afme/ Finance for Europe

International Accounting Standards Board
30 Cannon Street
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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

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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:

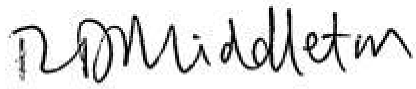
1. We note that IAS 32 does not explicitly require the reporting entity to know with certainty, at the reporting date, the exact amounts, or balances, which will be net settled after the balance sheet date in order to be able to demonstrate its *intent* to net settle. The draft statement suggests that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



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