

STAFF PAPER

March 2017

IFRS® Committee Meeting

Project	New items for initial consideration		
Paper topic	IFRS 9 <i>Financial Instruments</i> —Principal versus Agent Treatment of a Clearing Broker of Centrally Cleared Client Derivatives		
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This paper has been prepared for discussion at a public meeting of the IFRS Committee (the Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (the Board) can make such a determination. Decisions made by the Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update*.

Introduction

1. The IFRS Committee (‘the Committee’) received a request regarding IFRS 9 *Financial Instruments*. The request asks the Committee to clarify whether a clearing broker for centrally cleared derivatives reflects these activities on a principal or agent basis in their financial statements.
2. The objective of this paper is to provide the Committee with a summary of the issue and the staff’s analysis and recommendation.

Structure of the paper

3. This paper is organised as follows:
 - (a) background;
 - (b) summary of outreach conducted;
 - (c) staff analysis; and
 - (d) staff recommendation; having considered the Committee’s agenda criteria
4. The paper has three appendices:
 - (a) Appendix A outlines the tentative agenda decision;
 - (b) Appendix B includes excerpts from relevant guidance; and

- (c) Appendix C includes the submission received by the Committee

Background

5. Following the financial crisis in 2008, regulators in both the US and Europe have mandated that entities executing particular derivative products clear these products through a central clearing counterparty (CCP). In order to clear through CCPs, an entity must be a clearing member, which requires a significant capital contribution as well as other legal requirements. Most major international financial institutions offer their clients clearing services whereby the financial institution clears client transactions, either by being a direct Clearing Member at the CCP or through relationships they have with other Clearing Members.

The issue

6. The submitter asked whether an entity accounts for its client clearing arrangements as:
- (a) a principal party to back-to-back trades; or
 - (b) an agent in clearing a derivative transaction between the client and the CCP.
7. The submitter highlights that IAS 18, paragraph IE 21 contains the existing principal versus agent requirements. Also, the submitter highlights that IFRS 15 will be effective from 1 January, 2018 and IFRS 15 paragraphs B34 - B38 contain amended principal versus agent guidance. Appendix B to this paper includes excerpts from the relevant standards.
8. The submitter highlights that IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* provide requirements on the recognition of a financial asset or financial liability. The submitter highlights paragraph 3.1.1, B3.1.1 and B3.1.2 of IFRS 9 as being of specific relevance, which have been carried forward, without change, from IAS 39.
9. The submitter states that there is diversity in how financial institutions acting as clearing brokers of centrally cleared derivatives treat their clearing services. The submitter has identified two views.

View One — Clearing member is acting as Principal

10. Proponents of this view highlight that, with respect to the transaction with the CCP, the clearing broker is responsible for delivery, clearing and settlement and is therefore acting as a principal in that trade. This reflects that it has primary responsibility to provide the specified good or service applying IAS 18, paragraph IE21(a) and IFRS 15, paragraph B37(a). Although the credit risk that the clearing broker is expected to face is insignificant because of the posting of collateral, proponents of this view argue that the clearing broker's exposure to some credit risk is an indicator that it is acting as a principal, referencing IAS 18, paragraph IE31(d).
11. Finally, proponents of this view say that the clearing broker is entering into two separate derivative transactions - one with the CCP and another with the client. Each transaction results in a financial instrument that, applying IFRS 9, paragraph 3.1.1, the clearing broker recognises separately in its statement of financial position.
12. Applying View One, the clearing broker would recognise two derivative contracts measured at fair value in its financial statements. Although the derivatives would experience offsetting changes in fair value, the clearing broker would present those derivatives on a gross basis in the statements of financial position - one derivative as a financial asset and the other as a financial liability.

View Two — Clearing member is acting as Agent

13. Proponents of this view say that in a client clearing transaction, the clearing broker is acting as agent. This is because the stated purpose of the client clearing services and undertakings are exclusively to express the client's investment position with a CCP. The clearing broker does not provide investment advice and earns a negotiated, fixed commission and account maintenance fees. Rather, the clearing broker acts as an access point for clients wishing to clear transactions that they have entered into independently.

14. Proponents highlight that amendments made to IFRS 15 in 2016 have removed the credit risk indicator previously within the principal versus agent requirements. In their view, this strengthens the argument for an agency relationship compared with previous IAS 18 requirements. Furthermore, they say that none of the indicators in IFRS 15, paragraph B37 are met in a client clearing relationship because:
- (a) The clearing broker limits its liability in the client clearing arrangements;
 - (b) The clearing broker is not affected by fair value changes;
 - (c) The clearing broker does not have discretion to establish prices; and
 - (d) The clearing broker cannot use the derivative being cleared for its own benefit, nor can it terminate, transfer or liquidate it unless the client has instructed it to do so.
15. Applying View Two, the clearing broker would recognise nothing in its statement of financial position.

Summary of outreach conducted

16. In order to gather information about the issue described in the submission, the staff sent requests to securities regulators, members of the International Forum of Accounting Standard-Setters (IFASS), the large accounting firms and one banking industry association. Specifically, we asked:
- (a) Whether the issue was prevalent in their particular jurisdiction;
 - (b) What is the most commonly observed accounting method when an entity is acting as a clearing broker for centrally cleared client derivatives;
 - (c) Which requirements in IFRS Standards and rationale are used to support that accounting treatment; and
 - (d) Has significant diversity in practice been observed.

Responses

17. We received 14 responses from 2 groups of regulators, 5 national standard-setters, 6 accounting firms, and 1 banking industry association. The views represent informal opinions as opposed to the formal views of those organisations.

Summary of outreach responses

18. As IFRS 9 is not yet effective, the majority of respondents referred to their experience applying IAS 39. The responses revealed that most entities apply accounting consistent with View One. Respondents highlighted the contractual rights and obligations of the legal arrangements being important when applying the guidance in IAS 39 and IFRS 9. This was also clarified and re-iterated through discussion with the banking industry association. Some respondents commented it was inappropriate to analogise to IAS 18 and IFRS 15 because financial instruments are outside the scope of those Standards.
19. The majority of respondents further commented that the accounting treatment depends on the specific facts and circumstances applicable, which in turn depends on the type of derivative being transacted and the legal framework regarding clearing in the particular jurisdiction. These respondents stated that it was difficult to have a single answer for all transactions given the complex and varied nature of derivatives and clearing.

Staff Analysis

20. The staff are of the view that, applying IAS 8, paragraph 7, an entity should first consider the scoping requirements and definitions of IFRS Standards to determine if a Standard has specific guidance applicable to the fact pattern. IAS 8, paragraph 7 says, *‘When an IFRS specifically applies to a transaction, other event, or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS.’* An entity analogises to other Standards only in the absence of an IFRS Standard that specifically applies to the transaction in question, consistent with IAS 8, Paragraphs 10 - 12.

21. Given the nature of the transaction in the submission, the staff think that the clearing broker first considers the applicability of the financial instruments literature in IAS 39 (or IFRS 9) and IAS 32 to their contractual arrangements. IAS 39, paragraph 2 indicates that all financial instruments, except for those highlighted in paragraphs (a) through (j) are within the scope of IAS 39. IFRS 9 contains identical scoping requirements. The staff considers the applicability of the exceptions in paragraph 2 to be unlikely based on the details in the submission. Furthermore, when examining the scoping requirements in IFRS 15, paragraph 5(c) says ‘*An entity shall apply this Standard to all contracts with customers **except...** financial instruments and other contractual rights or obligations within the scope of IFRS 9*’. These requirements reinforces that the financial instruments literature governs the accounting for financial instruments. The staff acknowledge the difference in scoping requirements compared to IAS 18, for which paragraph 6 (d) states ‘*This standard does not deal with revenue arising from changes in fair value of financial asset and financial liabilities or their disposal*’. This does not, however, alter the definitions and scoping requirements in IAS 39 (or IFRS 9) and IAS 32.
22. Accordingly, the first question to answer is whether the contractual arrangement(s) in the submission meet the definition of a financial instrument. The term financial instrument is defined in paragraph 11 of IAS 32: ‘*A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.*’ IAS 32, paragraph 11 also defines the terms financial asset and financial liabilities

‘*A financial asset is any asset that is:*

(a) *cash;*

(b) *an equity instrument of another entity;*

(c) *a contractual right:*

(i) *to receive cash or another financial asset from another entity; or*

(ii) *to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.....’*

A financial liability is any liability that is:

(a) contractual obligation

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.....'

23. If the rights and obligations of the clearing broker meet the definition of a financial instrument as stated above, then the contract is within the scope of IAS 39 and IFRS 9. In the staff's view, in such a scenario, the clearing broker cannot apply the principal versus agent requirements in IFRS 15 (or IAS 18).
24. The rights and obligations of the clearing broker to (a) the clearing house and (b) the client should be a matter of fact and based on the specifics within the contractual terms.
25. While proponents of View 2 highlight the fact pattern in the submission is indicative of an agency relationship based on the requirements in IFRS 15, the staff highlight those requirements apply when determining the amount of revenue to be recognised in the statement of profit or loss. The requirements in IFRS 15 (or IAS 18) do not address whether an entity recognises an asset or liability in its statement of financial position.

Requirements in IAS 39, IFRS 9 and IAS 32

26. IAS 39 paragraph 14 states '*an entity shall recognise a financial asset or financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.*' Accordingly, if the contract meets the definition of a financial instrument, the clearing broker recognises that instrument its financial statements when it is bound by the contractual terms. The clearing broker then measures the financial instrument initially and subsequently applying IAS 39 (or IFRS 9).
27. In assessing whether to present the financial instruments on a net basis (which would result in financial statement information that is similar to the result of View Two), the clearing broker evaluates the contracts applying the offsetting criteria in IAS 32. Paragraph 42 of IAS 32 provides requirements for when an entity can offset a financial asset and a financial liability for presentation purposes.

Conclusion

28. The staff think that, applying IAS 8, paragraph 7, the clearing broker first considers the applicability of the Financial Instrument requirements within IFRS Standards. It does so before considering the principal versus agent requirements in IFRS 15 (or IAS 18). If the contractual arrangements in place do not meet the definition of a Financial Instrument within IAS 32, then the clearing broker applies the hierarchy within IAS 8, paragraphs 10 - 12 to determine the appropriate accounting treatment for its contractual arrangements.

Question for the Committee

Question 1 for the Committee

1. Does the Committee agree with the staff analysis set out in paragraphs 20-28?

Staff Recommendation, having considered the Committee’s agenda criteria

29. The outreach responses indicate that while there exists some diversity in practice, such diversity seems to arise from specific fact patterns rather than from any misunderstanding of the requirements in the Standards. In other words, the reported diversity may accurately reflect underlying differences in the contractual arrangements.

30. In addition, the staff think the existing requirements in IFRS Standards provide a clear and sequential set of requirements against which a clearing broker evaluates the facts and circumstances of the particulars. We think an agenda decision provides an efficient and effective means of clarifying how to apply IFRS in this particular instance.

31. Consequently, the staff recommend the Committee should issue a tentative agenda decision and not add this issue to its agenda. Appendix A outlines the proposed wording for the tentative agenda decision.

Question for the Committee

Question 2 and 3 for the Committee

2. Does the Committee agree with the staff recommendation set out in paragraph 31?

3. If the Committee agrees with the staff recommendation, does the Committee have any comments on the drafting of the tentative agenda decision set out in Appendix A?

Appendix A – Tentative Agenda Decision

A1. The staff propose the following wording for the tentative agenda decision.

IFRS 9 *Financial Instruments*—Centrally Cleared Client Derivatives

The IFRS Interpretations Committee (the Committee) received a request to clarify the accounting of centrally cleared client derivatives from the perspective of the clearing broker. Specifically, the Committee was asked whether a financial institution is a principal or an agent when it acts as a clearing broker for centrally cleared client derivatives.

The Committee concluded that the existing requirements in IFRS Standards provide a clear and sequential set of requirements for the issue in question. More specifically, the Committee observed that:

- (a) paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides specific requirements on how an entity applies IFRS Standards to transaction(s) when determining accounting policies. An entity considers the requirements for similar and related issues in other IFRS Standards only in the absence of requirements that specifically apply to a transaction.
- (b) the terms Financial Instrument, Financial Asset and Financial Liability are defined within IAS 32 *Financial Instruments: Presentation*.
- (c) if the transaction(s) meets the definition of a Financial Instrument, then the requirements in IFRS 9 (or IAS 39 *Financial Instruments: Recognition and Measurement*) apply. Furthermore, to determine if net presentation in the statement of financial position is appropriate, an entity applies the offsetting requirements in paragraph 42 of IAS 32.
- (d) if the transaction(s) does not meet the definition of a Financial Instrument, an entity applies the hierarchy in IAS 8, paragraphs 10 – 12 to determine an appropriate accounting policy.

Outreach conducted by the Committee did not identify significant diversity in practice for the fact pattern in the submission. The lack of diversity in practice supported the Committee's view that the principles and requirements in IFRS Standards provide an adequate basis for a clearing broker to account for centrally cleared client derivative transactions.

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

Appendix B – Excerpts from Relevant Guidance

Paragraph IE21 of IAS 18 (reproduced for ease of reference)

Recognition and Measurement

IE 21 Paragraph 8 states that ‘in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.’ Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate than an entity is acting as a principle include:

- (a) The entity had the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- (b) The entity has inventory risk before or after the customer order, during shipping or on return;
- (c) The entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- (d) The entity bears the customer’s credit risk for the amount receivable from the customer.

An entity is acting as agent when it does not have exposure to the significant risk and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Paragraphs B34, B34A and B37 of IFRS 15 (reproduced for ease of reference)

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent).

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

- (a) Identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party; and
- (b) Assess whether it controls each specified good or service before that good or service is transferred to the customer

B34A Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore principal) include, but are not limited to, the following:

- (a) The entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primary responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity’s behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a

customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

Paragraphs 3.1.1, B3.1.1 and B3.1.2 of IFRS 9 (reproduced for ease of reference)

3.1.1 An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

B3.1.1 As a consequence of the principle in paragraph 3.1.1, an entity recognizes all of its contractual rights and obligations under derivatives in its statements of financial position as assets and liabilities, respectively, except for derivatives that prevent a transfer of financial assets being accounted for as a sale.

B3.1.2 The following are examples of applying the principle in paragraph 3.1.1:

- (c) A forward contract that is within the scope of this Standard is recognized as an asset or a liability on the commitment date, instead of on the date on which settlement takes place. When an entity becomes party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero.

Paragraph 42 of IAS 32 (reproduced for ease of reference)

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 met:

- (a) Currently has a legally enforceable right to offset the recognised amounts; and
- (b) Intends to either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Appendix C Submission

C1. We received the following request. We have deleted details that would identify the submitter of this request.

IFRS Interpretation Committee Agenda Request

Principal versus Agent Treatment of a Clearing Broker of Centrally Cleared Client Derivatives

Dear Mr Upton

It has come to our attention that there is divergence in practice with respect to the principal versus agent treatment of financial institutions acting as clearing brokers of centrally cleared client derivatives. Clearing brokerage represents an important client service that most of the globally systemically important banks provide. The question whether a financial institution considers itself as a principal or as an agent in those transactions has implications for the statement of financial position of those entities. When a financial institution considers itself to act in a principal capacity, it recognizes in its statement of financial position a derivative with the client, a derivative with the central clearing counterparty ('CCP') as well as corresponding collateral receivables and payables with those counterparties. The derivatives are offset against collateral receivables and payables to the extent that these arrangements qualify for offsetting in accordance with the requirements of IAS 32 Financial Instruments: Presentation (including Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities). In contrast, when a financial institution considers itself to act in an agency capacity, neither the derivatives nor the corresponding collateral receivables and payables are recognised in its statement of financial position. It is only the unsettled collateral receivables and payables with the central clearing counterparty and the client that are recognized in its statement of financial position.

Even though most large accounting firms have published guidance that supports the adoption of a principal view, we do not believe that this view represents the only possible interpretation of the accounting requirements. Our discussions with industry peers suggest that the industry has not uniformly applied the view recommended by the accounting firms. Rather, all financial institutions have conducted their own principal versus agent analysis with some

financial institutions concluding that they act in a principal capacity while others consider themselves to act in an agency capacity.

We are concerned that there is already current significant diversity in practice among market participants in this respect. We expect the impact of divergent accounting practices to increase even further with the implementation of the European Market Infrastructure Regulation (EMIR), which will lead to increased volume of client clearing activities in the future.

Current practice

There is currently differing practice in the industry with certain financial institutions recording the client clearing transactions as principal under IFRS, while some account for these transactions as agent. As principal, the statement of financial position is impacted as both transactions facing the CCP and those facing the client are recorded on the statement of financial position. Financial ratios calculated based on total asset balances will differ significantly (if the netting criteria in IAS 32 *Financial instruments: presentation* are not met¹) between financial institutions which record these balances in their statement of financial position as compared to those that do not. As agent, the amounts recorded are changes in the collateral requirements owing to/due from the CCP and the client because the amounts reflect the payment obligations of the financial institution as the clearing broker (also known as ‘entity’ below).

Question for the IFRS Interpretation Committee

In light of the principal/agent analysis set-out in the alternative views below, does the IFRIC believe that the clearing broker acts as principal or as agent on behalf of its clients? Why?

¹ IAS 32.42

Accounting guidance

IAS 39 Financial instruments: recognition and measurement and IFRS 9 Financial Instruments provide guidance when, and only when, an entity shall recognize a financial asset or financial liability in its statement of financial position. Those standards do not include further guidance with regards to determining whether an entity is acting as a principal or an agent²

Therefore, as per IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, we believe that other Standards should be considered in order to make the principal versus agent assessment.³ IAS 18 Revenue and IFRS 10 Consolidated Financial Statements provide considerations when assessing if an entity is acting as a principal or an agent in a transaction. IFRS 15 Revenue from Contracts with Customers also provides considerations that will be effective from January 1, 2018. However, IAS 18/IFRS 15 largely assess the transaction from the perspective of the statement of income and other comprehensive income whereas the client clearing services business has an impact on the statement of financial position.

A key consideration in IAS 18 when assessing whether an entity is acting as principal or agent is whether the entity bears the credit risk for the amount receivable from the customer⁴.

IFRS 15 Revenue from Contracts with Customers includes some indicators supporting principal accounting including (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service (b) the entity has inventory risk before the specified

² IAS39.14, IFRS 9.3.1.1

³ IAS 8.11

⁴ IAS18.IE21(d)

good or service has been transferred to a customer and (c) the entity has discretion in establishing the price for the specified good or service.

IFRS 10 includes some guidance on factors to consider in determining whether an entity is an agent or a principal including (a) the scope of its decision making authority over the investee (b) the rights held by other parties (c) the remuneration to which it is entitled in accordance with the remuneration agreements and (d) the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Alternative views

Principal

Although the entity acting as a clearing broker is acting as an agent of the client, the clearing broker is entering into two separate transactions, one with the CCP and another with the client. With respect to the transaction with the CCP, the clearing broker is responsible for delivery, clearing and settlement and is therefore acting as a principal in that trade [IAS 18.IE21(a)]; IFRS 15 B37(a). As each transaction results in a financial instrument they should be recognised separately in the statement of financial position. Additionally, although the credit risk that the clearing broker is expected to face is insignificant, the fact that the clearing broker bears some credit risk is an indicator that it is acting as a principal [IAS 18.IE21(d)].

Agent

In a client clearing transaction, the client is primarily and ultimately responsible for amounts owing to the CCP. As this is a proprietary investment position of the client, we are of the view that this fails the conceptual definition of assets for financial reporting purposes.

The entity as the clearing broker is exposed to credit risk if the client is unable to satisfy its obligation because the entity guarantees the client's performance to the CCP. This is common credit risk that clearing brokers assume. However, clearing brokers undertake credit risk mitigation in order to limit their client exposure. A major credit risk mitigation is the initial margin and daily variation margin requirements. Consequently, the entity has legal recourse against the client, but any final amount outstanding to the CCP after all available recourse is

taken will be borne by the entity. The net credit risk that the clearing broker assumes is insignificant given the credit risk mitigation in place [IAS 18.IE21(d)].

In April 2016, amendments to IFRS 15 were made to remove credit risk considerations as part of the principal agent indicators. [IFRS 15 B37]. Therefore, the IFRS 15 amendments further support agency accounting as compared to the IAS 18 guidance previously. None of the IFRS 15 indicators are met in a client clearing relationship for the entity acting as the clearing broker mainly due to the fact that the clearing broker limits its liability in the client clearing agreements, the clearing broker is not impacted by fair value changes in the derivatives and the clearing broker does not have discretion to establish prices [IFRS 15 B37 (a) –(c)].

A clearing broker does not provide investment advice and earns a negotiated, fixed commission and account maintenance fees. Instead it acts as an access point for clients who are clearing transactions that the clients have entered into independently. The clearing broker is exposed to variability of returns via their fee however it is the client and not the clearing broker that is exposed to variability of returns from the client’s investment position and therefore the IFRS 10 guidance would suggest that the clearing broker is acting as an agent rather than a principal [IFRS 10 B60(a)-(d)].

Submitter view

Our view is on the balance of facts above and the relevant accounting guidance that clearing brokers would consider themselves to act as an agent in these transactions.

Reason for the Committee to address this issue

(a) Is the issue widespread and has, or is expected to have, a material effect on those affected?

Yes. Most of the globally systemically important banks operate in the client clearing business and the treatment could have a material impact on the statement of financial position. Globally, the volume of client clearing is expected to increase over the next few years given the various regulatory regimes in place.

(b) Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Yes. It enhances comparability if all entities operating in the same business have a similar accounting treatment.

(c) Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?

Yes. The issue relates to the interpretation of the principal versus agency considerations within IAS 18 Revenue, IFRS 10 Consolidated Financial Statements, and IFRS 15 Revenue from Contracts with Customers.

(d) Is the issue sufficiently narrow in scope that the Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Committee to undertake the due process?

Yes. This is a specific issue with the same fact pattern across organisations. However, the outcome can have a material impact for financial institutions.

(e) Will the solution developed by the Committee be effective for a reasonable time period? The Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.

Yes. The issue will remain once IFRS 15 Revenue from Contracts with Customers is adopted and there are no planned changes to IFRS 10 Consolidated Financial Statements to address this issue. It should be noted that the volume of derivative transactions cleared through CCPs is expected to grow due to continuing regulatory pressure and as CCPs expand the capability to clear more derivative products.

Background

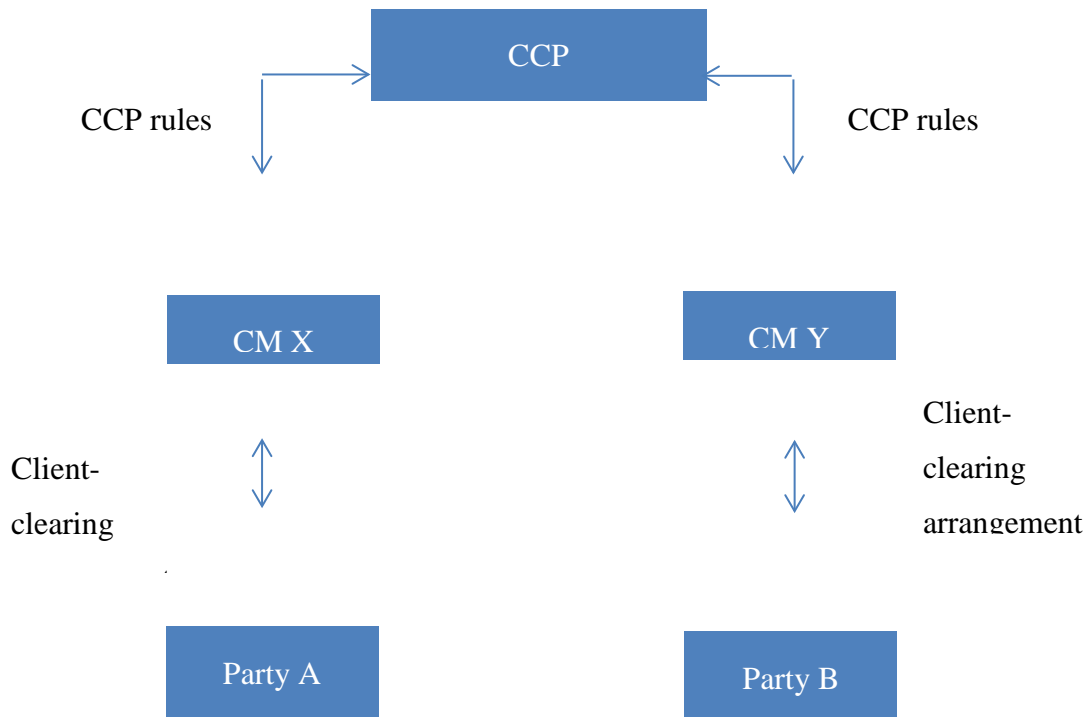
Following the financial crisis in 2008 regulators in both the US and Europe have mandated that certain derivative products are required to be cleared through a central clearing counterparty (CCP). In order to clear through CCPs, one must be a clearing member which requires a significant capital contribution, as well as other legal requirements. Most major international financial institutions offer their clients clearing services whereby the financial institution clears client transactions, either by being a direct Clearing Member at the CCP or through relationships they have with other Clearing Members.

Cleared Client Trades

- Clients execute (enter into) their derivative trades for their account using the broker's exchange memberships and other connectivity and service capabilities.
- The executing broker finalizes and processes an order on behalf of a client. The orders sent to executing brokers are assessed for appropriateness, and if the order is deemed practical, the executing broker will then carry out the order. If the order is rejected, the customer is notified and the trade is not executed.
- Once the executing broker has assessed the validity of the order, it is then submitted onto the clearing broker (Clearing Member) who clears the trade.
- The CCP reports the executed trades to the Clearing Member which immediately binds the clearing broker to be liable to the CCP for the client's liabilities. However, the clearing broker does not guarantee the CCP's performance to the client.
- Given that the client has to post initial margin and daily variation margin the clearing broker's credit risk is limited.⁵
- At least on a daily basis, the CCP indicates to the clearing broker the amount due from (to) the clearing broker for all of its customer accounts indicating the daily movement of the positions and the CCP automatically debits (credits) the clearing broker's customer settlement account for the net (actual) variation margin amount as well as any change in the initial margin requirement.
- The clearing broker makes a corresponding call to their clients for amounts owing or credit the clients' accounts for amounts due to them.
- Daily variation margin amounts are settled in cash between the CCP and the CM as well as between the CM and the clients.

⁵ Please note: This description illustrates the process for OTC derivatives with two-way margining. However, client clearing is also applicable to listed derivatives which may have different margining requirements and terms.

When the CCP registers a trade, a transaction is created between (i) the buyer's (Party A) clearing broker (Clearing Member X) and the CCP and (ii) seller's (Party B) clearing broker (Clearing Member Y) and the CCP with the exact same economic terms.



Issue

In clearing these transactions for clients, financial institutions must assess whether, for accounting purposes, the substance of the client clearing arrangements is that they are becoming a principal party to back-to-back trades or acting as an agent in clearing a derivative transaction between the client and the CCP. Acting as principal would require the financial institution to recognize the client positions and related collateral on the statement of financial position.

IAS 39 *Financial instruments: recognition and measurement* and IFRS 9 *Financial Instruments* provide guidance when, and only when, an entity shall recognize a financial asset or financial liability in its statement of financial position. Those standards do not include further guidance with regards to determining whether an entity is acting as a principal or agent⁶.

Therefore, as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, we believe that other Standards should be considered in order to make the principal versus agent assessment.⁷ IAS 18 *Revenue* and IFRS 10 *Consolidated Financial Statements* provide considerations when assessing if an entity is acting as a principal or an agent in a transaction. IFRS 15 *Revenue from Contracts with Customers* also provides considerations that will be effective from January 1, 2018. However, IAS 18/IFRS 15 largely assess the transaction from the perspective of the statement of income and other comprehensive income whereas the client clearing services business has an impact on the statement of financial position.

A key consideration in IAS 18 when assessing whether an entity is acting as principal or agent is whether the entity bears the credit risk for the amount receivable from the customer⁸. In a client clearing transaction, the client is primarily and ultimately responsible for amounts owing to the CCP. However, the entity as the Clearing Member is exposed to credit risk if the client is unable to satisfy its obligation because the entity guarantees the client's performance to the CCP. This is common credit risk that clearing brokers assume. However, clearing brokers undertake credit risk mitigation in order to limit their client exposure. A major credit risk mitigation are the initial margin and daily variation margin requirements. Consequently, the entity has legal recourse against the client, but any final amount outstanding to the CCP after all available recourse is taken will be borne by the entity.

⁶ IAS39.14, IFRS 9.3.1.1

⁷ IAS 8.11

⁸ IAS18.IE21(d)

The Appendix lays out details of the client clearing relationship and the assessment under IAS 18, IFRS 15, and IFRS 10 which can be summarized as follows:

- Entity as clearing broker is acting as agent because the stated purpose of the client clearing service and undertakings are exclusively to express the client's investment position with a CCP.
- Entity as clearing broker is acting as riskless principal in respect of its *one-way payment* obligations due towards the CCP to establish the client's investment position with the CCP.
- Client is the principal in the derivatives transactions and the sole beneficial owner. The client owns the investment position with the CCP as its asset, and it owns each and every one of the trades created between all brokers and other necessary service providers.

Current practice

There is currently differing practice in the industry with certain financial institutions recording the client clearing transactions as principal under IFRS, while some account for these transactions as agent. As principal, the statement of financial position is impacted as both transactions facing the CCP and those facing the client are recorded on the statement of financial position. Financial ratios calculated based on total asset balances will differ significantly (if the netting criteria in IAS 32 *Financial instruments: presentation* are not met⁹) between financial institutions which record these balances in their statement of financial position as compared to those that do not. As agent, the amounts recorded are changes in the collateral requirements owing to/due from the CCP and the client because the amounts reflect the payment obligations of the entity as the clearing broker.

Question to the IFRIC

In light of the principal/agent analysis set-out in the appendix, does the IFRIC believe that the clearing broker acts as principal or as agent on behalf of its clients? Why?

⁹ IAS 32.42

Assessment against agenda criteria

(a) Is the issue widespread and has, or is expected to have, a material effect on those affected?

Yes. Most of the major international financial institutions operate in the client clearing business and the treatment could have a material impact on the statement of financial position. Globally, the volume of client clearing is expected to increase over the next few years given the various regulatory regimes in place.

(b) Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Yes. It enhances comparability if all entities operating in the same business have a similar accounting treatment.

(c) Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?

Yes. The issue relates to the interpretation of the principal versus agency considerations within IAS 18 Revenue, IFRS 10 Consolidated Financial Statements, and IFRS 15 Revenue from Contracts with Customers.

(d) Is the issue sufficiently narrow in scope that the Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Committee to undertake the due process?

Yes. This is a specific issue with the same fact pattern across organisations. However, the outcome can have a material impact for financial institutions.

(e) Will the solution developed by the Committee be effective for a reasonable time period? The Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.

Yes. The issue will remain once IFRS 15 Revenue from Contracts with Customers is adopted and there are no planned changes to IFRS 10 Consolidated Financial Statements to address this issue. It should be noted that the volume of derivative transactions cleared through CCP's is expected to grow due to continuing regulatory pressure and as CCPs expand the capability to clear more derivative products.

Appendix

Summary of client clearing business

In contrast to joining a CCP directly as a member, a market participant with an investment purpose uses client clearing services provided by a clearing broker ('Broker') to establish its single investment position with the CCP which, in effect, creates two or more trades to and from the CCP. The Broker does not undertake to become party to the contractual provisions of the client's financial instrument with the CCP.

In order to create the investment position, the client commissions a Broker to use its CCP membership or relationships with other brokers to execute the position with the CCP, which results in the broker binding itself to the CCP contractually on behalf of the client. Client clearing services are provided on a riskless basis and are used by a client exclusively to facilitate a client's investment position with its CCP in exchange for a fixed transactional commission paid to the Broker. The client owns the investment position with the CCP as its asset, and it owns each and every one of the trades created between all brokers and other necessary service providers, in that client enjoys all benefits, faces all risks, and controls the initiation and continuation, of each trade between each servicing party. All of the trades exist together to generate the client's single investment position with the CCP, or all are extinguished simultaneously, as the trades are not severable from each other or from the investment position.

Because the Broker and each other broker servicing the client do not own and do not hedge the client's investment position, and because they do not own the trades between themselves and the other parties in the payment flow, including the CCP, the brokers are not responsible for changes in the value of the trade unless the customer fails to settle its obligation toward the CCP. Because clients prepay their obligations toward and to the CCP by paying margin covering potential future exposure, the brokers servicing the client's investment position and performing its financial obligation toward the CCP have rarely faced any losses arising from a client's failure to reimburse the broker for its services.

Common legal features globally of applicable derivatives client clearing brokerage agreements across CCPs include each of the following:

Common legal features of applicable derivatives client clearing brokerage agreements across CCPs include each of the following:

1. Clearing brokerage agreement sets out the basis on which the Broker will provide services to customer;
2. In order to provide such services to customer, Broker undertakes (or arranges to make through an intermediate broker who may be an affiliate) a definitive financial obligation to service customer's agreement/trade on or to a market, and such definitive financial obligations are established on a principal-to-principal basis on or to the relevant market.
 - a. When that principal undertaking of the Broker is established by the customer on or to the market using the Broker's membership to establish the customer's investment position, then a corresponding obligation automatically exists, and only exists so long as the customer's market transaction exists, under the clearing brokerage agreement whereby customer is obligated to perform to and reimburse Broker on a principal-to-principal basis.
 - b. Because Broker's principal obligations on or to a market arise directly and exclusively from an agreement made by customer with the market through a broker, multilateral or other trading facility, counterparty or any other person, the customer's corresponding obligations to pay or otherwise perform to the Broker become binding and conclusive upon customer immediately when the Broker's obligations on or to the market for the Customer's agreement/trade comes into effect.
3. Customer makes the following representations, acknowledgments and undertakings:
 - a. The clearing brokerage agreement, each transaction (including market transactions, broker transactions and customer transactions) and the obligations created thereunder are binding upon customer and enforceable against customer in accordance with their terms (subject to applicable principles of equity) and do not and will not violate the terms of any regulation, order, charge or agreement by which customer is bound;
 - b. Customer acts as principal and sole beneficial owner (but not as trustee) in entering into the clearing brokerage agreement and each transaction (including market transactions, broker transactions and customer transactions);
 - c. Customer is willing and financially able to sustain a total loss of funds resulting from transactions (upstream and downstream);
 - d. Except as otherwise agreed by Broker, customer is the sole beneficial owner of all margin customer transfers under the clearing brokerage agreement free and clear of any security interest whatsoever other than a lien routinely

- imposed on all securities in a clearing system in which such securities may be held;
- e. Customer may lawfully establish and open account(s) with Broker under the clearing brokerage agreement for the purpose of effecting purchases and/or sales of transactions through the Broker;
 - f. Customer has determined that trading in transactions is appropriate for customer, and any transactions will not violate applicable law or regulations to which customer is subject or any agreement to which customer is subject or a party; and
 - g. Customer has entered into all necessary agreements and is in compliance with all law and regulation in respect of any and all transactions contemplated by the clearing brokerage agreement including, without limitation, all laws and regulations applicable to pension plans, investment companies, commodity pools or other forms of collective investment vehicles.

Pursuant to the foregoing and common features of global market structures (including applicable law and regulation, which are incorporated into the clearing brokerage agreement):

- (1) The accountholder customer chooses and causes the establishment of, continuation of, and, if applicable, the liquidation of, and otherwise controls in all respects, the investment position issued by the CCP, using the Broker's or the indirect broker's agreement privileges and obligations of CCP membership;
- (2) Each of the immediate Broker and each indirect Broker performs the service, and enters into a binding obligation to perform certain payment-related obligations upstream toward the CCP, solely and exclusively to serve the accountholder customer and manifest the customer's single investment position issued by the CCP;
- (3) In respect of the payment obligations due (upstream) towards the CCP to establish the customer's investment position with the CCP, Broker functions either as (a) as riskless principal facing the CCP under the CCP rules, or (b) as riskless principal facing any other servicing Brokers under those clearing brokerage agreements, and always functions as a riskless principal facing the customer under the clearing brokerage agreement with such customer;
- (4) In respect of the customer's single investment position with the CCP, the CCP ruleset and each applicable clearing brokerage agreement and the operational customs related to each of them, are made contractually binding on each party with the upstream payment obligation under that clearing brokerage agreement, and there is wide flexibility in each agreement concerning how much value, in what currency, at what time and in what type of instrument the payment obligation toward the CCP can be satisfied, with each such set of terms effectively facilitating the customer's investment position;

- (5) The accountholder customer is responsible, initially, ultimately and continuously, for each upstream payment under each relationship, whether or not fully paid, advanced or collateralized, and irrespective of currency or instrument or amount or any other legal or economic feature of any relationship. This notwithstanding, the CCP and each Broker in the structure can hold each payer that is “downstream” from it responsible to satisfy the payment obligations due (upstream) towards the CCP where the customer fails to settle;
- (6) The role of the Broker as a pure service provider is establish, but the accountholder customer also expressly releases Broker from liability for all credit, fraud, regulatory, operational, tax, accounting, basis and other risk to each and every Broker and the CCP, and each of those parties’ servicers and depositories;
- (7) Broker’s financial risk does not entail market risk as it is solely a residual credit risk to the accountholder customer where customer fails to settle. Such credit risk includes the possibility that (a) the accountholder customer or (b) the accountholder customer and the accountholder Broker becomes insolvent, in which case the Broker’s upstream financial performance obligation may not be effectively recoverable from the insolvent accountholder customer. In either case, the insolvent accountholder customer remains ultimately responsible for the amount due (evidenced by the fact that the insolvent entity would be entitled to recovery if the result were instead a gain); and
- (8) A clearing services framework is often characterized as an “agency” model because the stated purpose of the service and undertakings are exclusively to express the customer’s investment position with a CCP with the customer seeking and accepting all risks associated with the position and the entire service framework. However, Brokers providing that service are commissioned by the customer to undertake a financial obligation as principal to perform the customer’s obligation to and toward the CCP in respect of the customer’s component trades in order to facilitate the client’s single investment position. In this respect, the same framework can equally be described by emphasizing either the agency-related purpose of the service or the one-way financial obligations undertaken by the Broker as principal when providing the service. Additionally, close-out for client clearing brokerage operating in major global financial markets also operates primarily and fundamentally on principal to principal set-off to net the client credit risk, without undermining the customer’s ownership of every trade between facilitating Brokers.

Remaining riskless concerning the upstream principal-based payment obligation is also subject to successfully obtaining any amounts due from the client and, as discussed in (7) above, there may still be a risk if the client is insolvent that the Broker may not always be able recover all payments made for the client’s trades.

Risk and reward analysis

Risks:

- Broker is not ultimately responsible for the client's losses or the trade itself.
- The client is initially, continuously and ultimately responsible to pay the CCP for the trade, as the position is a proprietary investment position of the client.
- The client's risk, reward and responsibility for the trade is unlimited.
- The client pays the CCP settlement variation to meet current exposure and provides initial margin, maintenance margin or other performance bonds to cover potential future exposure.
- The client controls the trades (mutual payment sets) composing its cleared derivative investment position, and only the client is responsible for the operational, regulatory, tax, market and fraud risk or reward for each trade among each of the sets of parties servicing the client's investment position, including the Broker and the CCP and any depositories serving any of the brokers or markets.
 - Specifically, if any of the depositories or intermediary brokers, or the CCP itself, fails to perform, the Broker is not responsible or exposed to risk.
- The Broker has a bilateral agreement with the CCP (CCP Rules and Agreements) that does not change the client's ownership of the trade, but in which the Broker separately agrees to ensure performance of the net transfers called by the CCP in all circumstances.
 - The Broker is contractually responsible for the provisions around CCP membership, including the daily net transfers for itself and all clients, though the investment position and the Client-CCP trade under the broker's membership are ultimately owned by the client.
 - **The potential Broker risk is only the residual client credit risk concerning the Broker's payment obligation upstream toward the CCP after all margin is exhausted and the client is entirely insolvent and other means of collection are exhausted (a potentially lengthy process).**
 - For purposes of market structure and the relationship with the client, the Broker is providing a principal undertaking to pay upstream to the CCP or (effectively) insurance that is a prerequisite for entering systemically significant public markets – it allows the client to access the market and maximizes the potential for the market to sustain volatility and without collapsing in the event that the client is unable to perform.
- The client clearing business is described, primarily in the US, as an agency relationship, with that term emphasizing that all of the obligations, rights, risks and rewards for each and every clearing brokerage “trade” between facilitators in the linked chain are owned by and identified to the client originating and owning the cleared investment position. That structure is consistent globally, as is the fact that the obligations to complete the daily transfers for the customer toward the CCP are a binding financial obligation of the Broker, undertaken for the client trades to ensure market integrity.
- Globally, the “trade” structure (the network of brokers) established in order to express the client's potential investment position at each CCP is disclosed to the client upon request, and is publicly disclosed on standard regulatory filings in the US.

Rewards:

- Client has all the benefits and risks as they are able to use the derivative for their own business purposes.
- Client benefits from all fair value changes in the derivative.
- Broker earns fixed, negotiated commissions and account fees from the client for clearing services, which costs explicitly or implicitly reflect the custodian and clearing brokerage fees for every “Trade” in the chain to the CCP.
- Broker does not benefit for any fair value changes in the underlying derivative and is not exposed to depository or other risk, but only benefits from the fixed transactional and clearing brokerage account fees negotiated with the client in advance.
- The investment position and each “Trade” is identified to the client by the Broker and to clients generally, to the extent practicable and permissible in the local jurisdiction, by intermediary brokers and the CCP.
- Broker cannot use the derivative being cleared for its own benefit, nor can it terminate, transfer or liquidate it unless the client has instructed it to do so either in real time or in the client clearing brokerage agreement.
- In event of Broker bankruptcy the derivative trades can be ported to another broker.

IFRS Considerations

IAS 18 Revenue

Criteria	Discussion
<p><i>IE21 (a) The entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer</i></p>	<p>The service in this case is clearing derivatives as a principal (delivering the market performance based on a published methodology to the client user) – the Clearing House, not the Broker, provide the underlying goods and services to the customer as counterparty, whereas the Broker only facilitates the client accessing such services of the CCP.</p> <p>The entity (Broker) does not have primary or ultimate responsibility for providing the good or services to either counterparty (the Broker’s</p>

	<p>client for the downstream “trade” with the client, nor the upstream “trade” with the CCP or another Broker), as the Broker only provides a separate undertaking to perform payments which are the client’s primary responsibility to the CCP.</p>
<p><i>IE21 (b) The entity has inventory risk before or after the customer order, during shipping or on return</i></p>	<p>The Broker is not impacted by fair value changes in the derivatives.</p>
<p><i>IE21 (c) The entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services</i></p>	<p>The Broker does not set the price of the derivative, instead the CCP publishes a uniform methodology across all market participants.</p>
<p><i>IE21 (d) The entity bears the credit risk for the amount receivable from the customer</i></p>	<p>See risk discussion above – the client is primarily and ultimately responsible for amounts owing to the CCP and for credit risk to each servicer with a “Trade” in between the client and the CCP/customer, and the client bears credit risk to the CCP.</p> <p>The Broker bears residual credit risk to the amount receivable from the customer because the Broker is party to an undertaking and agreement with the CCP to complete the net transfer to the CCP in respect of any client</p>

	trades.
IE21 <i>The entity does not have exposure to the significant risks and rewards associated with the sale of goods or rendering of services</i>	See risk and reward discussion above
IE21 <i>The amount earned is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer</i>	Broker earns a negotiated, fixed commission and charges negotiated account maintenance fees.

IFRS 15 Revenue from Contracts with Customers – (including Amendments to IFRS 15 dated April 2016)

Criteria	Discussion
B36: An entity is an agent if the entity’s performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity’s fee or commission might be the net amount of consideration that the entity retains after paying	<p>Indicators for the control assessment are included in B37 below.</p> <p>The criteria in B37 are used in order to assess whether a Broker is acting as an agent or principal.</p> <p>The criteria under the Revenue Recognition</p>

<p>the other party the consideration received in exchange for the goods or services to be provided by that party</p>	<p>guidance are used because IAS 39 does not provide guidance whether an entity acts as principal or as an agent in relation to entering into a financial instrument.</p>
<p>B37 Indicators that an entity controls the specified good or service before it is transferred to the customer and is therefore principal include, but are not limited to, the following</p>	
<p>(a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity’s behalf.</p>	<p>Indicator not met:</p> <p>Broker limits its liability in the client agreements.</p>
<p>(b) the entity has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with the customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.</p>	<p>Indicator not met:</p> <p>The Broker is not impacted by fair value changes in the derivatives – see reward discussion above.</p>

<p>(c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.</p>	<p>Indicator not met:</p> <p>Broker does not have discretion to establish prices.</p>
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IFRS 10 Consolidated Financial Statements

Criteria	Discussion
<p>B6o: <i>(a) the scope of its decision making authority over the investee</i></p>	<p>The Broker does not provide advice – it acts as access point for clients who are clearing transactions they have entered into independently</p>
<p>B6o: <i>(b) the rights held by other parties</i></p>	<p>This refers to substantive rights held by other parties that may affect the decision maker’s ability or restrict a decision maker’s discretion when making decisions. If such a substantive removal or other rights exists, this may indicate that the decision maker is an agent.</p>

	<p>The analysis of removal/other rights is not relevant as no party holds such rights.</p>
<p><i>B6o: (c) the remuneration to which it is entitled in accordance with the remuneration agreement(s)</i></p>	<p>Broker earns a negotiated, fixed commission and charges negotiated account maintenance fees.</p>
<p><i>B6o: (d) the decision maker's exposure to variability of returns from other interests that it holds in the investee</i></p>	<p>The client, not the Broker, is exposed to the variability of returns – the client's return is impacted by variation (MTM) in the client's investment position, and the return on the trade is not impacted by, nor does it impact, the Broker.</p>