

IAS 32 *Financial Instruments: Presentation* (March 2016)

Financial Instruments: Presentation—Offsetting and cash-pooling arrangements

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

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

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

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

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

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

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