AASB Standard **AASB 2012-3**
June 2012

Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

[AASB 132]

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to Australian Accounting Standard AASB 132 *Financial Instruments: Presentation*.

These amendments arise from the issuance of *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) by the International Accounting Standards Board in December 2011.

Main Features of this Standard

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2014. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014, provided that AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* is also applied.

Main Requirements

This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

ACCOUNTING STANDARD AASB 2012-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* under section 334 of the *Corporations Act 2001*.

Dated 29 June 2012 | Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2012-3

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Objective

1 The objective of this Standard is to make amendments to AASB 132 *Financial Instruments: Presentation* as a consequence of the issuance of International Financial Reporting Standard *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) by the International Accounting Standards Board in December 2011.

Application

2 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 This Standard applies to annual reporting periods beginning on or after 1 January 2014.

4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014.

When an entity applies this Standard to such an annual reporting period, it shall disclose that fact and shall also make the disclosures required by AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* issued in June 2012.

Amendments to AASB 132

5 Paragraph 97L is added as follows:

97L AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*, issued in June 2012, deleted paragraph AG38 and added paragraphs AG38A-AG38F. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively. Earlier application is permitted. If an entity applies those amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* issued in June 2012.

6 Paragraph AG38 is deleted and a note added as follows:

AG38 [Deleted by the IASB]

7 Paragraphs AG38A-AG38F and related headings are added as follows:

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

AG38A A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG38B To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a) must not be contingent on a future event; and

(b) must be legally enforceable in all of the following circumstances:

  (i) the normal course of business;

  (ii) the event of default; and

  (iii) the event of insolvency or bankruptcy

of the entity and all of the counterparties.

AG38C The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B(b)).

Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' (paragraph 42(b))

AG38E To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG38F If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

(a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails – see (d) below);

(d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.