

## STAFF PAPER

June 2018

## IFRS Interpretations Committee Meeting

<b>Project</b>	<b>IAS 7 <i>Statement of Cash Flows</i>—Classification of short-term loans and credit facilities</b>		
<b>Paper topic</b>	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments on the application IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (Board) can make such a determination. Decisions made by the Committee are reported in IFRIC<sup>®</sup> Update. The approval of a final Interpretation by the Board is reported in IASB<sup>®</sup> Update.

## Introduction

1. The IFRS Interpretations Committee (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.
2. In March 2018 the Committee published a tentative agenda decision. In that tentative agenda decision the Committee observed that:
  - (a) applying paragraph 8 of *IAS 7 Statement of Cash Flows*, 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.
3. 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.
  4. The purpose of this paper is to:
    - (a) analyse the comments received on the tentative agenda decision; and
    - (b) ask the Committee if it agrees with our recommendation to finalise the agenda decision.
  5. There are two appendices to this paper:
    - (a) Appendix A—proposed wording of the agenda decision; and
    - (b) Appendix B—comment letters.

### **Comment letter summary and staff analysis**

6. We received four comment letters, reproduced in Appendix B to this paper.

7. Deloitte, Petrobras and an individual, CA Arvind Kumar, agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision.
8. Mazars agrees with the Committee's decision not to add this matter to its standard-setting agenda. However, it expressed reservations about the Committee's conclusion that the short-term arrangements were not 'repayable on demand'.
9. Further details on Mazars' comments, together with our analysis, are presented below.

### ***Repayable on demand***

#### *Concern raised by respondent*

10. Mazars says it is aware of bank overdrafts that are repayable with a short contractual notice period but that form an integral part of an entity's cash management. In these overdraft arrangements, the lending bank can only ask for a reimbursement within a time limit corresponding to the maximum number of authorised consecutive days of negative balance. Mazars says if the Committee finalises its tentative agenda decision with no changes, an entity would not be able to consider these overdraft arrangements to be 'repayable on demand' in the context of paragraph 8 of IAS 7, even though the contractual notice period is short.
11. Mazars says, in its view, the short contractual notice period should not prevent an entity from considering these overdraft arrangements to be repayable on demand. Accordingly, if the overdraft arrangement forms an integral part of an entity's cash management, the entity should consider that arrangement as a component of cash and cash equivalents in its statement of cash flows.

#### *Staff analysis*

12. Paragraph 8 of IAS 7 states (emphasis added):

Bank borrowings are generally considered to be financing activities. However, in some countries, *bank overdrafts which are repayable on demand* form an integral part of an entity's cash management. *In these circumstances*, bank overdrafts are included as a component of cash and cash equivalents. A

characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

13. We continue to hold the view expressed in paragraphs 23–24 of [Agenda Paper 6](#) to the Committee’s March 2018 meeting, which state:

23. Paragraph 8 of IAS 7 also requires that the bank overdraft be ‘repayable on demand’. In our view, this means that the entity is required to repay any negative balance in the bank overdraft as soon as the lender requests such repayment (ie ‘on demand’).

24. Accordingly, we think banking arrangements that have a short contractual notice period (eg 14 days) are not ‘repayable on demand’ for the purpose of applying paragraph 8 of IAS 7. In our view, IAS 7 does not specify what is meant by ‘on demand’ because the term is self-explanatory.

14. In the light of the requirements in paragraph 8 of IAS 7, we see no basis on which to say that an entity can include as a component of cash and cash equivalents a bank overdraft repayable with a short contractual notice period if that bank overdraft forms an integral part of the entity’s cash management. In our view, paragraph 8 of IAS 7 requires such a bank overdraft to be repayable on demand.

15. We recommend no changes to the tentative agenda decision in this respect.

### Staff recommendation

16. Based on our analysis, we recommend confirming the tentative agenda decision as published in IFRIC Update in [March 2018](#) with no changes. Appendix A to this paper outlines the draft wording of the final agenda decision

#### Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper?

## Appendix A—Proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove the square brackets in the last paragraph.

### **IAS 7 *Statement of Cash Flows*—Classification of short-term loans and credit facilities**

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.

## Appendix B—Comment letters

8 May 2018

Sue Lloyd  
Chair  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

Dear Ms Lloyd

**Tentative agenda decision – IAS 7 Statement of Cash Flows: Classification of short-term loans and credit facilities**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the types of borrowings to be included in the statement of cash flows as a component of cash and cash equivalents.

We agree with the Interpretations Committee's decision not to add this item onto its agenda and that, in accordance with the guidance noted in paragraphs 7-9 of IAS 7, a fixed-term loan of the kind described in the tentative agenda decision that can never fluctuate between a positive and negative balance should not be classified as part of cash and cash equivalents.

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



Rio de Janeiro, May 21, 2018

CONTRIB 0021/2018

Ms Lloyd  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Subject: Tentative agenda decision: Classification of short-term loans and credit facilities (IAS 7)

Reference: IAS 7- Statement of Cash Flows

Dear Ms Lloyd,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision - IAS 7 Statement of Cash Flows—Classification of short-term loans and credit facilities. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We agree with the Interpretations Committee's decision not to add this item to its agenda. In accordance with the guidelines indicated in paragraphs 7-9 of IAS 7, if the overdraft in a bank is used as a cash commitment purpose and not for investment, and also this banking arrangement balance often fluctuate from positive to negative, such arrangement should be presented as cash and cash equivalents.

If you have any questions in relation to the content of this letter please do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

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Rodrigo Araujo Alves

Chief Accounting and Tax Officer

**CA Arvind Kumar**

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21<sup>st</sup> May, 2018

Chairman  
International Accounting Standards Board  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
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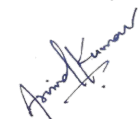
Dear Chairman,

**Sub: Comment on Tentative agenda decision – IAS 7 Statement of Cash Flows:  
Classification of short-term loans and credit facilities**

I am happy to respond to the IFRS Interpretations Committee's publication on the tentative decision not to take onto the Committee's agenda the request for clarification on the types of borrowings to be included as a component of cash and cash equivalents while making the cash flow statement of the entity.

I agree with the Interpretations Committee's decision as the guidance provided in the paragraphs 7-9 of IAS 7, clearly indicates that if 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 arrangement.

Sincerely,



CA Arvind Kumar

Mrs Sue Lloyd

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

Paris, May 28, 2018

### Tentative Agenda Decisions – IFRIC Update March 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



**Michel Barbet-Massin**



**Edouard Fossat**

*Financial Reporting Technical Support*

## Appendix 3

### ***Classification of short-term loans and credit facilities (IAS 7 Statement of Cash Flows)—Agenda Paper 6***

We agree with the decision made by the Committee not to add this matter to its standard-setting agenda. Nevertheless, we have some reservations regarding the emphasis given to the criterion “repayable on demand” in the Tentative Agenda Decision.

We agree that a banking arrangement that does not often fluctuate from being negative to positive, or that is negative most of the time, represents a form of financing rather than a cash management tool.

Under bank overdraft agreements, the balance of the bank account usually either fluctuate often from being positive to negative, or is negative only punctually. In that sense, those agreements are obviously an integral part of an entity’s cash management.

These agreements usually provide the entity with an authorization for a negative balance, for a limited period. Usually, the balance can be negative only during a specified (short) period. But as long as the entity meets the specific conditions of the bank overdraft agreement, the bank cannot ask for immediate reimbursement of the negative balance. It can only ask for a reimbursement within a time limit corresponding to the maximum number of authorized consecutive days of negative balance. Although that period is usually short, we believe these agreement will not meet the “repayable on demand” criterion of IAS 7.8 if the IFRS Interpretations Committee confirms its Tentative Agenda Decision.

Indeed, under the fact pattern in the Agenda Decision, a short contractual notice period of 14 days prevents the credit facility from being “repayable on demand”, and the way it is drafted let us think that the answer would be the same with an even shorter notice period. We strongly believe that a short notice period should not prevent an agreement from being considered as “repayable on demand”, so that bank overdrafts that form integral part of an entity’s cash management can be considered as negative cash and cash equivalent.