Offsetting and cash-pooling arrangements (IAS 32 *Financial Instruments: Presentation*)

The Interpretations Committee received a request to clarify an issue related to IAS 32 *Financial Instruments: Presentation*.

The issue relates to whether a particular cash-pooling arrangement would meet the requirements for offsetting in accordance with IAS 32—specifically, whether the regular physical transfers of balances (but not at the reporting date) into a netting account would be sufficient to demonstrate an intention to settle the entire period-end account balances on a net basis in accordance with paragraph 42(b) of IAS 32.

For the purposes of the analysis, the Interpretations Committee considered the specific example included in the request, which describes a cash-pooling arrangement involving subsidiaries within a group, each of which have legally separate bank accounts. At the reporting date, the group has the legally enforceable right to set off balances in these bank accounts in accordance with paragraph 42(a) of IAS 32. Interest is calculated on a notional basis using the net balance of all the separate bank accounts. In addition, the group instigates regular physical transfers of balances into a single netting account. However, such transfers are not required under the terms of the cash-pooling arrangement and are not performed at the reporting date. Furthermore, at the reporting date, the group expects that its subsidiaries will use their bank accounts before the next net settlement date, by placing further cash on deposit or by withdrawing cash to settle other obligations.

In considering whether the group could demonstrate an intention to settle on a net basis in accordance with paragraph 42(b) of IAS 32, the Interpretations Committee observed that:

a. paragraph 46 of IAS 32 states that net presentation more appropriately reflects the amounts and timings of the expected future cash flows only when there is an intention to exercise a legally enforceable right to set off; and
b. in accordance with paragraph 47 of IAS 32, when assessing whether there is an intention to settle net, an entity considers normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net.

Consequently, within the context of the particular cash-pooling arrangement described by the submitter, the Interpretations Committee noted that the group should consider the principles above in order to assess whether, at the reporting date, there is an intention to settle its subsidiaries' bank account balances on a net basis or whether the intention is for its subsidiaries to use those individual bank account balances for other purposes before the next net settlement date. In this regard, the Interpretations Committee observed that the group expects cash movements to take place on individual bank accounts before the next net settlement date because the group expects its subsidiaries to use those bank accounts in their normal course of business. Consequently, the Interpretations Committee noted that, to the extent to which the group did not expect to settle its subsidiaries' period-end account balances on a net basis, it would not be appropriate for the group to assert that it had the intention to settle the entire period-end balances on a net basis at the reporting date. This is because presenting these balances net would not appropriately reflect the amounts and timings of the expected future cash flows, taking into account the group's and its subsidiaries' normal business practices. However, the Interpretations Committee also observed that in other cash-pooling arrangements, a group's expectations regarding how subsidiaries will use their bank accounts before the next net settlement date may be different. Consequently, it was noted that, in those circumstances, the group would be required to apply judgement in determining whether there was an intention to settle on a net basis at the reporting date.

The Interpretations Committee also observed that the results of the outreach did not suggest that the particular type of cash-pooling arrangement described by the submitter was widespread. Furthermore, it was noted that many different types of cash-pooling arrangements exist in practice. Consequently, the determination of what constitutes an intention to settle on a net basis would depend on the individual facts and circumstances of each case. The Interpretations Committee further noted that an entity should also consider the disclosure requirements related to offsetting of financial assets and financial liabilities in the applicable IFRS Standards.

In the light of this and the existing requirements in IFRS Standards, the Interpretations Committee decided that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.