

**Offsetting Financial Assets
and Financial Liabilities**
(Amendments to IAS 32)

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AMENDMENTS TO NZ IAS 32 *FINANCIAL INSTRUMENTS: PRESENTATION*

Amendments to NZ IAS 32 *Financial Instruments: Presentation*

Effective date and transition

Paragraph 97L is added.

97L *Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IAS 32), issued in February 2012, deleted paragraph AG38 and added paragraphs AG38A–AG38F. An entity shall apply those amendments for annual 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 *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IFRS 7) issued in February 2012.

Application Guidance

Immediately after the heading 'Offsetting a financial asset and a financial liability (paragraphs 42–50)', paragraph AG38 is deleted. Headings and paragraphs AG38A–AG38F are added.

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.