounted for in accordance with [ASC] 815, including bifurcated embedded derivatives, 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."

[1] FASB Accounting Standards Update No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*.

[2] The offsetting project began as a joint effort by the FASB and IASB to improve transparency and comparability of the significant presentation differences created by their respective offsetting models. Because the boards could not reach an agreement on a converged accounting model, they ultimately decided to retain their existing offsetting models and to develop converged requirements under which entities would disclose information about their gross and net exposures. This project culminated in the FASB's issuance of ASU 2011-11, *Disclosures About Offsetting Assets and Liabilities*, and the IASB's amendments to IFRS 7, *Financial Instruments: Disclosures*, and to IAS 32, *Financial Instruments: Presentation*. For further information, see Deloitte's December 20, 2011, *Heads Up* on ASU 2011-11.

[3] ASU 2011-11 was subsequently codified in FASB Accounting Standards Codification Subtopic 210-20, Balance Sheet: Offsetting.

[4] For more information about the Board's reasons for modifying the scope of ASU 2011-11, see Deloitte's November 29, 2012, *Heads Up*.

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

This change removes trade payables and receivables from the scope of the offsetting disclosure requirements. Receivables and payables of broker-dealers resulting from their unsettled regular-way trades are also outside the scope of the disclosure requirements.

The amendments also clarify that only derivatives accounted for in accordance with ASC 815, including bifurcated embedded derivatives, are within the scope of the disclosure requirements. Instruments that meet the definition of a derivative in ASC 815 but that are subject to one of the scope exceptions in ASC 815 are outside the scope of the offsetting disclosure requirements.

Editor's Note: ASU 2013-01 does not specify whether receivables and payables that arise from the settlement of derivatives, but that are not accounted for as derivatives, are within the scope of the offsetting disclosure requirements. Such receivables and payables would not be expected to be within the scope if they do not meet the definition of a derivative in ASC 815.

ASU 2013-01 retains the language from ASU 2011-11 that specified instruments "that are subject to an enforceable master netting arrangement or similar agreement" are within the scope of the offsetting disclosures, even if those instruments are not actually offset in the statement of financial position. ASU 2013-01 does not, however, specify the characteristics that would make an agreement similar to a master netting arrangement (MNA).

ASU 2013-01 does not specify the characteristics that would make an agreement similar to a master netting arrangement.

Editor's Note: Entities that hold instruments that may be subject to the offsetting disclosure requirements but that are not offset in the statement of financial position (i.e., derivatives, repurchase and reverse repurchase agreements, or securities lending or borrowing transactions) should review any agreements underlying those instruments (e.g., ISDA, exchange or central clearing agreements) to assess whether such agreements are an MNA or similar agreement. Entities and their advisers will need to exercise professional judgment when determining whether an agreement is similar to an MNA. Although ASU 2013-01 does not explicitly specify what characteristics make an agreement similar to an MNA, any agreement with provisions that allow either party to net in the event of default should be examined carefully.

When entities analyze such agreements, it is important that they assess whether the reporting entity has the right to offset its positions should the counterparty default. For example, some entities enter into one-sided master netting arrangements that grant a right of offset to the counterparty but do not give the reporting entity a mirror right of offset. Because the reporting entity does not, from its perspective, have an MNA (i.e., it has no right of offset under the arrangement), instruments subject to that arrangement would not be within the scope of the offsetting disclosure requirements for the reporting entity.

Entities also need to assess the enforceability of their MNAs or similar agreements. An entity and its advisers will most likely need to perform some level of legal analysis to determine whether an arrangement is enforceable in a given jurisdiction.

Under ASU 2013-01, an entity is also permitted to include in the tabular offsetting disclosures all other recognized derivatives accounted for in accordance with ASC 815, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to facilitate reconciliation to individual line item amounts in the statement of financial position.

Editor's Note: ASU 2013-01 does not change the requirement to reconcile amounts from the tabular disclosures to the statement of financial position. The narrower scope of the disclosures, along with the clarification that bifurcated embedded derivatives accounted for in accordance with ASC 815 are within the scope of the offsetting disclosure requirements, could pose reconciliation challenges for some reporting entities depending on how they aggregate positions in their statement of financial position. Such entities should consider whether it is necessary to provide supplemental disclosures to comply with the reconciliation requirement.

ASU 2013-01 does not substantively 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 sample disclosures.

Impact on Convergence With IFRSs

The IASB staff has updated the IASB on the FASB's decisions to narrow the scope of the offsetting disclosures; however, the staff 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. Accordingly, more instruments are subject to the offsetting disclosures under IFRSs than under U.S. GAAP.

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