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ISDA Publishes Paper Examining Differences in Derivatives Reporting Between US GAAP and IFRS Accounting Standards

NEW YORK, May 23, 2012 – The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of a paper, *"Netting and Offsetting: Reporting Derivatives Under US GAAP and Under IFRS."*

The paper examines how and why derivatives are treated differently under the International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP) and their impact on the new Basel III Leverage Ratio.

It notes that the terms of netting, offsetting and set-off are often used to express the same notion but they are very different concepts. A better understanding of the terminology and the way in which derivatives are traded, managed and settled provides an understanding of why US GAAP accounting standard setters have consistently agreed that derivatives be reported on a 'net' basis instead of on a 'gross' basis on the face of the balance sheet and why this differs from reporting derivatives under IFRS. Historically, the Europe-based International Accounting Standards Board (IASB) has permitted significantly less balance sheet offsetting than the US-based Financial Accounting Standards Board (FASB).

ISDA believes that net presentation, in accordance with US GAAP, provides the most faithful representation of an entity's financial position, solvency, and exposure to credit and liquidity risk. Individual derivative transactions that are subject to enforceable master netting agreements should be eligible for netting in the balance sheet on the basis that such financial statement presentation is most faithfully representative of an entity's resources and claims and provides the most useful information for investment decisions.

The paper covers the following topics:

- Why is netting/offsetting an issue?
- Differences between securities, loans and receivables and derivatives
- Portfolio management
- The interest rate swap and credit default swap markets
- The efficacy of netting and collateral as risk mitigation techniques
- The offsetting rules under US GAAP and IFRS
- Criteria for derivatives and repo markets
- New offsetting disclosures
- The new Basel III Leverage Ratio

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The paper is available on the ISDA website:
http://www2.isda.org/attachment/NDQxOQ==/Offsetting%20under%20US%20GAAP%20and%20IFRS%20-%20May%202012.pdf

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About ISDA
Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world's largest global financial trade associations, with over 830 member institutions from 59 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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