

# HKFRS / IFRS UPDATE 2012/04

## OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES



On 30 December, 2011, the Hong Kong Institute of Certified Public Accountants (HKICPA) issued "Amendments to HKAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*" and "Amendments to HKFRS 7 *Financial Instruments: Disclosures - Disclosures - Offsetting Financial Assets and Financial Liabilities*". The amendments are a textual copy of the amendments to IAS 32 "*Financial Instruments: Presentation*" and IFRS 7 "*Financial Instruments: Disclosures*" issued by the International Accounting Standards Board (IASB) in December 2011. Therefore, this update is also a summary of the key amendments to IAS 32 and IFRS 7.

### Background

The amendments clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP.

Offsetting, also known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position. There are currently differences between IFRS and US GAAP. IFRS does not allow companies the option to offset derivatives that are subject to a legally enforceable netting arrangement with the same party where rights to set-off are only available in the event of default or bankruptcy. In contrast, preparers of US GAAP financial statements are given that option.

The IASB and the Financial Accounting Standards Board therefore issued an exposure draft that proposed new criteria for netting that were narrower than the conditions in US GAAP. However, the boards have ultimately retained the existing (different) offsetting models for accounting purposes, and have issued new disclosure requirements that should allow investors more easily to compare financial statements prepared in accordance with IFRS or US GAAP.

Under the convergence policy between HKFRS and IFRS, the HKICPA followed the IASB's decision and introduced the same amendments to HKFRS.

### Offsetting Financial Assets and Financial Liabilities – Amendments to HKAS 32

HKAS 32.42, which is unchanged, requires that an entity offsets financial assets and financial liabilities when, and only when, it has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. New guidance in HKAS 32.AG38B clarifies that the right of set-off:

### STATUS

Final

### EFFECTIVE DATE

Amendments to HKAS 32:  
Annual periods beginning on or after 1 January 2014 (early adoption permitted)

Amendments to HKFRS 7:  
Annual periods beginning on or after 1 January 2013 and interim periods within those annual periods (early adoption permitted)

### ACCOUNTING IMPACT

Clarification of offsetting requirements and introduction of new disclosure requirements for offsetting financial instruments

- a. must not be contingent on a future event; and
- b. must be legally enforceable in all of the following circumstances:
  - i. the normal course of business;
  - ii. the event of default; and
  - iii. the event of insolvency or bankruptcy of the entity and all of the counterparties to the contract.

Some gross settlement systems, which are used to settle financial assets and financial liabilities, may be considered equivalent to net settlement. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, offset will be required. This is only the case if the gross settlement system has features that either eliminate or result in insignificant credit and liquidity risk and will process receivables and payable in a single settlement process or cycle.

The amendments are to be applied retrospectively for periods beginning on or after 1 January 2014. Earlier application is permitted.

### **Offsetting Financial Assets and Financial Liabilities – Amendments to HKFRS 7**

New disclosures are required for all financial instruments that are set off in accordance with HKAS 32.42 (see above) and for financial instruments that are subject to an enforceable master netting arrangement or similar arrangement regardless whether they are set off.

The following quantitative information is required, in tabular form, separately for financial assets and financial liabilities, unless another format is more appropriate:

- a. the gross amounts of those recognised financial assets and recognised financial liabilities;
- b. the amounts that are set off when determining the net amounts presented in the statement of financial position;
- c. the net amounts presented in the statement of financial position;
- d. the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph b), including:
  - i. amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria; and
  - ii. amounts related to financial collateral (including cash collateral); and
- e. the net amount after deducting the amounts in (d) from the amounts in (c) above.

An entity is also required to provide a description of the types of rights of set-off and similar arrangements disclosed in (d) above, including the nature of those rights.

The amendments include implementation guidance illustrating the quantitative disclosures required by the amended HKFRS 7.

The amendments are to be applied retrospectively for periods beginning on or after 1 January 2013 and interim periods within those annual periods. Earlier application is permitted.

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### **BDO's support and assistance on HKFRS/IFRS**

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