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**IASB<sup>®</sup> meeting**

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| Date     | <b>October 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 International Accounting Standard Board (IASB) decided to assess potential ways to improve the consistent application of the definition of cash equivalents and at its [April 2026 meeting](#), the IASB asked the staff to explore alternative solutions to clarify the application guidance related to an investment with a maturity of three months or less.
2. The objective of this paper is to discuss stakeholder feedback from targeted outreach following the discussion at the April 2026 IASB meeting and ask the IASB whether it agrees with our recommendation to clarify the application guidance related to an investment with a maturity of three months or less.

## Summary of Staff Recommendation

3. We recommend that the IASB propose clarifying paragraph 7 of IAS 7 *Statement of Cash Flows* to state that:

- (a) an investment normally qualifies as a cash equivalent only when an entity has a right to obtain repayment of the investment within three months or less from the date of acquisition; and
- (b) an entity considers all relevant contractual terms and conditions in assessing whether that condition is met.

## Structure of the paper

- 4. This paper is structured as follows:
  - (a) background (paragraphs 5–16);
  - (b) staff analysis and questions for the IASB (paragraphs 17–33);
  - (c) Appendix A—Extract from U.S. generally accepted accounting principles; and
  - (d) Appendix B—Illustration on application of the requirements for classifying cash equivalents under IAS 7.

## Background

- 5. In this section, we provide information about:
  - (a) the definition of cash equivalents (paragraphs 6–7);
  - (b) the IASB discussion at the April 2026 meeting (paragraphs 8–11);
  - (c) findings from targeted outreach following the IASB’s April 2026 meeting (paragraphs 12–15); and
  - (d) requirements in IFRS Accounting Standards relating to the maturity of an arrangement or a financial instrument (paragraph 16).

### ***Definition of cash equivalents***

- 6. 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.

7. 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.

### ***IASB discussion at the April 2026 meeting***

8. In paragraph 15 of [Agenda Paper 20A of the April 2026](#) IASB meeting, we indicated that stakeholders including IFRS Interpretations Committee (IC) members and Accounting Standards Advisory Forum (ASAF) members said IAS 7 is unclear about 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.
9. Therefore, to improve consistent application of the definition of cash equivalents, in that paper we recommended the IASB to revise the application guidance 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 (see paragraph 33 of the Agenda Paper 20A of April 2026 meeting).
10. During the discussion, IASB members provided the following views:

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- (a) many said that introducing a rebuttable presumption for the classification of investments as cash equivalents might require additional application guidance, including facts and circumstances that need to be considered in rebutting the presumption. It might also involve entities establishing additional processes, documentation, and discussions to support the rebuttal. All of these could result in additional cost and complexity to an entity's financial reporting system.
  - (b) many also said that these costs might outweigh the potential benefits, as improving clarity of the application of the three months or less threshold was not identified as a priority topic for either investors or preparers.
  - (c) some asked how the guidance on three months or less maturity is being applied in practice and the likely change that would be expected by introducing the guidance as a rebuttable presumption.
  - (d) many preferred a simple, cost-effective solution that clarifies paragraph 7 of IAS 7 without introducing excessive complexity into financial reporting.
11. Accordingly, in that meeting, the IASB asked the staff to explore alternative solutions to clarify the application guidance related to an investment with a maturity of three months or less.

***Findings from targeted outreach following IASB's April 2026 meeting***

12. To answer the questions of the IASB members about the current practice of applying three months or less maturity, and to inform alternative solutions, we first reviewed the accounting policy disclosures of a sample of companies to understand the current practice. However, the findings were limited, as the accounting policies disclosed in the financial statements and the details of investments classified as cash equivalents or investments are not specific enough to establish how maturity date has impacted the classification of specific financial instruments as cash equivalents.
13. Therefore, we conducted the following targeted outreach:

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- (a) we reached out to the large accounting firms with a questionnaire to ask about their observations and experiences regarding how entities apply the IAS 7 guidance on three months or less maturity in classifying cash equivalents;
  - (b) we received a voluntary response to the questionnaire from one national accounting body sharing experiences of how the IAS 7 three months or less maturity guidance is applied in their jurisdiction; and
  - (c) we spoke individually with five Global Preparers Forum (GPF) members about how they apply the three months or less maturity guidance in their entities.
14. The findings from the responses to the questionnaire are as follows:
- (a) the IAS 7 guidance on three months or less maturity threshold is commonly used in classifying investments as cash equivalents and there are only limited examples of entities classifying investments with maturities of more than three months as cash equivalents.
  - (b) some explicitly stated this guidance is interpreted as a rule, suggesting there is limited diversity in how the threshold is applied, largely driven by the interpretation of regulatory guidance and influence from U.S. Generally Accepted Accounting Principles (US GAAP) requirements (see Appendix A).
  - (c) there is diversity in how entities determine whether an investment has a maturity of three months or less with some entities considering all terms and conditions (for example, early termination, early withdrawal clauses) and others disregarding such terms and conditions.
  - (d) some said that providing guidance clarifying application of some other elements of the IAS 7 definition of cash and cash equivalents, such as ‘insignificant risk of changes in value’, and ‘demand deposits’ would be more useful than clarifying the application of the three months or less threshold.
15. In our discussions with GPF members all said that their companies do not currently hold investments classified as cash equivalents with maturities of greater than three

months. However, there was diversity in views with a few considering three months as an example that could result in investments with longer maturities being classified as cash equivalents, while others considered the threshold to act as a rule. One member specified that although they saw the standard as providing an example, to avoid challenges from auditors or regulators they apply it as a rule.

***Requirements in other accounting standards relating to the maturity of an arrangement or a financial instrument***

16. The term ‘maturity’ is used in IAS 7 and other IFRS Accounting Standards, but it is not defined. Some IFRS Accounting Standards, other than IAS 7, provide requirements for the assessment of maturity for various purposes. Examples include:

- (a) IFRS 16 Leases;

18 An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

19 In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

- (b) IFRS 15 Revenue from Contracts with Customers;

11 Some contracts with customers may have no fixed duration and can be terminated or modified by either party at any time. Other contracts may automatically renew on a periodic basis that is specified in the

contract. An entity shall apply this Standard to the duration of the contract (ie the contractual period) in which the parties to the contract have present enforceable rights and obligations.

(c) IFRS 9 Financial Instruments;

B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding.

Appendix A—When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options). ...There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

## Staff Analysis

17. In this section, we analyse additional guidance other than the use of a rebuttable presumption. The analysis considers guidance that might help entities to apply the maturity threshold of three months or less and to apply the definition of cash equivalents more consistently.
18. Specifically, our analysis considers:

- (a) what aspects of the guidance regarding three-months or less maturity leads to inconsistent application (paragraphs 19–22)?
- (b) what application guidance would be useful to resolve the diversity and improve consistent application of the three months or less maturity guidance (paragraphs 23–31)?

***What aspects of the of guidance regarding three-months or less maturity leads to inconsistent application?***

- 19. As noted in paragraphs 14 and 15 of this paper, findings from the targeted outreach indicate that, generally, only investments with a maturity of three months or less (either considering only the stated maturity or all the relevant terms and conditions) are classified as cash equivalents. We think this finding is consistent with the application guidance in paragraph 7 of IAS 7, which says an investment ‘normally’ qualifies as a cash equivalent only when it has a short-term maturity’. We also think it suggests the word ‘normally’ does not cause diversity in practice.
- 20. However, we do observe feedback regarding mixed practice in how entities assess whether an investment has a maturity of three months or less when applying the guidance. Some entities consider only the stated maturity date in the arrangement without considering the impact of other relevant terms and conditions and other entities assess all the relevant terms and conditions.
- 21. For example, when evaluating the maturity of a term deposit with a stated term of six months at the date of acquisition and an option for early settlement at any time for a nominal fee, some entities would only assess the six-month term and conclude it has a maturity of more than three months and therefore cannot be a cash equivalent. Others would consider the early termination clause and conclude that the instrument has a maturity of less than three months and therefore it might be a cash equivalent subject to meeting other aspects of the definition of a cash equivalent.

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22. In the next section, we analyse potential guidance that could be provided to resolve diversity in practice in assessing the maturity to improve consistent application.

***What application guidance would be useful to resolve the diversity and improve consistent application of the three months or less maturity guidance?***

23. The purpose of the definition of cash equivalents in IAS 7 is to identify liquid assets that are readily available to meet an entity's short-term cash commitments when the need arises, without significant loss in value. An investment with a stated term longer than three months, but which is readily available for short-term liquidity needs, resulting from any attached terms and conditions, such as an early withdrawal option, would meet this objective.
24. Therefore, we think it is appropriate to consider all the relevant terms and conditions to assess the maturity of an investment for the purpose of determining whether it is a cash equivalent. Other IFRS Accounting Standards provide similar guidance requiring an entity to consider all the relevant terms and conditions in assessing the maturity of an arrangement or a financial instrument (see paragraph 16).
25. When evaluating the terms and conditions for assessing the maturity of an investment, we analysed whether the application guidance should require considering only the terms and conditions included in the contract, or whether to also require evaluating the implications of broader laws and regulations. The investments considered within IAS 7 are financial assets, therefore we think that it is appropriate to align with accounting guidance for financial instruments, which focuses on the contractual terms of a financial instrument.
26. Although, considering the impact of laws and regulations alongside contractual terms when assessing maturity might support a more complete assessment of an investment's maturity, we think that limiting maturity assessment to terms and conditions specified in the contract is simpler, less costly and less complex for an entity to apply. Furthermore, this approach would improve consistent application.

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27. We also evaluated how contractual features, such as early withdrawal options, affect the assessment of maturity and whether management intention should be considered. As explained in paragraph 23 above, the objective in IAS 7 is to establish whether, from the entity's (holder of the investment) perspective, an enforceable right exists to readily access cash to meet short-term liquidity needs, regardless of management's intention to exercise that right. Therefore, we think evaluating management expectations regarding exercising the contractual terms and conditions is not relevant, and the assessment of maturity should be based on the entity's contractual rights.
28. We also think when assessing the maturity of an investment, an entity should consider only its own rights under the contractual terms and conditions and not those of the issuer. Terms and conditions related to the possible timing of receipt might refer to the rights of the issuer, but these would not demonstrate the entity's right, or ability, to access cash readily to meet short-term liquidity needs. For example, an issuer might have an option to terminate an investment early after 2 months from the issuance when the stated maturity of the investment is 6 months. However, if the entity does not have an equivalent right to withdraw the investment, it would not be able to access the cash at the same maturity.
29. To add further clarity in drafting we suggest removing the words 'say' and 'short maturity' from paragraph 7 of IAS 7. The word 'say' is redundant because the paragraph already refers to an investment 'normally' being represented by the guidance. Removing 'say' and 'short term' would also make the paragraph more specific, consistent with the wording used in more recently issued IFRS Accounting Standards. Furthermore, removing 'say' while maintaining 'normally qualifies' aligns the guidance more closely with US GAAP requirements. (see Appendix A)
30. Considering the above, we recommend the IASB propose clarifying the requirement in paragraph 7 of IAS 7, to state that:
- (a) an investment normally qualifies as a cash equivalent only when an entity has a right to obtain repayment of the investment within three months or less from the date of acquisition; and

- (b) an entity considers all relevant contractual terms and conditions in assessing whether that condition is met.

31. To illustrate how we think our recommendation in paragraphs 29–30 could be reflected in drafting the exposure draft, paragraph 7 of IAS 7 could be amended to state:

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, an entity has a right to obtain repayment of the investment within~~ three months or less from the date of acquisition. In determining whether that condition is met, an entity shall consider all relevant contractual terms and conditions.

32. The recommended changes clarify the application of guidance of determining a maturity of three months. However, an entity would still be required to assess the other components of the cash equivalent definition, such as an insignificant risk of change in value when determining if an investment is a cash equivalent. For example, consider a term deposit that includes a stated term of six months at the date of acquisition with an option for the entity to withdraw the deposit at any time with a fee for early termination. To determine whether such a term deposit is a cash equivalent an entity would consider both:
- (a) the investment's maturity—the entity would assess whether the early termination clause results in a maturity of less than three months; and
  - (b) the other aspects of the definition—the entity would also assess, the impact of the early termination fee to identify whether there is a significant risk of changes in value.
33. Appendix B illustrates the application of both these aspects of the definition of a cash equivalent.

Question for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 30?

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

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

A1. 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).

## Appendix B—Illustration on application of the requirements for classifying cash equivalents under IAS 7

B1. Following illustration explains the application of the requirements for classifying financial instruments as cash equivalents under IAS 7:

B2.

