

## Financial Instrument Updates

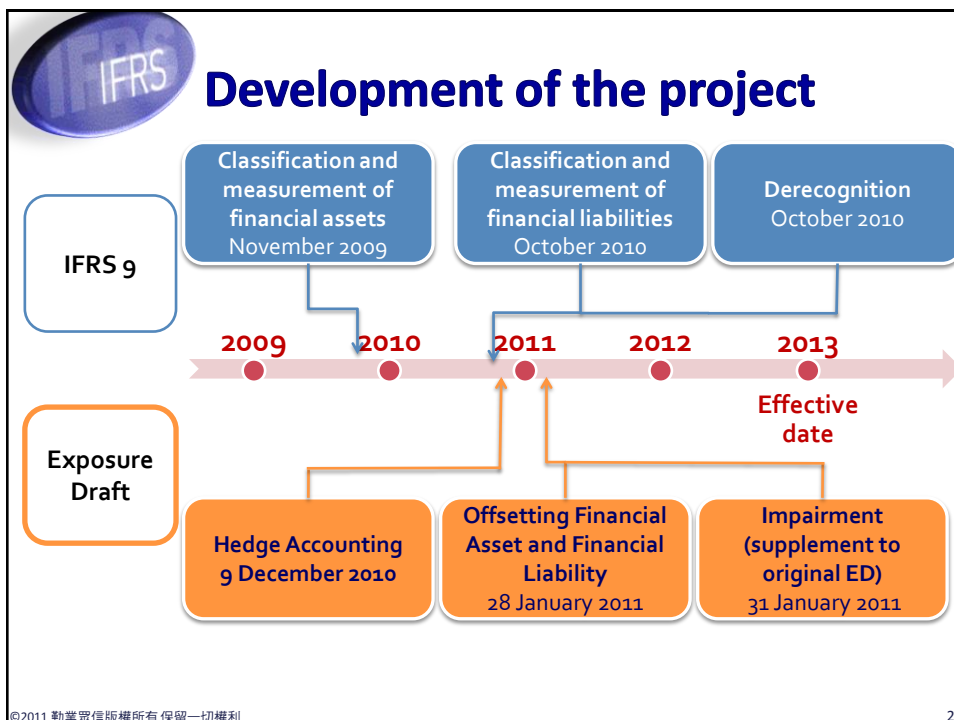


**Shirley Chiang**

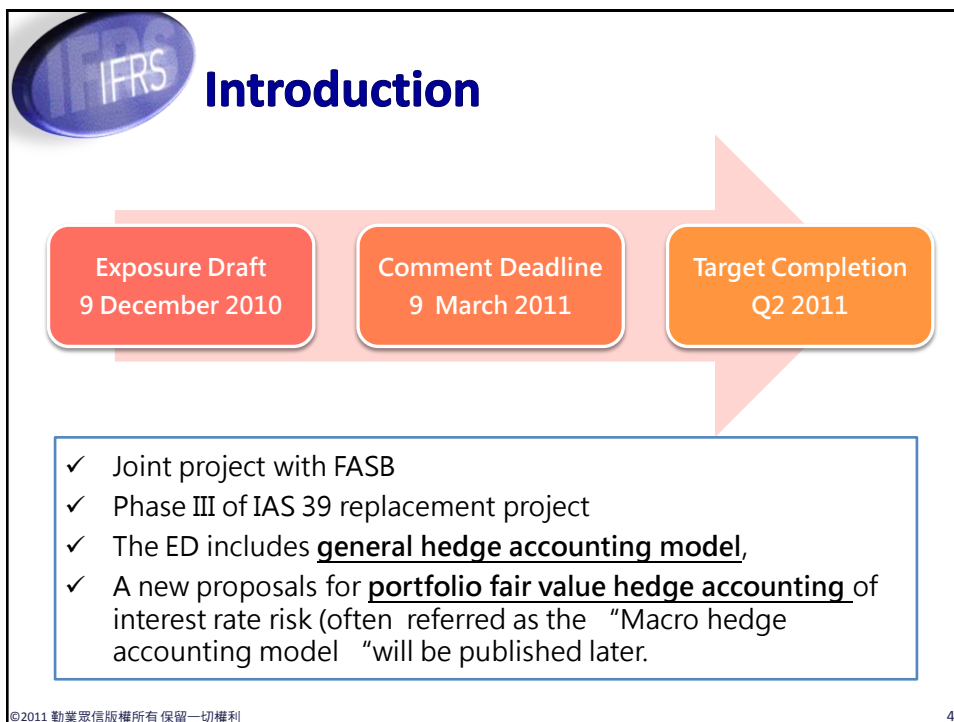
Partner,

Deloitte & Touche, Taiwan

February 23, 2011



## ED: Hedge Accounting





## Main changes in the ED

	IAS 39	ED
<b>Qualifying hedging instruments</b>	FX risk - all financial instruments (except for FVTOCI) Other risks - FVTPL financial instruments	FX risk - all financial instruments (including derivatives and non-derivatives) Other risks - derivatives
<b>Components of non-financial instruments as hedged items</b>	Prohibited(except for FX risk)	Permitted (if they are separately identifiable and reliably measurable)
<b>Net position hedge</b>	Prohibited	Permitted
<b>Hedge effectiveness assessment</b>	prospective test & retrospective test'	prospective test
<b>Effectiveness threshold</b>	80-125%	Hedging relationship is expected to achieve other than accidental offsetting

## ED: Offsetting Financial Asset and Financial Liability



## Introduction

Exposure Draft  
28 January 2011

Comment Deadline  
28 April 2011

Target Completion  
Q2 2011

- ✓ Joint project with FASB
- ✓ To supersede the requirements on offsetting in IAS 32
- ✓ Retrospective application for comparative financial statements
- ✓ Effective date to be determined based on feedback



## Why an offsetting project?

- ◆ Respond to the request for a common solution for the different offsetting requirements in IFRSs and US GAAP

	IFRSs	US GAAP
Number of counterparties	Two or more	Only two
Ability to set-off?	Unconditional	Conditional (as well as unconditional)
Intent to set-off?	Required <ul style="list-style-type: none"><li>• Settle net, or</li><li>• Settle simultaneously</li></ul>	Not required for the following: <ul style="list-style-type: none"><li>• Some derivatives</li><li>• Some derivatives &amp; cash collateral</li><li>• Some repos and reverse repos</li></ul>
Is offsetting required when criteria are met?	Required	Permitted
Risk exposure presented	Cash flows	Credit risk



## Proposed offsetting criteria

- ♦ Offset a recognised financial asset and a recognised financial liability would be required when the entity:
  - ♦ has an unconditional and legally enforceable right to set off the financial asset and financial liability; **and**
  - ♦ intends either:
    - ♦ to settle the financial asset and liability on a net basis, or
    - ♦ to realise the financial asset and settle the financial liability simultaneously.

※Offsetting is a requirement, not a choice.



## Introduction

Original ED  
5 November 2009  
(for comment until  
30 June 2010)

Supplement ED  
31 January 2011  
(for comment until 1  
April 2011)

Target Completion  
30 June 2011

- ✓ Joint project with FASB
- ✓ Phase II of IAS 39 replacement project

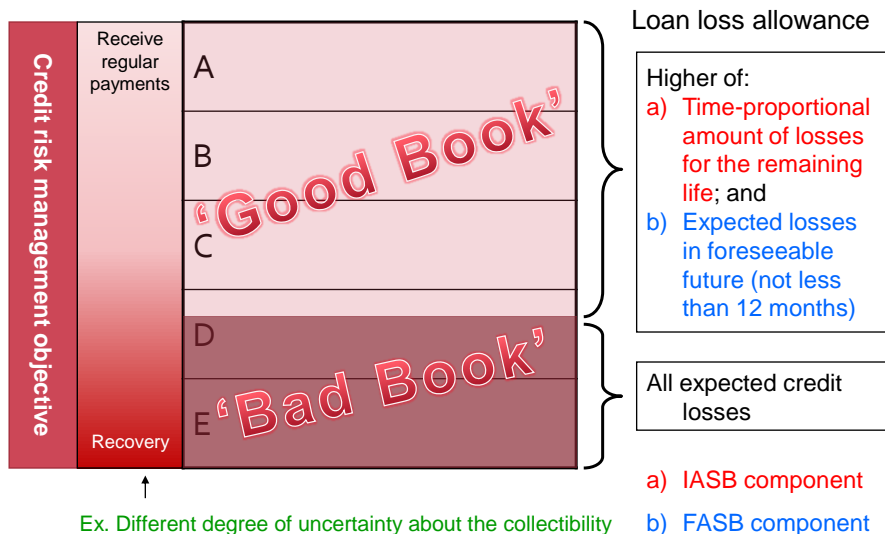


## Why a supplement to the ED?

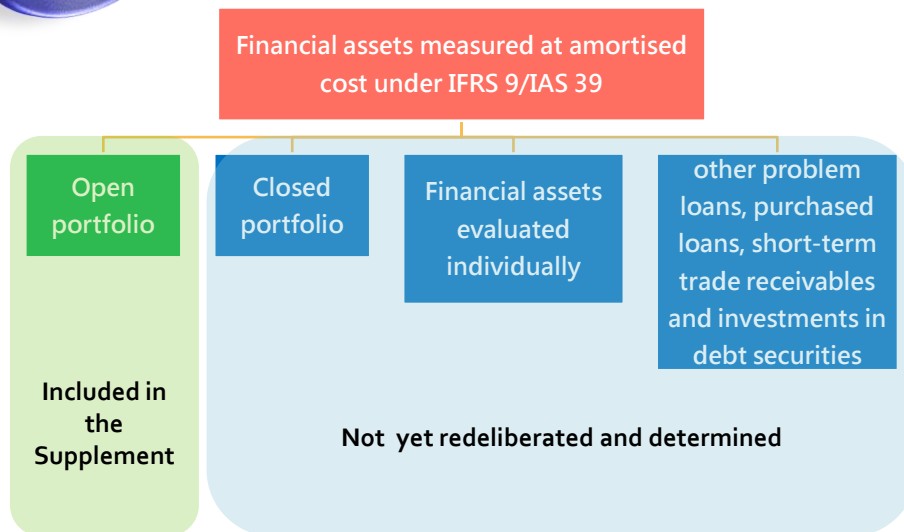
	Current IAS 39	Original ED	Supplement ED
Impairment method	Incurred Loss Model (ILM)	Expected Loss Model (ELM)	Expected Loss Model for open portfolios
Rational		To address the critics of delaying recognition of losses under ILM during financial crisis	<ol style="list-style-type: none"><li>1. Develop common approach b/w FASB and IASB</li><li>2. Operational concerns</li></ol>



## Overview of the supplement



## Next steps



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**THANK YOU!**



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*Always One Step Ahead.*

穩佔先機 領先一步

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