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## IASB<sup>®</sup> meeting

Date	<b>April 2026</b>
Project	<b>Statement of Cash Flows and Related Matters</b>
Topic	<b>Improving consistent application of the definition of cash equivalents</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Objective of this paper

1. At its [May 2025 meeting](#), the IASB decided to assess potential ways to improve the consistent application of the definition of 'cash equivalents'.
2. The objective of this paper is to discuss the stakeholder feedback and ask the IASB whether it agrees with our recommendations on potential solutions to improve consistent application of the definition of 'cash equivalents'.

## Summary of Staff Recommendations

3. We recommend that the IASB:
  - (a) move the requirement that 'cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes' from paragraph 7 to paragraph 6 of IAS 7 *Statement of Cash Flows* to include it in the definition of 'cash equivalents'; and
  - (b) expand the application guidance in paragraph 7 of IAS 7 to clarify that:
    - (i) an investment with a maturity of more than three months is presumed not to meet the definition of cash equivalents; and

- (ii) the presumption in (i) is rebuttable if the facts and circumstances demonstrate that an investment meets the definition of a cash equivalent.

## Structure of this paper

- 4. This paper is structured as follows:
  - (a) background (paragraphs 5–18);
  - (b) staff analysis and questions for the IASB (paragraphs 19–49);
  - (c) Appendix A—Extracts from U.S. generally accepted accounting principles (including Basis for conclusions on Statement of Financial Accounting Standard 95 – Statement of cash flows and U.S. generally accepted accounting principles on the definition of cash equivalents);
  - (d) Appendix B—Agenda decisions published by IFRS Interpretations Committee; and
  - (e) Appendix C—Accounting firms’ guidance on the IAS 7 definition of cash equivalents.

## Background

- 5. This section is structured as follows:
  - (a) IASB tentative decisions at the May 2025 meeting (paragraphs 6–8);
  - (b) definition of cash equivalents (paragraphs 9–10); and
  - (c) summary of stakeholder feedback (paragraphs 11–18).

### ***IASB tentative decisions at the May 2025 meeting***

- 6. Considering stakeholder feedback, at its May 2025 meeting, the IASB tentatively decided:

- (a) to assess potential ways to improve consistent application of the definition of cash equivalents; and
  - (b) not to explore expanding the definition of cash and cash equivalents.
7. Given there was limited stakeholder feedback regarding the definition of ‘cash’ the IASB’s tentative decision focuses only on the definition of ‘cash equivalents’.
8. At that IASB meeting and in follow-up meetings with staff, IASB members provided following views:
- (a) some IASB members said that the definition of cash equivalents in IAS 7 is generally clear and it would not be feasible to resolve all the application issues which always involve some judgement and might require time to resolve. They also suggested that the IASB could consider providing some clarifications to improve the consistent application of the definition of cash equivalents that would provide utility to investors.
  - (b) a few IASB members said that in applying the definition of cash equivalents to some financial instruments, it might be necessary to consider specific economic conditions such as inflation and interest rates that affect the assessment of some aspects of the cash equivalent definition such as the insignificant risk of changes in value.
  - (c) a few other IASB members said that even though the definition of cash equivalents works well, it would be useful to emphasise the importance of the intent of holding a specific financial instrument when assessing whether it should be classified as a cash equivalent and to consider providing more flexibility regarding the three-month short-term maturity threshold.
  - (d) a few IASB members also highlighted the importance of identifying an efficient approach to improve the consistent application of the definition of cash equivalents, because some potential solutions could be time-consuming and could lead to unintended complexity.

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***Definition of cash equivalents***

9. Paragraph 6 of IAS 7 defines cash equivalents as:
- short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
10. Further guidance is included in paragraph 7 of IAS 7, which states that:
- cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

***Summary of stakeholder feedback***

11. Since the inception of the project, the IASB has received feedback on the definition of cash equivalents from many stakeholders including the Accounting Standards Advisory Forum (ASAF), the IFRS Interpretations Committee (IC), the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC), Emerging Economies Group (EEG), accounting firms, auditors and regulators.
12. In March 2025, we presented to the IASB the stakeholder feedback from the initial outreach activities—described in detail in [Agenda Paper 20A](#) and [Agenda Paper 20B](#) of that meeting.
13. Although some stakeholders, including preparers, suggested the IASB consider revising the definition of cash equivalents to better align with cash management practices by including more liquid financial instruments, only a few investors commented on the definition with most saying a more consistently applied definition would provide them with better information. Many of these investors preferred a

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definition of cash equivalents that included fewer, rather than more financial instruments, making the definition ‘closer to cash’.

14. In the following paragraphs we discuss the stakeholder feedback relating to potential solutions to improve the consistent application of the definition of cash equivalents.
15. Stakeholders including preparers, ASAF members, IC members, accounting firms and regulators said that the definition of cash equivalents is challenging to apply and leads to diversity in practice. Some of these members said additional guidance might be useful on the application of aspects of the definition of cash equivalents—short-term, high liquidity, insignificant risk of change in value and readily convertible to a known amount of cash. The requirements stakeholders most commonly identified as leading to diversity are:
  - (a) application of the purpose of holding an investment—some stakeholders including IC members and ASAF members said that it was unclear whether an investment is required to be held to meet short-term cash commitments for an investment to qualify as a cash equivalent; and
  - (b) application of the short-term maturity requirement of three months or less—many stakeholders including preparers, IC members, ASAF members and accounting firms said it was unclear whether the reference to a maturity of three months or less is an example of meeting the definition of cash equivalents, or whether it is a rule prohibiting investments with longer maturities from being cash equivalents.
16. A few stakeholders including IC members, ASAF members and accounting firms provided examples of different types of financial instruments for which they have observed that the definition of cash equivalents is difficult to apply, leading to diversity in practice. These financial instruments include:
  - (a) investment in money market funds;
  - (b) investment in commercial papers and repurchase agreements;
  - (c) demand deposits and short-term credit facilities;

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- (d) credit cards receivables at the point of sale;
  - (e) cash in transit; and
  - (f) cash pooling arrangements.
17. A few other stakeholders including IC members, ASAF members, accounting firms and regulators indicated that additional guidance would be useful to clarify application of the definition of cash equivalents for some features and conditions of financial instruments such as implications of withdrawal penalty conditions and restrictions on the use of cash and cash equivalents.
18. A few stakeholders from Brazil, China and India, including preparers, an IC member and EEG members highlighted that in their jurisdictions some highly liquid financial instruments used to meet the short-term cash commitments are viewed as cash equivalents but do not meet the definition of cash equivalents in IAS 7 because they are held for longer terms, or the features of the instrument mean there is not a known amount of cash. For example:
- (a) government bonds;
  - (b) overnight mutual funds; and
  - (c) bank acceptance bills.

## Staff analysis

19. Consistent with the IASB's tentative decisions, this section only assesses potential ways to improve consistent application of the definition of cash equivalents. It does not analyse application of the definition of cash, changing the reconciliation of the statement of cash flows to a different measure, such as net debt, aligning the definition of cash equivalents with an entity's cash management practices, or expanding the definition of cash equivalents.
20. Specifically, our analysis considers:

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- (a) providing guidance on specific matters to improve consistent application of the definition of cash equivalents (see paragraphs 21–34):
    - (i) clarifying the role of considering the business purpose of holding the investment in the definition of cash equivalents (see paragraphs 21–27); and
    - (ii) clarifying the application of the three months or less maturity threshold to determine whether an investment is a cash equivalent (see paragraphs 28–34);
  - (b) matters we do not recommend the IASB explore further (see paragraphs 35–49):
    - (i) providing application guidance to different instruments and fact patterns that stakeholders suggested have diversity in practice (see paragraphs 35–47); and
    - (ii) reconciling the statement of cash flows to the beginning and ending amounts of cash rather than cash and cash equivalents (see paragraphs 48–49).

***Providing guidance on specific matters to improve consistent application of the definition of cash equivalents***

***Clarifying the role of considering the business purpose of holding the investment in the definition of cash equivalents***

- 21. Some stakeholders said that there are differing views regarding the role of business purpose of holding an investment in meeting the definition. These stakeholders said it is not clear whether an investment being held to meet short-term cash commitments is an integral part of the definition of cash equivalents in IAS 7 (see paragraph 15(a)).
- 22. We think this uncertainty affects many instruments as there are many short-term, highly liquid investments that might be readily convertible to cash and exposed to insignificant risk of change in value but might also be held to earn a return or for broader investment purposes.

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23. Paragraph 7 of IAS 7 states that cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. However, we understand there are different views on whether the purpose of holding an investment should be considered when classifying it as a cash equivalent. The Basis for Conclusion on IAS 7 only covers amendments since 2009. It does not cover the IAS 7 requirements included in the original version of the standard, including the definition of cash equivalents. Therefore, we reviewed of the Basis for Conclusions on the superseded *Statement of Financial Accounting Standard (SFAS) 95 – Statement of Cash Flows* which is generally considered to be the basis for the original IAS 7. The Basis for Conclusions on SFAS 95 explains that the purpose of an investment for meeting short-term cash commitments was intended to clarify which instruments meet the definition of a cash equivalent (see appendix A).
24. We also reviewed the accounting firms’ guidance on application of the definition of cash equivalents in IAS 7 which consistently states that the ‘purpose test’ is a critical component of determining whether an investment is a cash equivalent. (see appendix C)
25. Given some stakeholders identified it as an area of diversity, we think it would be useful to explicitly specify that the purpose of holding an investment is a component of the definition of cash equivalents in IAS 7. We think this recommendation could lead some entities to change the classification of some investments from cash equivalents to investments. We do not expect this potential change in practice to be costly because it is based on entities’ cash management processes, making the information readily available.
26. Consequently, we recommend the IASB to move the requirement that ‘cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes’ from paragraph 7 to paragraph 6 of IAS 7 to include it in the definition of ‘cash equivalents’.
27. We do not think that any specific disclosure requirements are necessary for the investments that otherwise meet the definition but are not classified as cash

equivalents as they are not held to meet the short-term cash commitments. This is because paragraphs 46 and 47 of IAS 7 state that, in view of the variety of cash management practices and bank arrangements and to comply with IAS 8 *Basis of Preparation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

*Clarifying the application of the three months or less maturity threshold to determine short-term maturity of a cash equivalent*

28. Many stakeholders said that IAS 7 is unclear on whether the maturity threshold of three months or less should be applied as an example in meeting the definition of a cash equivalent, or whether it is a rule prohibiting investments with longer maturities from being cash equivalents (paragraph 15(b)).
29. Paragraph 7 of IAS 7 states that an investment ‘normally qualifies’ as a cash equivalent only when it has a short maturity of ‘say, three months or less from the date of acquisition’. The use of ‘say’ results in different interpretations in practice. Also, the language is not consistent with more recently issued IFRS Accounting Standards that include clearer wording, such as specifying it is an example with ‘for example’ or that it is a requirement using ‘shall’ to be clear on the expected outcome.
30. The Basis for Conclusions on SFAS 95 states that ‘although any limit to the maturity of items that can qualify as cash equivalents is somewhat arbitrary, the Board decided to specify a limit of three months or less’. We think the use of ‘limit’ might indicate that the three months maturity was intended as a requirement. However, that Basis for Conclusions also explains the threshold is ‘somewhat arbitrary’ which might explain the use of word ‘say’ in paragraph 7 of IAS 7 and provide the basis for reading the limit as an example (appendix A includes extracts from the Basis for Conclusions on SFAS 95).
31. Based on our review of the accounting firms' guidance there is evidence that despite the lack of clarity raised by some stakeholders the predominant view is that the threshold is generally applied as a presumption rather than a ‘rule’ (see appendix C).

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32. We think, in most cases, investments with more than three months maturity are not expected to otherwise meet the definition of cash equivalents and as such the threshold would result in faithful representation. However, in limited cases, an investment with a longer maturity might still qualify as a cash equivalent. A mechanism used in several IFRS Accounting Standards for similar scenarios that might be useful is application of a ‘rebuttable presumption’. For example:
- (a) IAS 12 *Income Taxes* includes a rebuttable presumption for a deferred tax liability or asset arises from investment property that is measured using the fair value model in IAS 40 *Investment Property* that the carrying amount of the investment property will be recovered through sale;
  - (b) IAS 38 *Intangible Assets* includes a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate;
  - (c) IAS 40 includes a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis;
  - (d) IFRS 9 *Financial Instruments* includes rebuttable presumptions that credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, and that default does not occur later than when a financial asset is 90 days past due; and
  - (e) IFRS 18 *Presentation and Disclosure in Financial Statements* includes a rebuttable presumption that if an entity uses a subtotal of income and expenses in its public communications outside the financial statements, this measure communicates management's view of an aspect of financial performance.
33. Therefore, to improve consistent application of the definition of cash equivalents we recommend to expand application guidance in paragraph 7 of IAS 7, to clarify that the three months or less maturity threshold, from the date of acquisition, is a presumption that could be rebutted only in limited instances in which the facts and circumstances demonstrate that, despite having a longer maturity, the investment meets the underlying definition of a cash equivalent.

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34. We have considered whether to recommend adding a requirement to disclose when the presumption has been rebutted. However, we don't think such disclosure would result in material information to users of financial statements. Paragraph 45 of IAS 7 requires an entity to disclose the components of cash and cash equivalent providing users of financial statements with transparency over the instruments included as cash equivalents, which would include any for which rebuttal has been used. We think disclosure of the fact the rebuttal is used for some instruments would not provide users of financial statements with material information because those instruments meet the definition of 'cash equivalents'. Thus, their substantive characteristics would be the same as other investments included as cash equivalents.

***Matters that we do not recommend the IASB explore further***

*Providing application guidance to different instruments and fact patterns that stakeholders suggested have diversity in practice.*

***Different types of financial instruments with diversity in practice***

35. In paragraph 16 of this paper, we have set out different types of financial instruments identified by stakeholders for which applying the definition of cash equivalents is challenging, leading to diversity in practice.
36. However, we do not think it is feasible to provide guidance on an individual instrument basis, as each instrument can have diverse features and might vary across the jurisdictions. Whether an instrument meets the definition of a cash equivalent often depends on its specific terms and conditions. Even instruments with the same label might have different features and therefore require different evaluations.
37. For example, investments in money market funds was highlighted as a type of financial instrument that has diversity in practice. To identify whether such investments can be classified as cash equivalents, it is necessary to assess whether it meets the criteria—short term, high liquidity, insignificant risk of change in value and readily convertible to known amount of cash. The outcome of this evaluation will

differ based on the specific terms and conditions attached to the money market fund, such as:

- (a) whether the investment is puttable and can be sold back to the fund at any time—which might indicate that it meets the short-term criteria;
- (b) whether the investment is quoted in an active market—which might indicate that the fund is highly liquid; and
- (c) whether there are features such as redemption restrictions, withdrawal penalties, controls over the management of the net asset value of the fund, or investments with poor credit ratings—which might affect the assessment of the insignificant risk of change in value or being readily convertible to a known amount of cash.

38. Therefore, some investments in money market funds might be classified as cash equivalents, while others might not, depending on the specific terms and conditions as described in paragraph 37.

39. Stakeholders also highlighted the diversity in practice regarding cash in transit. Amendments introduced to IFRS 9 and IFRS 7 *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024 provide guidance on how cash payments and receipts in transit are reported at the end of the reporting period. According to this amendment, entities will be unable to derecognise a financial asset or financial liability, for which a payment has been received or made, until the amount has cleared in the receiving entity's bank account, except in situations where the electronic payment exception in paragraph B3.3.8 of IFRS 9 applies.

***Specific features and conditions attached to financial instruments***

40. A few stakeholders asked for additional guidance on how some features and conditions of financial instruments, such as withdrawal penalties and restrictions, affect whether those instruments meet the definition of cash equivalents (see paragraph 17).

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41. We think judgement will always be required to assess whether different features and conditions affect an instrument's ability to meet the characteristics of a cash equivalent—namely, being short-term, highly liquid, readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value.
  42. Although those stakeholders that commented mentioned two specific features, financial instruments can have a wide range of features and conditions, and whether they meet the definition of a cash equivalent will depend on the specific facts and circumstances of each arrangement. We think that developing guidance for these specific features is disproportionate given the limited number of stakeholders who raised them, and that developing wider application guidance for every possible scenario would not be cost-effective given the diversity of features and conditions that might affect the assessment.
  43. Further, the IFRS IC has discussed an application question relating to the restrictions on the use of a demand deposit. In that agenda decision, the IC 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 (see appendix B).
  44. Given the limited amount of feedback and specificity of the features raised we do not recommend developing additional application guidance to address the various features and conditions.

***Specific financial instruments in some jurisdictions***

45. A few stakeholders from some jurisdictions said that some entities use highly liquid financial instruments to meet short-term cash commitments. However, in their experience, those instruments often do not meet the definition of cash equivalents because they are held for longer periods or might not satisfy the requirements relating to insignificant risk of changes in value and convertibility to a known amount of cash (see paragraph 18).

46. We understand from stakeholders' comments that there is sufficient guidance in IAS 7 to determine that these instruments do not meet the definition of cash equivalents. However, in these stakeholders' views these instruments should meet the definition of cash equivalents because they are used in the same manner as cash equivalents and meet some, but not all, of the criteria of a cash equivalent.
47. In cases that the three-month threshold was considered as a rule, the clarifications we recommend in this paper might allow those instruments that otherwise meet the definition to be included as cash equivalents (see paragraphs 28–34). We think accommodating other types of instruments would require changes to the definition of cash equivalents which the IASB decided not to pursue, rather than clarifications to the definition.

*Reconciling the statement of cash flows to the beginning and ending amounts of cash rather than cash and cash equivalents*

48. Some stakeholders suggested reconciling the statement of cash flows to the beginning and ending amounts of cash rather than cash and cash equivalents. This was also discussed in the previous IASB projects, Financial Statement Presentation project and the FRC-UK discussion paper on 'Improving the Statement of Cash Flows' which was undertaken with the IASB Disclosure Initiative project team.
49. We considered, but do not recommend such an approach because even though using only cash in the statement of cash flows might improve consistency and comparability between the entities, excluding cash equivalents from the definition would be a significant change in practice that might:
- (a) provide less useful information by removing instruments economically similar to cash that some investors consider together with cash in their analyses;
  - (b) move even further away from entities' cash management practices, when some stakeholders wanted to expand the definition to more closely align;
  - (c) create pressure on the definition of 'cash' (for example, defining 'demand deposits'); and

- (d) diverge from the definition in U.S. generally accepted accounting principles (US GAAP), which is currently similar to IAS 7.

#### Questions for the IASB

1. Does the IASB agree with the staff recommendation to move the requirement that 'cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes' from paragraph 7 to paragraph 6 of IAS 7 s to include it in the definition of 'cash equivalents'?
2. Does the IASB agree with the staff recommendation to expand the application guidance in paragraph 7 of IAS 7 to clarify that:
  - (a) an investment with a maturity of more than three months is presumed not to meet the definition of cash equivalents; and
  - (b) the presumption in (a) is rebuttable if the facts and circumstances demonstrate that an investment meets the definition of a cash equivalent.

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## Appendix A—Extracts from U.S. generally accepted accounting principles

### *Extracts from the Basis for conclusions on Statement of Financial Accounting Standard (SFAS) 95 – Statement of cash flows*

- A1. As IAS 7 is an old Standard, the Basis for Conclusion on IAS 7 only covers amendments since 2009. It doesn't cover the IAS 7 requirements included in the original version of the standard, including the definition of cash equivalents. Therefore, we reviewed the Basis for Conclusions on US GAAP SFAS 95 which is generally recognised as the basis of the original IAS 7. Although SFAS 95 has been superseded and IAS 7 has been revised, its Basis for Conclusions provides insights into the reasons for some of the requirements that remain unchanged in IAS 7, including the definition of cash equivalents.
- A2. Paragraph 51 of the Basis for Conclusions for SFAS 95 states:
- Cash is the most useful concept of funds because decisions of investors, creditors, and others focus on assessments of future cash flows. However, enterprises commonly invest cash in excess of immediate needs in short-term, highly liquid investments, and whether cash is on hand, on deposit, or invested in a short-term financial instrument that is readily convertible to a known amount of cash is largely irrelevant to users' assessments of liquidity and future cash flows. The Board therefore decided that a statement of cash flows should focus on the aggregate of cash and cash equivalents.
- A3. Paragraph 53 of the Basis for Conclusions for SFAS 95 states:
- The Board agreed to provide more guidance on the short-term, highly liquid investments that qualify as cash equivalents. In developing the guidance in paragraph 8 of this Statement, the Board noted that the objective of enterprises' cash management programs generally is to earn interest on temporarily idle funds rather than to put capital at risk in the hope of benefiting from favorable price changes that may result from changes in interest rates or other factors. Although any limit to the maturity of items that can qualify as cash equivalents is somewhat arbitrary, the Board decided to specify a limit of three months or less. The Board believes that limit will result in treating as cash equivalents only those items that are so near cash that it is appropriate to refer to them as the "equivalent" of cash.

A4. Paragraph 56 of the Basis for Conclusions for SFAS 95 states:

The Board noted that the reason for focusing a statement of cash flows on cash and cash equivalents is to recognize and accommodate common practices in cash management. Accordingly, the Board agreed that items that meet the definition of cash equivalents that are part of a larger pool of investments properly considered investing activities need not be segregated and treated as cash equivalents.

***US GAAP definition of cash equivalents***

A5. We reviewed the US GAAP requirements on the definition of cash equivalents.

A6. FASB ASC Section 230-10-20 *Statement of cash flows—Overall—Glossary* states:

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

A7. FASB ASC paragraph 230-10-45-6 states:

Not all investments that qualify are required to be treated as cash equivalents. An entity shall establish a policy concerning which short-term, highly liquid investments that satisfy the definition of cash equivalents are treated as cash equivalents. For example, an entity having banking operations might decide that all investments that qualify except for those purchased for its trading account will be treated as cash equivalents, while an entity whose operations consist largely of investing in short-term, highly liquid investments might decide that all those items will be treated as investments rather than cash equivalents.

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## Appendix B—Agenda decisions published by IFRS Interpretations Committee

B1. We have considered the following agenda decisions that concluded on the application of the IAS 7 requirements on the definition of cash equivalents in our analysis:

- (a) [determination of cash equivalents \(2009\)](#)—the IFRS IC concluded that the investments in shares or units of money market funds that are redeemable at any time 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.
- (b) [identification of cash equivalents \(2013\)](#)—The IFRS IC concluded on the basis of paragraph 7 of IAS 7, an investment is classified as a cash equivalent only when it has a short maturity from the date of acquisition of the investment and not based on the remaining period to maturity as at the balance sheet date.
- (c) [classification of short-term loans and credit facilities \(2018\)](#)—the IFRS IC concluded that the short-term loans and the credit facilities might not be classified as cash and cash equivalents when they are not repayable on demand and when the balance does not often fluctuate from being negative to positive, which indicates that the short-term arrangements are a form of financing rather than an integral part of the entity’s cash management.
- (d) [demand deposits with restrictions on use arising from a contract with a third party \(2022\)](#)—The IFRS IC 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.

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## Appendix C—Accounting firms’ guidance on the IAS 7 definition of cash equivalents

- C1. We reviewed the accounting firms’ guidance on the IAS 7 definition of cash equivalents. That guidance provides insights into various application issues arising in practice in applying the definition of cash equivalents and explains how the IAS 7 requirements on cash equivalents apply to various financial instruments for which stakeholders said diversity in practice exists. Although each firm does not necessarily provide guidance on every aspect of the definition, we did not observe diversity in the guidance provided in the areas of:
- (a) clarification on the application of the purpose of holding an investment—in the guidance provided, they consistently state that the purpose for which a particular investment is held should be considered in determining whether it qualifies for classification as a cash equivalent. This means even though an investment meets the definition of paragraph 6 of IAS 7, unless it is held for the purpose of meeting the short-term cash commitment, that investment will not be classified as cash equivalent.
  - (b) clarification on the application of three months or less maturity threshold—in the guidance provided, they consistently interpret that the maturity threshold of three months or less from the date of acquisition is a presumption and there are be limited cases where facts and circumstances might indicate that investments with a term more than three months meet the definition of cash equivalents.
  - (c) guidance on application of the definition of cash equivalents to different financial instruments and some features and conditions attached to them—additional application guidance has been provided on the definition of cash equivalents to financial instruments such as money market funds, repurchase agreements and credit card receivables at the point of sale, and to related conditions such as restrictions and withdrawal penalties. Accounting firms discuss that different views might arise depending on the facts and circumstances of specific arrangements.