STAFF PAPER

14 – 15 May 2013

IFRS Interpretations Committee Meeting

IFRS IC Jan 2013

Project	**Review of tentative agenda decision**		
Paper topic	IAS 7 Statement of Cash Flows—identification of cash equivalents		
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Introduction

1. In January 2013, the IFRS Interpretations Committee (the Interpretations Committee) received a request about the basis of classification of financial assets as cash equivalents in accordance with IAS 7 *Statement of Cash Flows.*

2. More specifically, the submitter thinks that the classification of investments as cash equivalents on the basis of the remaining period to maturity as at the balance sheet date would lead to a more consistent classification rather than the current focus on the investment's maturity from its acquisition date.

3. In the tentative agenda decision, the Interpretations Committee observed that on the basis of paragraph 7 of IAS 7:

   (a) financial assets held as cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This paragraph further states that for an investment to be held for the 'short term', it will normally have a maturity of three months or less from the date of acquisition.

   (b) the three-month criterion in paragraph 7 of IAS 7 promotes consistency between entities in the classification of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear.

4. Consequently, the Interpretations Committee determined that in the light of the existing IFRS guidance, an interpretation or an amendment to Standards was not necessary and it did not expect significant diversity in practice to develop regarding their application.

5. The Interpretations Committee's full tentative agenda decision can be found in the IFRIC Update (January 2013).

6. Our analysis of this issue was included in Agenda Paper 23 of January 2013.

Comment letter summary

7. The comment period for the tentative agenda decision ended on 4 April 2013. We received **three responses**.

8. One respondent[1] agrees with the tentative agenda decision as drafted.

9. Another respondent[2] agrees with the tentative agenda decision as drafted but suggests the IASB to clarify the definition of cash equivalents in a broader project.

10. We observe that neither IAS 7 nor a project specifically related to the statement of cash flows (SCF) was cited during the IASB's Agenda Consultation 2011 (request for views) as one of the projects that should be included in the IASB's agenda. However, we have taken note of the respondent's proposal.

11. Another respondent[3] also agrees with the tentative agenda decision as drafted. However, this respondent notes that the reference to a "three-month criterion" in the tentative agenda decision is more definitive than the wording in paragraph 7 of IAS 7 and due to this reason recommends adding a minor amendment as follows:

> "The IFRS Interpretations Committee observed that this three-month presumption ~~criterion~~ in paragraph 7 of IAS 7 promotes consistency between entities in the classification

[1] CICA

[2] Organismo Italiano di Contabilita (OIC)

[3] Deloitte

of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear."

12. We agree with the respondent's comment and we have included that proposed edit in the final draft of the agenda decision.

Staff recommendation

13. We recommend confirming the tentative agenda decision with a minor drafting change. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

Question for the Interpretations Committee

Question for the Interpretations Committee
Does the Interpretations Committee agree with the wording for the agenda decision shown in Appendix A?

Appendix A—Finalisation of agenda decision

A1. We propose the following wording to finalise the agenda decision (new text is underlined and deleted text is ~~struck through~~):

IAS 7 Statement of Cash Flows—identification of cash equivalents

The Interpretations Committee received a request about the basis of classification of financial assets as cash equivalents in accordance with IAS 7. More specifically, the submitter thinks that the classification of investments as cash equivalents on the basis of the remaining period to maturity as at the balance sheet date would lead to a more consistent classification rather than the current focus on the investment's maturity from its acquisition date.

The Interpretations Committee noted that, on the basis of paragraph 7 of IAS 7, financial assets held as cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This paragraph further states that for an investment to be held for the 'short term', it will normally have a maturity of three months or less from the date of acquisition.

The IFRS Interpretations Committee observed that this three-month presumption ~~criterion~~ in paragraph 7 of IAS 7 promotes consistency between entities in the classification of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear.

On the basis of the above, the Interpretations Committee determined that in the light of the existing IFRS guidance, an interpretation or an amendment to Standards was not necessary and it did not expect significant diversity in practice to develop regarding their application.

Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Accounting Standards Board
AcSB
CNC
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April 1, 2013

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 7 *Statement of Cash Flows* – Identification of cash equivalents

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the identification of cash equivalents. This tentative agenda decision was published in the January 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kingram@cpacanada.ca).

Yours truly,

Peter Martin

Peter Martin, CPA, CA
Director, Accounting Standards

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IFRS Interpretations Committee
30 Cannon Street
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3 April 2013

Re: Interpretation Committee tentative agenda decisions

Dear Wayne,
We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in January 2013) on IFRS 2 – "*Share-based Payment - Timing of the recognition of intercompany charges*", on IAS 28 - "*Investments in Associates and Joint Ventures and IFRS 3 Business Combination - Associates and common control*" and on IAS 7 - "*Statement of Cash Flows - identification of cash equivalents*".

We are writing to communicate some concerns about the tentative decisions reached on the above-mentioned issues.

IFRS 2 - *Share-based Payment* - Timing of the recognition of intercompany charges

The issue relates to the timing of recognition of intragroup payment arrangements in which a subsidiary recharges to its parent the share-based award made by the parent to the subsidiary's employees under a share-based payment agreement. The IFRS IC decided not to add this issue to its agenda because these arrangements fall into the category of common control transactions and any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. Therefore, in the absence of any guidance about these transactions, the IFRS IC thinks that the issue cannot be resolved efficiently.
The issue on intragroup transactions is common and relevant, especially in the jurisdictions where IFRS are applied to the individual accounts. In the absence of a clarification from the IFRS IC on the issue, diversity exists in practice, which will affect the comparability between financial statements.
Therefore, the OIC disagrees with the IFRS IC tentative decision not to add this issue to its agenda.

IAS 7 - *Statement of Cash Flows* - identification of cash equivalents

The issue relates to the classification of financial assets as cash equivalent in accordance with IAS 7.7. The submitter thinks that the classification of an investment should be made on the basis of the remaining period to maturity as at the balance sheet date and not with reference to the date of acquisition. The IFRS IC decided not to add this issue to its agenda because it considers as clear the requirements of IAS 7.7.
The OIC agrees with the IFRS IC tentative decision but believes that the IASB should broadly address the issue to clarify what the cash equivalents are.

IAS 28 - *Investments in Associates and Joint Ventures and IFRS 3 Business Combination* - Associates and common control

The issue relates to the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control and, in particular, about the application by analogy of the scope exemption set out in IFRS 3. The issues arise from a contradiction between paragraph 32 and paragraph 26 of IAS 28. In fact, paragraph 32 imposes the application of the equity method to the acquisition of an interest in an associate or joint venture while paragraph 26 says that "*the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture*".
In its tentative agenda decision, the IFRS IC states that IAS 28.32 "*has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control". The IFRS IC noted that the issue would be better considered within the context of a broader project on accounting for business combinations under common control.*
The OIC disagrees with the agenda decision. Even if OIC recognizes that the issue might be addressed in the broader context of BCUCC project, it is acknowledged that in the last half decade many common control transaction issues related have not been addressed for this reason. **Diversity in practice increases in the meantime. The IFRS IC should clarify the accounting treatment for the issue under consideration and for other common control transaction issues that may be submitted in the future, at least until a deadline on the common control transaction project would be determined by the IASB.**

In addressing the issue under consideration, the IFRS IC should consider that the same problem arises the accounting in the **separate financial statements** of the acquisition of investments in subsidiaries from a common control part. Indeed it is not definitely clear whether in such a circumstance IAS 27 or the scope exemption of IFRS 3 applies.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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4 April 2013

Dear Mr Upton

Tentative Agenda Decision – IAS 7 *Statement of Cash Flows*: Identification of cash equivalents

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the January 2013 IFRIC Update of the tentative decision not to take onto the IFRIC's agenda a request for clarification on the classification of financial assets as cash equivalents in accordance with IAS 7.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. However, we note that the reference to a 'three-month criterion' in the tentative agenda decision is more definitive than the wording in paragraph 7 of IAS 7 and hence recommend that the wording of the agenda decision be amended as follows:

"The IFRS Interpretations Committee observed that this three-month presumption~~criterion~~ in paragraph 7 of IAS 7 promotes consistency between entities in the classification of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear."

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader
Technical