STAFF PAPER

September 2015

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work in Progress		
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Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee ('the Interpretations Committee') on the current status of issues that are in progress but that will not be discussed by the Interpretations Committee in the September 2015 meeting.

2. We have split the analysis of the work in progress into three broad categories:

   (a) **ongoing issues:** submissions that the Interpretations Committee is actively working on, but for which the issue was not presented in this meeting;

   (b) **issues on hold:** submissions that the Interpretations Committee will discuss again at a future meeting, but on which for some reason it has decided to temporarily suspend work on the issue, for example, because there is an IASB project that might have a knock-on effect on the Interpretations Committee's discussions; and

   (c) **new issues:** submissions that have been received but have not yet been presented to the Interpretations Committee.

3. We have also included a memorandum of those topics that we think will be presented for discussion by the Interpretations Committee at its November 2015 meeting.

Ongoing issues

4. The following table summarises the work in progress that will be discussed at a future meeting:

Ongoing issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 39-38	*Financial Instruments: Recognition and Measurement—Holder's accounting for exchange of equity instruments*	The Interpretations Committee received a request about the accounting by the holder of equity instruments in the circumstance in which the issuer exchanges its original equity instruments for new equity instruments in the same entity but with different terms. Specifically, this transaction involved equity instruments issued by a central bank, and the exchange of instruments was imposed on the holders as a consequence of a change in legislation. The submitter asked whether the holders of the equity instruments should account for this exchange under IAS 39 as a derecognition of the original equity instruments and the recognition of new instruments.	At its November 2014 meeting, the Interpretations Committee decided not to add this specific issue to the agenda because this issue: (a) is not widespread; and (b) the submitter had not identified significant diversity in accounting for this transaction. The Interpretations Committee additionally noted requests for more guidance in IAS 39 and IFRS 9 on the derecognition of financial assets that have been modified or exchanged. The staff observed that this more general matter had been raised previously with the IASB but that it had decided not to add such a project to its agenda. The Interpretations Committee asked the staff to perform further analysis to identify whether an issue of sufficiently narrow scope could be identified to be raised with the IASB. The staff's analysis will be considered at a future meeting.

Issue on hold

hold			
Ref.	**Topic**	**Brief description**	**Status**
IAS 28-13	*Assessment of significant influence: fund manager acting as agent and holding own investment in the fund*	The Interpretations Committee received a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and in which it has a direct holding. The submitter described a particular situation in which an assessment of control under IFRS 10 Consolidated Financial Statements resulted in the conclusion that the fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10. The submitter raised two questions in respect of this particular situation: a. whether the fund manager should assess whether it has a significant influence over the fund; and b. if yes, how should it make such an assessment.	At its January 2015 meeting, the Interpretations Committee noted that the IASB currently has a research project on the subject of equity accounting, but that it is not clear at this stage whether the assessment of significant influence will form part of that project. Consequently, the Interpretations Committee decided to monitor how that research project progresses and to revisit this issue if the research project does not address it.

New issue

4. This table summarises an issue that has been received but not yet presented to the Interpretations Committee:

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 32-21	Offsetting in the context of certain cash pooling situations.	Whether the regular, but not at the reporting date, transfers of balances into a netting account is sufficient to demonstrate an intention to settle on a net basis for the purposes of meeting the requirements of IAS 32. The original submission is included in Appendix A.	Outreach responses received. Issue being analysed and will be brought to a future Interpretations Committee meeting.

5. This paper does not include requests or issues that are still at a preliminary research stage. It will exclude, therefore, issues for which further information is being sought from the submitter or from other parties to define the issue more clearly.

Topics for potential discussion–November 2015

6. This table summarises those issues that we think are likely to be presented for discussion at the November meeting.

Reference	Topic
IAS 2-1	Tentative agenda decision to finalise on interest on prepayments in long-term supply contracts
IAS 12-19	Tentative agenda decision to finalise on recognition of deferred taxes on exchange rate changes on asserts through P&L
IAS 32-21	Offsetting in the context of certain cash pooling situations.
IAS 39-38	IAS 39 - Holder's accounting for exchange of equity instruments

Question

Does the Interpretations Committee have any questions or comments on the Interpretations Committee's work in progress?

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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18 May 2015

Dear Mr Upton

Suggested agenda item: Offsetting under IAS 32 *Financial Instruments: Presentation*

It has come to our attention that there are divergent views on the appropriate treatment of the offsetting requirements under IAS 32 *Financial Instruments: Presentation* for certain cash pooling arrangements. We are seeking clarification of the issue detailed below by the Committee.

Under paragraph 42 of IAS 32, 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.

Example of a cash pooling arrangement

Each of a number of entities within a group has a legally separate bank account with Bank B. At any time, some of these accounts have a positive cash balance and others have a negative (overdraft) balance. For cash management purposes, the group operates a notional pooling arrangement. Under this arrangement, Bank B calculates the net balance on the designated accounts with interest being earned or paid on the net amount. There are regular transfers of balances into a single ('netting') account, but this is not done at the reporting date. The regular transfers are not required under the terms of the arrangement but are instigated by the group to replace bank account balances of various group entities with intercompany balances with a single entity within the group holding the netting account with the bank. The amounts that will be set off at future regular intervals 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.

Under the arrangement both Bank B and the group (as constituted by all legal parties to the arrangement within the group) have the necessary legal enforceable right to set these balances off under IAS 32 at the reporting date.

Issue

Are the regular, but not at the reporting date, transfers of balances into a netting account sufficient to demonstrate an intention to settle on a net basis for the purposes of meeting the requirement in IAS 32:42(b)?

Alternative views

Yes

Proponents of this view believe that when there is regular net cash settlement of the accounts the requirements of IAS 32:42(b) are met and net presentation for the group is appropriate at the reporting date. The fact that there is no certainty that the actual cash balances and overdrafts outstanding at the reporting date will be offset through subsequent transfer into the netting account does not change this view, as long as the group can clearly demonstrate the intention to settle the accounts net through a regular practice of net settlement.

No

Proponents of this view believe that a regular practice of net settlement is not sufficient to meet the offsetting requirements in IAS 32:42(b). To meet the criterion of 'intend[ing] to settle on a net basis', there must be an intention at the reporting date to net settle the specific balances outstanding at that date.

The positive cash balances (asset balances) will rise and fall as the group's subsidiaries place further cash on deposit or withdraw cash to settle other obligations. Although the positive cash balances at the reporting date could be used to settle any negative cash balances (liability balances), the group cannot claim offset because it does not have the intention at the reporting date to settle the negative cash balances with the positive cash balances. Rather, the group's intention is to use the positive cash balances at the reporting date, and potentially draw down more borrowings if needed to support subsidiaries' working capital needs.

Reasons for the Committee to address the issue

Notional cash pooling arrangements, as described above, are relatively common and as such clarity on this issue is needed as diversity in practice exists. Currently, divergent views can be demonstrated to exist as each of the two views above is expressed in the published literature of two of the large accounting firms.

In addition, the issue is not related to a Board project that is expected to be completed in the near future.

For these reasons, we believe that this issue meets the criteria for acceptance onto the Committee's agenda.