STAFF PAPER

March 2016

IFRS Interpretations Committee Meeting

Project	**IAS 32 *Financial Instruments: Presentation*—Offsetting and cash pooling**
Paper topic	Comment Letter Analysis and Finalisation of Agenda Decision

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Introduction

1. In November 2015, the IFRS Interpretations Committee ('the Interpretations Committee') discussed whether particular cash pooling arrangements would meet the requirements for offsetting in IAS 32 *Financial Instruments: Presentation.*[1]

2. More specifically, the Interpretations Committee discussed a submission that described a specific type of cash pooling arrangement involving a number of subsidiaries within a group. Each of the subsidiaries held its own legally separate bank account and at the reporting date, the group had the legally enforceable right to offset the bank account balances in accordance with paragraph 42(a) of IAS 32. The submitter asked the Interpretations Committee to clarify whether, from the perspective of the group, 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.

3. The Interpretations Committee noted that:

   (a) many different types of cash pooling arrangements exist in practice and that, consequently, the determination of what constitutes an intention to settle on

[1] See Agenda Paper 10 discussed at the November 2015 Interpretations Committee meeting.

a net basis would depend on the individual facts and circumstances of each case; and

(b) the results of the outreach did not suggest that the particular type of cash pooling arrangement described by the submitter was widespread.

4. In the light of these observations and given the requirements in IFRS Standards, the Interpretations Committee considered that neither an amendment to IAS 32 nor an Interpretation was necessary. Consequently, it decided not to add this issue to its agenda.[2]

Purpose of the paper

5. The purpose of this paper is to:

(a) provide a high-level summary of the comments received on the tentative agenda decision;

(b) provide a summary of the key concerns raised in those comment letters;

(c) set out our analysis of the key concerns raised; and

(d) propose a recommendation for the final agenda decision.

High-level summary of comment letters received

6. The comment period for the tentative agenda decision ended on 21 January 2016. We received eight comment letters, which are reproduced in Appendix C. The following is a breakdown of comment letters received:

(a) four accounting firms—EY, PWC, Deloitte and Mazars;

(b) two representative bodies—the Association for Financial Markets in Europe (AFME) and the International Swaps and Derivatives Association (ISDA);

[2] The tentative agenda decision can be found in the IFRIC Update of November 2015 and is also reproduced in Appendix A.

(c) one accounting standard-setter—the Accounting Standards Committee of Germany (ASCG); and

(d) one bank—HSBC.

7. The following is a high-level summary of the comments received:

(a) two of the respondents (Deloitte and ASCG) agreed with the Interpretations Committee's decision not to add this item to its agenda and had no comments on the proposed wording of the tentative agenda decision;

(b) four other respondents (EY, HSBC, AFME and ISDA) did not suggest that the Interpretations Committee should add this item to its agenda but expressed concerns about the proposed wording of the tentative agenda decision. This is because, in their view, as currently drafted, it could have wide-ranging and/or unintended consequences. These respondents expressed a particular concern about the perceived implication of a need for certainty over the amounts to be offset. Some of these respondents also questioned the intended scope of the tentative agenda decision (see paragraphs 9–17 of this paper);

(c) another respondent (Mazars) also expressed a similar concern regarding the perceived implication of a need for certainty over the amounts to be offset. They highlighted that, in their view, this would be contrary to current practice and could have wide-ranging consequences. Although this respondent did not suggest that the Interpretations Committee should add this item to its agenda, they were of the view that the Interpretations Committee should undertake further analysis of cash pooling arrangements before finalising the tentative agenda decision (see paragraphs 9–15 of this paper); and

(d) the remaining respondent (PwC) disagreed with the Interpretations Committee's decision not to add this item to its agenda. In their view, the specific type of cash pooling arrangement presented by the submitter is widespread and there is diversity in practice. Consequently, they suggested that the Interpretations Committee should consider issuing further requirements through an Interpretation (see paragraphs 18–19 of this paper).

Summary of key concerns raised in the comment letters

8. We have identified three key concerns raised by respondents. We set out below a summary of each of these concerns.

Need for certainty over the amounts to be offset

9. Some respondents were concerned that the proposed wording of the tentative agenda decision could be read to imply a need for certainty over the amounts to be offset in order for an entity to demonstrate its intention to settle net at the reporting date. In particular, these respondents made reference to the following paragraph of the tentative agenda decision [**emphasis added**]:

> *"……In this regard, the Interpretations Committee observed that in the example presented, it is stated that prior to the next net settlement date the* ***period-end balances may change*** *as group entities place further cash on deposit or withdraw cash to settle other obligations. Because the entity does not expect to settle the period-end balances on a net basis due to the expected future activity prior to the next net settlement date, the Interpretations Committee noted that it would not be appropriate for the entity to assert that it had the intention to settle the entire period-end balances on a net basis….."*

10. In their view, the paragraph above could be understood to mean that if there was a possibility that the period-end balances could change, then an entity would not be able to demonstrate its intention to settle net. These respondents think that such an implied need for certainty over the amounts to be offset gives rise to a number of concerns.

11. According to some of these respondents, expected changes in the asset and liability balances between the reporting date and the next net settlement date should not be the only factor to consider when assessing whether an entity can demonstrate an intention

to settle net. Instead, in their view, this assessment requires judgement and due consideration of all relevant facts and circumstances, including the entity's risk management strategy, the history and frequency of net settlements and the commercial purpose of the specific arrangement. In support of this view, they observed that the need for judgement and the requirement to consider all relevant facts and circumstances would be aligned with the principles identified in paragraphs 46 and 47 of IAS 32. Furthermore, another respondent observed that requiring certainty over the amounts to be offset would be contrary to their understanding of current practice by entities involved in cash pooling arrangements in which bank account balances change every day.

12. In addition, some of these respondents pointed out that, even if there was no reasonable expectation of changes in the asset and liability balances before the next net settlement date, unexpected changes could occur. In their view, unexpected changes in the asset and liability balances between the reporting date and the next net settlement date should not impinge upon an entity's ability to demonstrate its intention to settle net at the reporting date.[3]

13. Finally, some of these respondents also pointed out a potential unintended consequence arising from the perceived need for certainty over the amounts to be offset. More specifically, they noted that this could affect offsetting practices applied to other financial instruments such as derivatives, whose carrying amounts are inevitably expected to change between the reporting date and the next net settlement date because of fair value changes. In their view, changes in the asset and liability balances arising from fair value changes should not impinge upon an entity's ability to demonstrate its intention to settle net.

14. In support of their view that it would not be appropriate for the agenda decision to imply a need for certainty over the amounts to be offset, some of these respondents pointed out that there is no requirement in IAS 32 for the exact amounts to be known

[3] The feedback in this paragraph was obtained from discussions we had with some of the respondents for the purposes of clarifying some aspects of their comment letters.

at the reporting date in order to demonstrate an intention to settle net. In particular, they observed that paragraph BC83 of IAS 32 states that the reporting entity's right of set-off is not invalidated by the passage of time or uncertainties in the amounts to be paid. Although this relates to the assessment of an entity's legal right of set-off, it would seem reasonable for the same rationale to be applied when assessing an entity's intention to settle net.

15. In order to address this concern regarding the perceived need for certainty over the amounts to be offset, some of these respondents made a number of suggestions, including:

    (a) removing the Interpretations Committee's observations on the specific fact pattern presented and focussing only on the principles of offsetting in accordance with IAS 32;

    (b) removing references to 'period-end balances' and 'individual account balances' in the tentative agenda decision, which could imply a need for certainty over amounts to be offset; and

    (c) undertaking further analysis of cash pooling arrangements before finalising the agenda decision.

Scope of the agenda decision

16. Although the tentative agenda decision refers to the accounting by the group, some respondents expressed concerns over how the perceived need for certainty over the amounts to be offset might also affect the accounting treatment of cash pooling arrangements by banks.

17. Consequently, one respondent suggested that the wording of the agenda decision should make clear whether it is also intended to address the accounting by the bank in the example presented.

Widespread nature of the issue/need for an Interpretation

18. With reference to the respondent who disagreed with the Interpretations Committee's decision not to add this item to its agenda, they first noted that they disagreed with the Interpretations Committee's observation that this particular type of cash pooling arrangement is not widespread. They acknowledged that there were many different types of cash pooling arrangements but, in their view, this particular type of cash pooling arrangement was common. Furthermore, they were aware of diversity regarding how the offsetting requirements of IAS 32 were being applied to these specific arrangements.

19. Consequently, they suggested that the Interpretations Committee should clarify the offsetting requirements of IAS 32 through an Interpretation. However, because of the many varied types of cash pooling arrangements, they suggested that the Interpretation should aim to clarify the principles of the offsetting requirements in IAS 32 within the context of cash pooling arrangements in general, rather than addressing any one specific type of cash pooling arrangement.

Staff analysis of key concerns raised in the comment letters

20. We set out our analysis of the comment letters received by considering each of the key concerns raised as follows:

    (a) the need for certainty over the amounts to be offset (see paragraphs 22–33 of this paper);

    (b) scope of the agenda decision (see paragraphs 34–36 of this paper);

    (c) the widespread nature of the issue/need for an Interpretation (see paragraphs 37–40 of this paper).

21. Appendix B contains relevant extracts from IAS 32.

Need for certainty over the amounts to be offset

22. As mentioned in paragraphs 11–12 of this paper, some respondents expressed concerns about the fact that an entity could be prevented from demonstrating an intention to settle net if the asset and liability balances were either expected to change, or changed, for unexpected reasons, between the reporting date and the next net settlement date.

23. With respect to this concern, we first note that the Interpretations Committee's observations in the tentative agenda decision were based on the specific example presented, which included the following statement [**emphasis added**]:

> *'….Based on **expected activity**, the period-end balances may change prior to the next net settlement date as group entities place further cash on deposit or withdraw cash to settle other obligations…'.*

24. On the basis of the discussions held at the Interpretations Committee meeting in November 2015, this statement was understood to mean that, at the reporting date, the group expected that its subsidiaries would use their bank accounts before the next net settlement date—ie the group expected cash movements on individual bank accounts. Consequently, within the context of the specific example presented, the Interpretations Committee observed that it would not be appropriate for the group to assert that it had the intention to settle the period-end balances on a net basis at the reporting date. This is because, in this case, net presentation of the asset and liability balances at the reporting date would not appropriately reflect the amounts and timings of the expected future cash flows, taking into account the group's normal business practices.

25. We note that the Interpretations Committee's observations on the example presented are consistent with the principles identified in paragraphs 46 and 47 of IAS 32. In addition, we note that these observations would also be consistent with paragraph 43 of IAS 32. According to this paragraph, net presentation of financial assets and financial liabilities is required when an entity has a right to receive or pay a single net amount and intends to do so because it has, in effect, only a single financial asset or financial liability. However, in other circumstances, financial assets and financial

liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. Consequently, we observe that when an entity expects to receive or pay gross cash flows relating to a financial asset and a financial liability, such as in the case of the example presented, net presentation would not be appropriate.

26. In contrast, we do not consider that the Interpretations Committee's observations intended to prevent a group from demonstrating an intention to settle net because of the possibility that its subsidiaries could use the cash in their bank accounts to settle other obligations due to unexpected circumstances. Consequently, we agree with those respondents that stated that the occurrence of unexpected changes in the asset and liability balances between the reporting date and the next net settlement date should not impinge upon an entity's ability to demonstrate its intention to settle net at the reporting date. However, in the light of the concerns raised, we propose that the wording of the final agenda decision clarifies that, in the example presented, the group expected its subsidiaries to use their bank accounts before the next net settlement date on the basis of the group's normal business practices.

27. Furthermore, we think that the assessment of whether an entity has an intention to settle net will depend on the consideration of all relevant facts and circumstances surrounding the specific cash pooling arrangement. In this regard, we note that the Interpretations Committee's observations on the example presented did not make explicit reference to the need for judgement. This is because, in that case, the only relevant fact and circumstance was that the group's expectations regarding its subsidiaries' use of their bank accounts was consistent with the group's normal business practices. However, we do not think that this implies that judgement would not be required in other circumstances.[4]

28. In addition, we note that the tentative agenda decision already illustrated the need for an entity to exercise judgement in the following ways:

[4] This is consistent with the staff analysis presented in Agenda Paper 10 discussed at the November 2015 Interpretations Committee meeting.

(a) referring to paragraphs 46 and 47 of IAS 32, which highlight that when assessing whether an entity has an intention to settle net, the entity needs to consider whether net presentation would reflect the amounts and timings of the expected future cash flows taking into account the relevant facts and circumstances including its normal business practices; and

(b) acknowledging that in other cases a group's expectations with respect to its subsidiaries' use of their bank accounts might be different. In those cases, the application of judgement and consideration of the specific facts and circumstances may lead the group to conclude that it has an intention to settle net at the reporting date.

29. As mentioned in paragraph 13 of this paper, some of the respondents were concerned that a perceived need for certainty over the amounts to be offset could have unintended consequences on the offsetting practices of other products, such as derivatives whose carrying amounts will inevitably be expected to change between the reporting date and the next net settlement date.

30. With respect to this concern, we first note that the changes in period-end balances in the example presented are explained as being changes arising from subsidiaries using their bank accounts, for example withdrawing cash on deposit and using it to settle other obligations. Consequently, the 'changes' in period-end balances that are referred to in the agenda decision should be understood to mean changes related to cash movements; they should not be interpreted to extend to other changes unrelated to cash movements such as fair value changes on derivative assets and liabilities.

31. In addition, we note that the right and intention to settle assets and liabilities on a net basis relates to an entity's expectations with respect to payments and receipts of cash flows as described in paragraph 43 of IAS 32. Consequently, when making the assessment of whether an entity has the intention to settle net, it is necessary to consider how the cash flows arising from those assets and liabilities are expected to be settled. We observe that changes in fair value would not be relevant to this assessment.

32. However, in view of the concerns raised and for the avoidance of doubt, we propose that the wording of the final agenda decision should make an explicit reference to cash movements.

33. Finally, as mentioned in paragraph 15 of this paper, we note that some respondents suggested that these concerns relating to a perceived need for certainty over the amounts to be offset should be addressed by removing the Interpretations Committee's observations on the specific fact pattern presented. We do not agree that these observations should be removed. This is because:

    (a) the Interpretations Committee specifically discussed the example presented, with the aim of addressing the specific question received by the submitter. The Interpretations Committee addressed the question received by illustrating how the group would apply the principles set out in IAS 32 regarding an intention to settle net in that specific case; and

    (b) as noted in paragraph 24 of this paper, on the basis of the example presented, the Interpretations Committee considered that the group expected that its subsidiaries would use the cash in their bank accounts to settle other obligations before the next net settlement date. Consequently, on the basis of this expectation, it would not be appropriate to conclude that the group had an intention to settle net at the reporting date. In other words, presenting the asset and liability balances on a net basis at the reporting date would not appropriately reflect the amounts and timings of the expected future cash flows, taking into account the group's normal business practices. Instead, separate presentation of the asset and liability balances would better reflect their characteristics as resources or obligations of the group.

Scope of the agenda decision

34. With respect to the scope of the agenda decision, we first note that the original submission received specifically asked the Interpretations Committee to clarify the accounting treatment from the perspective of the group. Consistently with this

request, the staff analysis and the Interpretations Committee's discussion considered the accounting treatment only from the perspective of the group.

35. Consequently, we note that the Interpretations Committee did not consider whether the bank could demonstrate an intention to settle net within the context of the example received.

36. We are of the view that the principles identified as being relevant to the assessment of whether an entity has an intention to settle net would be equally applicable to any entity when making such an assessment. However, we do not think that this observation needs to be included in the agenda decision. This is because the request received focussed on the accounting treatment from the perspective of the group. Consequently, the Interpretations Committee discussed the application of these principles only to the accounting by the group within the context of the specific example presented.

Widespread nature of the issue/need for an Interpretation

37. Although the results of our outreach on this issue implied that cash pooling arrangements were common, it was not clear that the particular type of cash pooling arrangement presented by the submitter is common and, consequently, this point was noted by the Interpretations Committee in the tentative agenda decision. However, we note that one respondent stated that the particular type of cash pooling arrangement identified by the submitter is, in fact, common.

38. This respondent suggests that the Interpretations Committee should consider issuing an Interpretation to clarify the principles of the offsetting requirements in IAS 32 within the context of cash pooling arrangements in general, rather than addressing only one specific type of cash pooling arrangement. This is because, in their view, the terms, conditions and operational aspects of such arrangements typically vary widely.

39. We observe that this suggestion is beyond the scope of the original submission, which asked the Interpretations Committee to clarify the accounting treatment of a very specific cash pooling arrangement from the perspective of the group.[5]

40. Finally, we think that the agenda decision already identifies the key principles relevant to the assessment of demonstrating an intention to settle net in accordance with the offsetting requirements in IAS 32.

Staff recommendation

41. On the basis of the comments received and our analysis set out in paragraphs 22–40 of this paper, we recommend that the agenda decision should be finalised, with amendments that clarify that:

    (a) in the example presented, the group expected its subsidiaries to use their bank accounts between the reporting date and the next net settlement date based on the group's normal business practices (see paragraphs 22–26 of this paper); and

    (b) the reference to 'changes' in period-end balances relates to cash movements (see paragraphs 29–32 of this paper).

42. We have reflected these changes as a mark-up to the published tentative agenda decision in Appendix A (A1) to this paper. Other purely editorial changes have also been marked-up in Appendix A (A1). We have also included a clean version of the final proposed agenda decision wording in Appendix A (A2).

[5] We note that one of the reasons that the Interpretations Committee did not add the original submission to its agenda was that many different types of cash pooling arrangements exist in practice. This was noted in the tentative agenda decision.

Questions for the Interpretations Committee

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff recommendation to finalise the agenda decision? 2. Does the Interpretations Committee have any comments on the proposed wording of the final agenda decision set out in Appendix A to this paper?

Appendix A—Agenda decision

A1. We propose the following amendments to the wording of the published tentative agenda decision.

IAS 32 *Financial Instruments: Presentation*—Offsetting and cash pooling

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

The issue relates to whether ~~certain~~ particular cash pooling arrangements would meet the requirements for offsetting ~~under~~ 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 received, which describes a cash pooling arrangement involving a number of subsidiaries within a group, each of which have legally separate bank accounts. At the reporting date, both the bank and the group have the ~~necessary~~ 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, ~~based on expected activity, the period end balances may~~ at the reporting date, the group expects that its subsidiaries will use their bank accounts ~~change prior to~~ before the next net settlement date, by ~~as group entities~~ placinge 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) as highlighted in paragraph 46 of IAS 32, 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 ~~net~~ settle net, an entity ~~should~~ 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 ~~entity~~ group should consider the ~~guidance~~ principles above in order to assess whether, at the reporting date, there is an intention to settle its subsidiaries' bank ~~individual~~ account balances on a net basis or whether the intention is for ~~various entities~~ its subsidiaries ~~within the group~~ to use those individual bank account balances for other purposes ~~prior to~~ before the next net settlement date. In this regard, the Interpretations Committee observed that, in the example presented, ~~it is stated that prior to the next net settlement date the period end balances may change as group entities~~ 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. ~~place further cash on deposit or withdraw cash to settle other obligations.~~ ~~Because the entity does not expect to settle the period end balances on a net basis due to the expected future activity prior to the next net settlement date,~~ Consequently, the

Interpretations Committee noted that the group did not expect to settle its subsidiaries' period-end account balances on a net basis and it would therefore not be appropriate for the ~~entity~~ group to assert that it had the intention to settle net at the reporting date. ~~the entire period end balances on a net basis.~~ 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 ~~entity's~~ group's 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. ~~an entity may not expect the period end balances to change prior to the next net settlement date and~~ C~~c~~onsequently it was noted that, ~~an entity~~ in those circumstances, the group would be required to apply its judgement in determining whether there was an intention to settle on a net basis ~~in those circumstances~~ 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 ~~variations~~ types of cash pooling arrangements exist~~ed~~ in practice. ~~and~~ 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.

In the light of this and ~~given~~ the existing ~~IFRS~~ requirements in IFRS Standards, the Interpretations Committee ~~considered~~ determined that neither an ~~amendment to IAS 32 nor an i~~Interpretation nor an amendment to a Standard was necessary. ~~and c~~Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add ~~the~~ this issue to its agenda.

A2. We propose the following wording for the final tentative agenda decision.

IAS 32 *Financial Instruments: Presentation*—Offsetting and cash pooling

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

The issue relates to whether particular cash pooling arrangements 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 received, which describes a cash pooling arrangement involving a number of subsidiaries within a group, each of which have legally separate bank accounts. At the reporting date, both the bank and the group have 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) as highlighted in paragraph 46 of IAS 32, 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 in the example presented, 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 the group did not expect to settle its subsidiaries' period-end account balances on a net basis and it would therefore not be appropriate for the group to assert that it had the intention to settle net 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 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 its 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.

In the light of this and the existing requirements in IFRS Standards, the Interpretations Committee determined 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.

Appendix B—Relevant Extracts from IAS 32

42 A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see IFRS 9, paragraph 3.2.22).

43 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 13B–13E of IFRS 7 for recognised financial instruments that are within the scope of paragraph 13A of IFRS 7.

[….]

46 The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

47 An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 36 of IFRS 7.

[…..]

BC83 In addition, the Board believes that the passage of time or uncertainties in amounts to be paid do not preclude an entity from currently having a (legally enforceable) right of set-off. The fact that the payments subject to a right of set-off will only arise at a future date is not in itself a condition or a form of contingency that prevents offsetting in accordance with paragraph 42(a) of IAS 32.

Appendix C—Comment Letters received

HSBC

IFRS Interpretations Committee
First Floor
30 Cannon Street
London
EC4M 6XH

25 January 2016

Interpretations Committee's tentative agenda decision on IAS 32 *Financial Instruments: Presentation- Offsetting and cash pooling*

Dear IFRS Interpretation Committee members,

HSBC welcomes the opportunity to comment on the tentative agenda decision regarding IAS 32 *Financial Instruments: Presentation - Offsetting and cash pooling* ('IAS 32 Offsetting').

In November 2015, the IFRS Interpretations Committee ('IC') discussed a fact pattern representing a notional cash pooling facility and has discussed whether a reporting entity can demonstrate its intent to net settle assets and liabilities in scope of the notional pooling facility in the circumstances described by that specific fact pattern. The IFRS IC considered that neither an amendment to IAS 32 nor an interpretation was necessary and consequently [decided] not to add the issue to its agenda.

Although we agree with the IC's tentative agenda decision not to add this issue to its agenda, we do not support the IC's reasons or wording of the tentative agenda decision as drafted.

Although we understand that the IC's intention was to publish the tentative agenda decision based on this specific fact pattern, the conclusions reached and the wording used with regards to certainty about period-end balances could have wider/unintended consequences on offsetting practices applied to other financial instruments, since similar principles are used to demonstrate both intent to net settle (as applied to notional cash pooling) and intent to settle assets and liabilities in a way which is equivalent to net settlement (as applied to other products). For example, the carrying amounts of some derivatives and some repurchase agreements, where balances are presented net in accordance with IAS 32, inevitably change between the reporting date and settlement date without invalidating the reporting entity's intent to net settle.

Cash pooling arrangements are common products offered by banks to assist customers in managing their liquidity and funding needs in an efficient way. While it is true that there are variations on the types of cash pooling arrangements, for a significant portion of product offerings, net settlements do not necessarily occur at the reporting date of the bank because net settlements may be initiated by the customer. Furthermore, the individual carrying amounts of the financial assets and financial liabilities at the reporting date may, or may not, change prior to the next settlement date. However, the objective of the product offerings remains the same; to assist clients in managing their liquidity and funding needs in an efficient way.

The underlying principle of off-setting in accordance with IAS 32 paragraph 43 is that an entity's legal right to off-set financial instruments in combination with its intention to net settle those financial instruments, in substance results in the entity having a single financial asset or financial liability and that net presentation reflects an entity's expected future cash flows.

IAS 32 provides considerable guidance on how the reporting entity needs to assess its legal right to set-off and on what type of settlement qualifies as being equivalent to net settlement. However there is no similar guidance in the standard on how a preparer of accounts can demonstrate intent. IAS 32 paragraph BC83 clarifies that the reporting entity's right to set off is not invalidated by the passage of time or uncertainties in the amounts to be paid. However, IAS 32 includes very little guidance on how to apply the 'intention' criteria and there is no specific requirement for the exact amounts to be net settled to known at the reporting date in order to evidence the net settlement intention. In the light of specific requirements to the contrary, it seem reasonable for the observation in BC83 to apply equally to an entity's intention to net settle.

Furthermore, paragraph 46 of IAS 32 states that when an entity intends to exercise its right to net settle, the presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed.

In our view it is possible for a reporting entity to demonstrate that it intends to net settle assets and liabilities while allowing for clients to continue entering into transactions which may affect the net amount settled for those assets and liabilities. For example, if an entity's risk management practices are aimed at managing a single credit and/or liquidity risk position and there is a history of active management of the net position with regular net settlements occurring, this should represent sufficient evidence of the entity's intention to net settle. An entity's intention to net settle could also be evidenced through communications with clients during the life of the notional pooling facility, the frequency of past net settlements and an entity's past practice with enforcing net settlements. However, a distinction should also be made between intended/expected net settlements and the mere occurrence of net settlements. In our view, a reporting entity would not be able to demonstrate its intent to net settle based on mere occurrence of a net settlement since in these circumstances the net settlement would happen due to factors outside entity's influence and which could not have been reasonably anticipated at the reporting date.

We are concerned that the tentative agenda decision appears to be specifying the accounting for a specific fact pattern, despite acknowledging that judgement will be required to determine whether off-setting should be applied. In reality, it is necessary to evaluate all relevant facts and circumstances in a way that a simplified example may not accurately convey. We believe

HSBC

that the fact pattern considered does not provide enough context or detail to fully assess whether the off-setting requirements are met. In light of the responses indicating that cash pooling arrangements are common and that there is diversity in practice regarding how these arrangements are accounted for, it would not be appropriate to provide guidance in the form of a tentative agenda decision in such a case.

We note that any attempt at responding to the question of how to apply the 'intention' criteria and any guidance to be developed would be more in the nature of application/implementation guidance than an interpretation.

We therefore recommend that the tentative agenda decision should only set out the principles of IAS 32 without expressing an opinion on a specific fact pattern. This could be achieved by replacing the last two paragraphs in the tentative agenda decision with paragraphs 48 and 49 of the Agenda Paper as illustrated in Appendix 1.

We would be pleased to discuss this response with you further.

Yours sincerely,

Conrad Dixon
Global Head of Accounting Policy

HSBC Holdings plc
8 Canada Square, London E14 5HQ

Appendix 1

IAS 32 – offsetting and cash pooling

The IFRS Interpretations Committee ('the Interpretations Committee') has received a request to address an issue related to IAS 32 *Financial Instruments: Presentation*.

The issue relates to whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32 – specifically, whether the regular 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 a notional cash pooling arrangement between a number of subsidiaries within a group, each of which have legally separate bank accounts, each of which in turn represents separate units of account. Both the bank and the group have the necessary legally enforceable right to set off balances in these bank accounts in accordance with paragraph 42(b) of IAS 32. Interest is calculated on the net balance of all the separate bank accounts and the group instigates regular transfers of balances into a single netting account. However, such transfers are not required under the terms of the arrangement and not done at the reporting date. Furthermore, the specific amounts that are to be set off in the future are not necessarily known at the reporting date because those balances may subsequently change as group entities place further cash on deposit or withdraw 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) as highlighted in paragraph 46 of IAS 32, net presentation more appropriate 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 net settle, an entity should consider 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 entity should consider the guidance above in order to assess whether, at the reporting date, there is an intention to settle individual account balances on a net basis or whether the intention is for various entities within the group to use those individual account balances for other purposes prior to the next net settlement date. In this regard, the Interpretations Committee observed that in the example presented, it is stated that prior to the next net settlement date the period end balances may change as group entities place further cash on deposit or withdraw cash to settle other obligations. Because the entity does not expect to settle the period end balances on a net basis due to the expected future activity prior to the next net settlement date, the Interpretations~~

HSBC Holdings plc
8 Canada Square, London E14 5HQ

~~Committee noted that it would not be appropriate for the entity to assert that it had the intention to settle the entire period-end balances on a net basis. 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 entity's normal business practice. However, the Interpretations Committee also observed that in other cash pooling arrangements, an entity may not expect the period end balances to change prior to the next net settlement date and consequently it was noted that an entity would be required to apply its judgement in determining whether there was an intention to settle on a net basis in those circumstances.~~

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 variations of cash pooling arrangements existed in practice and 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. However, when making that assessment an entity should be mindful of the guidance set out in paragraphs 46 and 47 of IAS 32. Specifically, an entity should consider whether net presentation of the asset and liability balances would appropriately reflect the amounts and timings of the expected future cash flows, taking into account the entity's normal business practice, the requirements of the financial markets and other circumstances that my limit the ability to settle net. In light of ~~this and~~ the existing IFRS requirements and the limited feedback received from its outreach activities, the Interpretations Committee considered that neither an amendment to IAS 32 nor an interpretation was necessary and consequently [decided] not to add the issue to its agenda.

afme/ Finance for Europe

International Accounting Standards Board
30 Cannon Street
Moorgate Place
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United Kingdom

05 February 2016

Dear members of the IFRS Interpretations Committee,

IFRS Interpretations Committee's tentative agenda decision on IAS 32 *Financial Instruments: Presentation – Offsetting and Cash Pooling*

The Association for Financial Markets in Europe (AFME) represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

We are writing to comment on the November 2015 tentative decision by the IFRS Interpretations Committee (IFRIC) in respect of Cash Pooling arrangements.

Whilst we understand that the decision is meant to relate to the particular cash pooling arrangements described by the submission to IFRIC, our members are concerned that it may have wider implications for other situations where balances may be offset. Some of our members are concerned that the decision, and in particular the following part, may be interpreted as meaning that balances which change between the period end and settlement date cannot be offset at period end:

"prior to the next net settlement date the period end balances may change as group entities place further cash on deposit or withdraw cash to settle other obligations. Because the entity does not expect to settle the period end balances on a net basis due to the expected future activity prior to the next net settlement date, the Interpretations Committee noted that it would not be appropriate for the entity to assert that it had the intention to settle the entire period-end balances on a net basis. 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 entity's normal business practice"

We believe that the fact that a period end balance is not the same as the actual amount net settled does not in itself render it ineligible for offsetting. We appreciate that the above-quoted comments from the IFRIC decision have been made in the context of a specific cash pooling arrangement and our presumption is that they do not apply in other cases. For example, balances relating to the fair value of derivatives where offset has historically taken place in accordance with IAS 32 and the intent always remains to net settle, will inevitably change between a reporting date and settlement. We do not think that the fact that balances change would render offset inappropriate - it is only when either the intention is unclear or there is no legally enforceable right to receive or pay a single net amount over part of the balance, that offsetting is not applicable.

We would also like to make the following comments for consideration by the Committee in relation to the draft statement:

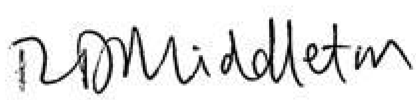
1. We note that IAS 32 does not explicitly require the reporting entity to know with certainty, at the reporting date, the exact amounts, or balances, which will be net settled after the balance sheet date in order to be able to demonstrate its *intent* to net settle. The draft statement suggests that some degree of certainty is required:

   "In this regard, the Interpretations Committee observed that in the example presented the specific amounts that are to be set off in the future are not necessarily known at the reporting date. It would therefore seem difficult for the entity to assert that it had the intention to settle the entire period-end balances on a net basis because presenting these balances net would not seem to appropriately reflect the amounts and timings of the expected future cash flows, taking into account the entity's normal business practice."

2. We also note that paragraphs 43 and 46-47 in IAS 32 refer to offsetting 'financial assets' and 'financial liabilities' by considering settlements of 'financial instruments' and '*expected* future cash flows' [emphasis added]. We disagree with the use in the IFRIC tentative agenda decision of language not present in the standard, such as 'individual account balances' or 'period end balances'. In our view the wording used in the standard does not entirely exclude uncertainty from the amounts reported in the balance sheet. As such, uncertainty is captured in the measurement of the reported assets and liabilities, without affecting the reporting entity intent in respect of those assets and liabilities.

If helpful, we would of course be pleased to discuss any of the comments above in greater detail.

Yours Sincerely,



Richard Middleton
Managing Director &
Head of Accounting Policy

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Chairman of the
IFRS Interpretations Committee
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IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 19 January 2016

Dear Wayne,

IFRS IC's tentative agenda decisions in its November 2015 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several tentative agenda decisions taken by the IFRS IC, as published in the November 2015 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große or me.

Yours sincerely,

Andreas Barckow
President

IAS 32 – Offsetting and cash pooling

We agree with the decision for not taking the issue onto the IFRS IC's agenda, given the many different facts and circumstances existing in practice.

IAS 36 – Recoverable amount and carrying amount of a CGU

We agree with the IFRS IC's view that an answer being derived from the notion of IAS 36.78 provides for sufficiently clear guidance. However, we share the implicit question of whether the requirement of IAS 36.78 is appropriate in nature and whether this leaves room for a potential amendment to IAS 36, e.g. as part of the post-implementation review of the standard already initiated.

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INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
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21 January 2016

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision: IAS 32 Financial Instruments: Presentation—Offsetting and cash pooling (IFRIC Update November 2015 Agenda Paper 10)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) discussed by the IFRS Interpretations Committee (the IFRS IC) in November 2015.

The TAD observes that the results of the outreach suggested that the particular type of cash pooling arrangement described by the submitter was not widespread. However, the TAD requires that changes to the period end balances due to the future activity prior to the next net settlement date affect the entity's assertion whether it has the intention to settle the entire period-end balances on a net basis. Therefore, we believe the TAD will affect a significant number of entities for large amounts of cash pooling balances that are currently presented net.

The TAD explicitly refers to the accounting by the group. However, the same issue arises from the bank's perspective. It would be helpful to clarify whether the TAD also intends to address the accounting by the bank.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

ISDA. Safe, Efficient Markets

IFRS Interpretations Committee
First Floor
30 Cannon Street
London
EC4M 6XH

4 January 2016

Interpretations Committee's tentative agenda decision on IAS 32 *Financial Instruments: Presentation- Offsetting and cash pooling*

Dear Sirs,

The International Swaps and Derivatives Association[1] ("ISDA") would like to take this opportunity to comment on the tentative agenda decision in relation to IAS 32 Financial Instruments: Presentation Offsetting and cash pooling ("IAS 32 Offsetting").

In November 2015, the IFRS Interpretations Committee ('IC') discussed a fact pattern relating to notional cash pooling facility and the extent to which a reporting entity can demonstrate its intent to net settle assets and liabilities within the scope of that pooling facility.

We agree with the Interpretation Committee's tentative decision not to add the issue to its agenda.

However, we do have significant reservations regarding the draft agenda decision put forward.

We believe that in reaching a view as to whether financial assets and liabilities should be offset in accordance with paragraph 42 of IAS 32, it is necessary to undertake appropriate analysis of the facts and circumstances of the situation. Whilst having a legally enforceable right may be relatively straightforward to identify in most cases, establishing whether there is an intention to settle on a net basis (para 42(b)) will require a detailed analysis and judgement.

IAS 32 provides considerable guidance on how a reporting entity should assess its legal right to set-off and on what type of settlement qualifies as being equivalent to net settlement. However IAS 32 only provides limited steers in relation to the "intention" to settle on a net basis – for example:

- Paragraph BC83 confirms an entity's right to set off is not invalidated by the passage of time or uncertainties in the amounts to be paid – absent any words to the

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

contrary, this implies that BC83 could apply equally to an entity's intention to net settle.

- Paragraph 46: when an entity intends to exercise its right to net settle, the presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed.
- Paragraph 47: when assessing whether there is an intention to net settle, an entity should consider normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net.

Having regard to these, we would then expect the entity to consider the evidence in support of "intention" – whilst not an exhaustive list, the following are typically areas to consider as indicators of " intent":

- The extent to which an entity risk manages balances on a "net basis";
- The history of net settlements and frequency and the extent to which this can be used as a predictor of future behaviour;
- Communication between the entity and its client(s) to facilitate net settlement.
- The commercial purpose of such arrangements – in this particular fact pattern, cash pooling is typically undertaken to efficiently/effectively manage a client group's liquidity/cash management arrangements.

The basis of conclusion states it expects there to be a degree of certainty of amounts at a reporting date to be offset and if period end balances can subsequently move, then offset cannot be achieved. We do not believe "intention" as required by IAS 32 implies a certainty in period end balances, but instead an expectation in the net exchange of settlement amounts arising from an asset and liability on a specified date. The asset and liability balances that are offset could change over time, but as long as the settlement amounts arising from the asset and liability are net settled on a specified date, the requirements of IAS 32 are met.

We also note that the tentative decision is made for a relatively narrow fact pattern. However, the conclusion is potentially far reaching and could be relevant to other areas where set off have been historically achieved through being able to demonstrate both the "legal right of set off" and the "intention" to net settle. We are confident that this was not the Interpretation Committee's "intention, in which case we invite the Committee to reconsider the wording used in the tentative agenda decision.

In light of the above therefore, we believe that the tentative agenda decision at this stage should be amended so as to highlight only the principles of IAS 32 and not set out an opinion for this specific fact pattern.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

Lisa Bomba

Antonio Corbi

Lisa Bomba
Deutsche Bank AG
Chair, European Accounting Committee

Antonio Corbi
ISDA
Risk and Capital

MAZARS

Mr. Wayne Upton

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, January 29, 2016

RE: IFRS Interpretations Committee tentative agenda decisions, November 2015

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,

Michel Barbet-Massin
Head of Financial Reporting Technical Support

Edouard Fossat
Deputy Head of Financial Reporting Technical Support

Appendix 5
IAS 32 Financial Instruments: Presentation—Offsetting and cash pooling (Agenda Paper 10)

We are concerned with the Interpretations Committee's tentative decision on the issue related to the application of offsetting rules on certain cash pooling arrangements.

In our experience, the tentative decision contradicts current practice that has been largely supported by accounting guidance. We understand that many entities offset bank account balances on the statement of financial position when they:

- Currently have a legally enforceable right to set off the recognized amounts; and
- Manage their cash position on a net basis and request the bank to net settle account balances on a regular basis (but not often at closing date).

If the tentative decision were to be confirmed, entities will no longer be able to offset bank account balances on their statement of financial position since account balances included in this type of cash pooling arrangements usually change every day. This could lead to material impacts on gross debt for some entities with potential impacts on debt covenants.

The current tentative decision could leave entities involved with this type of cash pooling arrangements with no other choice than requesting the bank to transfer balances into a single netting account at closing date. We understand that this would be very difficult to implement in practice for banks (if not impossible), especially if a large number of entities were to request a net settlement at the same date.

We believe that the above discussion highlights the fact that the guidance proposed in the tentative decision is rule-based and not grounded on sound principles. The IFRS Interpretations Committee should undertake a more thorough analysis of notional cash-pooling arrangements in order to identify relevant criteria for offsetting cash-pooling operations.

pwc

IFRS Interpretations Committee
First Floor
30 Cannon Street
London
EC4M 6XH

19 January 2016

Dear Sirs and Madams,

Tentative agenda decision: IAS 32 Financial Instruments: Presentation—Offsetting and cash pooling

We are responding on behalf of PricewaterhouseCoopers to your invitation to comment on the above tentative agenda decision, published in the November 2015 edition of the IFRS Interpretations Committee Update. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms that commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In November 2015 the IFRS IC discussed offsetting under IAS 32 'Financial Instruments: Presentation' for cash pooling arrangements with the following characteristics:
(a) interest is calculated on the net balance of all the separate bank accounts;
(b) there are regular transfers of balances into a single netting account. However:
  (i) this is not required under the terms of the arrangement;
  (ii) this is not done at the reporting date; and
  (iii) the amounts that will be set off in the future are not necessarily known at the reporting date, because the balances at the reporting date may subsequently change as group entities place further cash on deposit or withdraw cash to settle other obligations; and
(c) the bank and the group (as constituted by all legal parties to the arrangement within the group) have the necessary legally enforceable right to set these balances off under paragraph 42(a) of IAS 32 at the reporting date.

The IFRS IC considered that neither an amendment to IAS 32 nor an interpretation was necessary and consequently [decided] not to add this issue to its agenda.

We do not support the IFRS IC tentative agenda decision as drafted, for the following reasons:

a) The draft agenda decision concludes that the results of the outreach did not suggest that this particular type of cash pooling arrangement was widespread. We do not agree with this statement. It is our understanding that this type of arrangement is common.
b) We are aware that there is diversity in practice regarding the balance sheet presentation (i.e. gross vs. net) of this type of cash pooling arrangement. Such diversity in practice was also noted as part of the feedback received by the IFRS IC staff. The extent of the diversity suggests that the guidance in IAS 32 is not understood clearly. We therefore believe it would be helpful for the IFRS IC to clarify the guidance through an interpretation.
c) The draft agenda decision explains how the offsetting guidance in IAS 32 applies to the specific arrangement described in the submission. However, the terms, conditions and practical operation of cash pooling arrangements vary widely and this will affect whether offsetting is appropriate. We therefore believe there is a need to clarify the principles of IAS 32's offsetting

pwc

requirements in the context of cash pooling arrangements. This clarity should be provided through an interpretation.

As a result of the above, we encourage the IFRS IC to revise its decision and instead develop an interpretation on how the principles for offsetting in IAS 32 are applied to cash pooling arrangements.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322) or Sandra Thompson (+44 (0) 20 7212 5697).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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18 January 2016

Dear Mr Upton

Tentative agenda decision – IAS 32 *Financial Instruments: Presentation*: Offsetting and cash pooling

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on whether regular physical transfers of cash (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.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader