

## STAFF PAPER

April 2022

IASB<sup>®</sup> meeting

<b>Project</b>	<b>Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7)</b>	
<b>Paper topic</b>	Finalisation of agenda decision	
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## Introduction and purpose

1. At its March 2022 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission on IAS 7 *Statement of Cash Flows*. The Committee instead decided to finalise an agenda decision.
2. The purpose of this meeting is to ask IASB members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation [Due Process Handbook](#).

## Background

3. The Committee received a submission about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party.
4. In September 2021, the Committee discussed the submission and decided to publish a [tentative agenda decision](#), having concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use agreed

with a third party as a component of cash and cash equivalents in its statements of cash flows and financial position.

### **Overview of the feedback on the tentative agenda decision**

5. The Committee received 17 comment letters on its tentative agenda decision by the comment deadline.
6. Most respondents agreed (or did not disagree) with the Committee’s technical analysis and conclusions in the tentative agenda decision, with some of these respondents expressing concerns. A few respondents disagreed with the Committee’s technical analysis.
7. Some respondents suggested the IASB address their concerns through a standard-setting project on IAS 7 or as part of a comprehensive review of that Standard. A few of these respondents suggested that the Committee not finalise the agenda decision.
8. The Committee considered this feedback and confirmed the analysis and conclusions in the tentative agenda decision.<sup>1</sup> The Committee made some changes to the wording of the tentative agenda decision, namely to:
  - (a) note that the question in the request is about whether the demand deposit meets the definition of ‘cash’ in IAS 7; and
  - (b) remove a reference to paragraph 48 of IAS 7.
9. Thirteen of 14 Committee members voted to finalise the agenda decision.
10. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

**Questions for the IASB**

Do IASB members object to the Committee’s:

- (a) decision that a standard-setting project should not be added to the work plan; and
- (b) conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

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<sup>1</sup> [Agenda Paper 3](#) to the Committee’s March 2022 meeting analyses comments received.

**Appendix A—The Agenda Decision**

A1. The Agenda Decision below was approved by the Committee at its meeting in March 2022.

**Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 *Statement of Cash Flows*)**

The Committee received a request about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. In the fact pattern described in the request, the entity:

- a. holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it (that is, were the entity to request any amount from the deposit, it would receive that amount on demand).
- b. has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

**Cash and cash equivalents in the statement of cash flows**

The Committee noted that the question in the request is about whether the demand deposit meets the definition of ‘cash’ in IAS 7.

Paragraph 6 of IAS 7 defines ‘cash’ by stating that it ‘comprises cash on hand and demand deposits.’ IAS 7 includes no requirements on whether an item qualifies as cash beyond the definition itself.

IAS 7 and IAS 1 *Presentation of Financial Statements* indicate that amounts included in cash and cash equivalents may be subject to restrictions, namely:

- a. paragraph 48 of IAS 7 requires an entity to disclose information about ‘significant cash and cash equivalent balances held by the entity that are not available for use by the group’; and

- b. paragraph 66(d) of IAS 1 requires an entity to classify as current an asset that is ‘cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period’.

The Committee concluded that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. In the fact pattern described in the request, the contractual restrictions on the use of the amounts held in the demand deposit do not change the nature of the deposit—the entity can access those amounts on demand. Therefore, the Committee concluded that the entity includes the demand deposit as a component of ‘cash and cash equivalents’ in its statement of cash flows.

#### **Presentation in the statement of financial position**

Paragraph 54(i) of IAS 1 requires an entity to include a line item in its statement of financial position that presents the amount of ‘cash and cash equivalents’. Paragraph 55 of IAS 1 states ‘an entity shall present additional line items (including by disaggregating the line items listed in paragraph 54) ... in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position’.

Therefore, the Committee concluded that, in the fact pattern described in the request, the entity presents the demand deposit as cash and cash equivalents in its statement of financial position. When relevant to an understanding of its financial position, the entity would disaggregate the ‘cash and cash equivalents’ line item and present the demand deposit separately in an additional line item.

An entity that presents assets as current or non-current would classify the demand deposit as current applying paragraph 66(d) of IAS 1, unless the demand deposit is ‘restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period’.

#### **Disclosures**

Paragraph 45 of IAS 7 states that ‘an entity shall disclose the components of cash and cash equivalents...’. Applying this requirement, in the fact pattern described in the request, the

entity discloses the demand deposit as a component of cash and cash equivalents. The entity also considers whether to disclose additional information:

- a. in the context of the requirements in IFRS 7 *Financial Instruments: Disclosures* about liquidity risk arising from financial instruments and how an entity manages that risk; and
- b. if the information it provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the impact of the restrictions on the entity's financial position (paragraph 31 of IAS 1).

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use agreed with a third party as a component of cash and cash equivalents in its statements of cash flows and financial position.

Consequently, the Committee decided not to add a standard-setting project to the work plan.