Project **Agenda Decisions**

Topic **IAS 7 *Statement of Cash Flows* – Determination of cash equivalents**

Background

1. In March and May 2009, the IFRIC discussed a request for guidance on whether investments in shares or units of money market funds that are redeemable at any time can be classified as cash equivalents.

2. At the May meeting the IFRIC tentatively decided not to add the issues to its agenda and published the decision for comment in *IFRIC Update*.

3. One comment letter was received supporting the tentative decision and its reasons.

Recommendation and question for the IFRIC
The staff recommends that the IFRIC finalise the agenda decision as published. Wording is included in the Appendix. Does the IFRIC agree?

Appendix A – proposed wording for final agenda decision

A1. The staff proposes the following wording as published in *IFRIC Update* for the final agenda decision.

IAS 7 *Statement of Cash Flows* – Determination of cash equivalents

The IFRIC received a request for guidance on whether investments in shares or units of money market funds that are redeemable at any time can be classified as cash equivalents.

The IFRIC noted that paragraph 7 of IAS 7 states that the purpose of holding cash equivalents is to meet short term cash commitments. In this context, the critical criteria in the definition of cash equivalents set out in paragraph 6 of IAS 7 are the requirements that cash equivalents be 'convertible to known amounts of cash' and 'subject to insignificant risk of changes in value'. The IFRIC noted that the first criterion means that the amount of cash that will be received must be known at the time of the intitial investment, ie the units cannot be considered cash equivalents simply because they can be converted to cash at any time at the then market price in an active market. The IFRIC also noted that an entity would have to satisfy itself that any investment was subject to an insignificant risk of changes in value for it to be classified as a cash equivalent.

Given the guidance in IAS 7, the IFRIC did not expect significant diversity in practice because the purpose of holding the instrument and the satisfaction of the criteria should both be clear from its terms and conditions. Accordingly, the IFRIC decided not to add this issue to its agenda.