Classification of short-term loans and credit facilities (IAS 7 *Statement of Cash Flows*)—June 2018

The Committee received a request asking about the types of borrowings an entity includes in its statement of cash flows as a component of cash and cash equivalents. In the fact pattern described in the request:

(a) an entity has short-term loans and credit facilities (short-term arrangements) that have a short contractual notice period (eg 14 days);

(b) the entity says it uses the short-term arrangements for cash management; and

(c) the balance of the short-term arrangements does not often fluctuate from being negative to positive.

The Committee observed that:

(a) applying paragraph 8 of IAS 7, an entity generally considers bank borrowings to be financing activities. An entity, however, includes a bank borrowing as a component of cash and cash equivalents only in the particular circumstances described in paragraph 8 of IAS 7—ie the banking arrangement is a bank overdraft that (i) is repayable on demand, and (ii) forms an integral part of the entity's cash management.

(b) cash management includes managing cash and cash equivalents for the purpose of meeting short-term cash commitments rather than for investment or other purposes (paragraphs 7 and 9 of IAS 7). Assessing whether a banking arrangement is an integral part of an entity's cash management is a matter of facts and circumstances.

(c) if the balance of a banking arrangement does not often fluctuate from being negative to positive, then this indicates that the arrangement does not form an integral part of the entity's cash management and, instead, represents a form of financing.

In the fact pattern described in the request, the Committee concluded that the entity does not include the short-term arrangements as components of cash and cash equivalents. This is because these short-term arrangements are not repayable on demand. Additionally, the fact that the balance does not often fluctuate from being negative to positive indicates that the short-term arrangements are a form of financing rather than an integral part of the entity's cash management.

The Committee also noted that paragraphs 45 and 46 of IAS 7 require an entity to (a) disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in its statement of financial position; and (b) disclose the policy which it adopts in determining the composition of cash and cash equivalents.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether to include in its statement of cash flows the short-term arrangements described in the request as components of cash and cash equivalents. Consequently, the Committee decided not to add this matter to its standard-setting agenda.