IFRS

STAFF PAPER

March 2022

IFRS® Interpretations Committee meeting

Project	**Demand Deposits with Restrictions on Use (IAS 7)**		
Paper topic	Comment letters		
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Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Demand Deposits with Restrictions on Use (IAS 7)' published in September 2021.

Tentative Agenda Decision and comment letters: Demand Deposits with Restrictions on Use (IAS 7)

Can an entity include 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 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.

I am in agreement with The Committee's analysis, however it has exposed a glaring inconsistency between IAS 7 Paragraph 7 and IAS 1 paragraph 66(d) i.e.

- IAS 7 Paragraph 7 [i] 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 and
- IAS 1 paragraph 66(d)[ii] states that an asset 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

Which criteria / time frame should one apply when deciding to classify cash equivalents, 12 months, or 3 months? This creates confusion.

This conflict also appears in IFRS for SMEs in paragraph 4.5(d) and 7.2, and in my view should be resolved.

In their analysis, The Committee should seek to make a define if the restriction is material or not.

The requester of the Tentative Agenda Decision stated that they are allowed to use the demand deposit only for specified purposes.

Are these specified purposes, for use of funds, material or immaterial? Where the permitted use, gives an immaterial access to the demand deposits, in the defined timeframe (12 months, or 3 months?), then deposits may not meet the criteria for cash or cash equivalents.

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[i] IAS 7 Paragraph 6

The following terms are used in this Standard with the meanings specified:

***Cash* comprises cash on hand and demand deposits.**

***Cash equivalents* are 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.**

***Cash flows* are inflows and outflows of cash and cash equivalents.**

IAS 7 Paragraph 7

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.

[ii] **IAS 1 paragraph 66(d)**

the asset 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.

COMMENTS ON IFRIC TENTATIVE AGENDA DECISION

Demand Deposits with Restrictions on Use

1. **Demand deposit restricted for use as component of 'cash and cash equivalents':**
   a) Conclusion as expressed in Tentative Agenda Decision:
   Restrictions on 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.
   b) Our views:
   We do not agree with the conclusion expressed above. Given below are the reasons for our disagreement:
      i. IAS 7 defines cash as cash comprises cash on hand and demand deposits. IAS 7 does not define demand deposits though. We did a Google search on 'demand deposit meaning' and we got the following definition:
      A deposit of money that can be withdrawn without prior notice e.g. in a current account.
      Thus, a deposit for which an entity is required to give notice prior to its withdrawal / use to any party is not demand deposit. The tentative agenda decision moves at a superficial level rather than going into the granularity of the issue as to what is a demand deposit and whether presenting a deposit having restrictions on its use as cash would provide relevant information that faithfully represents the state of affairs of the entity. This is because, given the clarification in paragraph 7 of IAS 7, the line item cash and cash equivalent is understood as having amounts that are not restricted which will be available to the entity immediately and to the extent of cash equivalents in a maximum of three months. Absence of definition of demand deposit in IAS 7 and

the requirement of paragraph 66(d) of IAS 1 are aspects requiring amendment in IAS 7 and IAS 1 and not a permission to consider deposits subject to restrictions as demand deposit. Without a clear definition and application guidance on the term 'demand deposit', the tentative agenda decision remains vague and serves no purpose. Therefore, we recommend IAS 7 be amended to define 'Demand Deposit'.

ii. The tentative agenda decision includes a rider that 'unless those restrictions change the nature of the deposit in a way that would no longer meet the definition of cash in IAS 7'. It is not clear what restrictions could make the deposit cash or not cash. Neither IAS 7 nor IAS 1 provide any guidance in this regard. Therefore, we recommend that IAS 7 be amended to provide guidance on what sort of restrictions would or would not make a deposit, cash, else the tentative agenda decision remains vague and serves no purpose.

iii. The economics of restricted deposit remains the same regardless of the party putting those restrictions and regardless of the restriction being specified in the deposit contract or through another contract or by law. In all the cases, the depositor is either required to seek permission for using the amount deposited for a purpose other than those agreed to or is prohibited from doing the same. Where the depositor uses the deposited amount without seeking permission or despite prohibition for its use other than permitted by the contract or law, the depositor would be in breach of contract or law. It is contrary to rational thinking that such a deposit be presented as demand deposit and therefore, as cash. Where the depositor regards the deposit as giving present right to demand the amount deposited despite restrictions on its use, the depositor must also give regards to the consequential present obligation that shall arise due to breach of contract or law. Though the restrictions are specified in a separate contract with a third party, the depositor entity never considers the deposit as demand deposit till the time the restrictions are in place. Presenting a deposit as demand deposit when the management does not consider that it has present right to demand the amount deposited results in financial statements not presenting the state of affairs in the way the business is managed. Accounting for a deposit having restrictions on its use must be similar regardless of the party restricting its use. Simply because the restrictions on the use of a deposit is by a third party or under a separate contract, the restricted deposit does not become a demand deposit.

2. Presentation in the Statement of Financial Position:

b) Conclusion as expressed in Tentative Agenda Decision:

i. The depositor entity presents the demand deposit as cash and cash equivalents in its statement of financial position in accordance with paragraph 54 of IAS 1.

ii. When relevant to an understanding of its financial position the depositor entity would disaggregate the cash and cash equivalents line item and present the demand deposit subject to contractual restrictions on use separately in an additional line item based on the requirement of paragraph 55 of IAS 1.

iii. Where the depositor entity presents assets as current or non-current, the depositor entity would classify the demand deposit as current unless the deposit is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period in accordance with paragraph 66(d) of IAS 1.

c) Our views:

We do not agree with the conclusions expressed above. Below are given the reasons for our disagreement:

i. The line item cash and cash equivalents suggests that the amount reported under that line item will be available to the entity in a maximum of three months and not later. This is based on the clarification given in paragraph 7 of IAS 7. If a deposit has restrictions longer than three months from the date of its origination, the deposit is neither cash nor cash equivalent. Presenting a deposit restricted for use for more than three months as cash and cash equivalent will be obscuring given the clarification in paragraph 7 of IAS 7. Therefore, such deposit regardless of the party putting those restrictions must not be reported as cash and cash equivalent.

ii. 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. Paragraph 7 of IAS 7 clarifies the definition of cash equivalents as under:

"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."

The example of preferred shares acquired within a short period and with a specified redemption date as equity investment is not proper as such preferred shares do not meet the definition of equity instrument in IAS 32. However, this being not the issue under consideration, we do not discuss further on the same. The Committee may consider the same while amending IAS 7 to address the issue of demand deposits with restrictions on use.

We are at a loss to understand that a deposit to be cash equivalent, the restriction must not be more than three months whereas a deposit to be demand deposit and therefore cash, the restriction could be for more than 12 months. An amount to be cash must not have any restrictions. If there are restrictions on cash, that item becomes a cash equivalent provided such restriction is for not more than three months from the date the restriction commenced. If an amount that is restricted for more than twelve months could be cash, the definition of cash equivalent loses its relevance and the clarification in paragraph 7 of IAS 7 becomes redundant. Cash equivalent means that the investment is equivalent to cash. Therefore, paragraph 7 says that cash equivalents are for short-term cash commitments and not for long-term. If cash equivalent cannot be non-current, how can cash be non-current. A deposit that has restrictions for more than three months from its origination can be neither cash nor cash equivalent. Paragraph 66(d) of IAS 1 is redundant in the sense that the definition of cash equivalent in IAS 7 requires it to be only current and thereby requires cash also to be only current. Regardless of the requirements of paragraph 66(d), cash and cash equivalent will always be presented as current in accordance with the clarification given in paragraph 7 of IAS 7. The inconsistency between definition of cash equivalent in IAS 7 and paragraph 66(d) in IAS 1 is the reason for the conclusion expressed in the tentative agenda decision that cash can be non-current or that a deposit remains demand deposit though restricted in use. Therefore, we recommend that paragraph 66(d) of IAS 1 be amended as under:

(d) the asset is cash or 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~~.

3. Disclosures:

a) Conclusion as expressed in Tentative Agenda Decision:

Applying the requirements of paragraphs 45 and 48 of IAS 7, the entity discloses the demand deposit subject to contractual restrictions on use as a component of cash and cash equivalents and the amount of significant cash and cash equivalent balances unavailable for use by the group, as well as information about that amount.

b) Our views:

We do not agree with the conclusion expressed above. Below are given the reasons for our disagreement:

i. Paragraphs 45 and 48 of IAS 7 use the term 'cash and cash equivalents'. Whether a deposit that is restricted for use for more than three months meets the definition of cash, given the clarification on cash equivalent in paragraph 7 of IAS 7, should have been considered by the committee. A deposit that is restricted for use for more than three months, regardless of the party imposing those restrictions, is neither cash equivalent nor cash. As stated previously, it is contrary to rational thinking that cash equivalent is for only short-term cash commitments whereas cash can be available only for long-term commitments. Therefore, paragraph 45 of IAS 7 applies to only those deposits that are not restricted for use beyond three months of their origination.

ii. Paragraph 48 of IAS 7 applies to deposits that are restricted for use for not more than three months, given the clarification in paragraph 7 of IAS 7, and other unrestricted deposits of the depositor entity that are not available for use by the depositor group, that is, the amounts may be available to the depositor entity but shall not be available for use by other entities in the depositor group. This non-availability to other entities of the group could be for more than 12 months from the end of the reporting period. This could be a reason for the requirement in paragraph 66(d) of IAS 1. Paragraph 48 of IAS 7 uses the words 'cash and cash equivalent balances held by the entity that are not available for use by the group'. Paragraph 48 of IAS 7 does not say 'cash and cash equivalent balances held by the entity that are not available for use by the entity'. If the committee would like to extend the disclosure requirements in paragraph 48 of IAS 7 to individual entity level, we recommend that paragraph 48 be amended to replace the words 'by the group' with 'by the entity and the group'. Till the time paragraph 48 remains as is presently worded, paragraph 48 cannot be said to be applicable in the given case.

4. Conclusion:

Considering the above, we conclude that the principles and requirements in IFRS standards do not provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use, regardless of the party that put those restrictions, as a component of cash and cash equivalents in its statement of cash flows and financial position. Accordingly, we recommend amendment to IAS 7 and IAS 1 as suggested above.

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Subject: Comments on Tentative Agenda Decision and comment letters: Demand Deposits with Restrictions on Use (IAS 7)

1) I welcome the opportunity provided for sending comments on Tentative Agenda Decision and comment letters: Demand Deposits with Restrictions on Use (IAS 7)

2) My view

IAS 7 definition:-

Cash comprises cash on hand and demand deposits.

Cash equivalents are 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.

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.

Cash and cash equivalents in the statement of cash flows

Paragraph 6 of IAS 7 defines 'cash' by stating that it 'comprises cash on hand and demand deposits.' IAS 7 includes no other 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'.

Demand deposit is not defined under IAS 7:-

As per dictionary

A demand deposit is **money deposited into a bank account with funds that can be withdrawn on-demand at any time**. The depositor will typically use demand deposit funds to pay for everyday expenses. For funds in the account, the bank or financial institution may pay either a low or zero interest rate on the deposit.

Contractual restrictions

Contract restrictions refer to restrictive covenants, which restrict a party from doing something or involve a promise not to do something

Scenario:-

The entity 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.

Committee conclusion:-

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'.

The Committee therefore 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 subject to contractual restrictions on use separately in an additional line item.

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

My view:-

If a deposit cannot be used on demand, which has restrictions cannot be considered as cash and cash equivalents.

As per IAS 7 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.

Accordingly if anything more than 3 months from acquisition date or which has restrictions cannot be shown as cash and cash equivalents under IAS 7, it can be shown equivalent like more than 12 months maturity, separately in the balance sheet.

Thanks and regards

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

Sounder Rajan

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Place: Netherlands

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The views and opinions expressed in this comment paper are based on my personal working experience and do not represent the views or opinions of Nyenrode Business University neither that of Achmea.

Subject: Comment on Tentative Agenda Decision and comment letters: Demand Deposits with Restrictions on Use (IAS 7)

Dear IFRS Interpretations Committee,

First of all I would like to thank the IFRS Interpretations Committee (Committee) for the opportunity to comment on the tentative agenda 'Demand Deposits with Restrictions on Use (IAS 7)'.

We appreciate the effort expended by the IASB Staff and the Committee to address the request they received. The request is 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.

I believe the tentative agenda (in combination with the Agenda Paper of the IASB Staff) are a significant step towards a comprehensive understanding of what cash and cash equivalents entail and what type of monetary assets can be classified as cash or cash equivalents. In particular the clarification of the scope and intention of respectively paragraph 6 and 7 of IAS 7 is very valuable. It is clarifying that the Committee has provided an interpretation of paragraphs 49 of IAS 7 and 66D of IAS 1, that restrictions on the use of an item do not preclude the item from being cash and cash equivalents. As long as the restrictions do not change its nature in a way that it would no longer meet the definitions and requirements in IAS 7.

However, I believe it is crucial that the Committee clarifies the definition of demand deposit. In AP05 (2021, AP05, paragraph 13), the staff describes that a few respondents provided examples of demand deposits, in which restrictions on use arise from commitments to 3th parties, not from the terms and conditions:

(a) minimum cash balance requirements arising from loan covenants;

(b) minimum reserves held with central banks;

(c) margin accounts required in commodity contracts; and

(d) cash of subsidiaries subject to foreign exchange or capital transfer controls.

These examples have in common that they are a form of restricted cash, however the nature of source of restriction is different, some arise from a legal or regulatory requirement, like the minimum reserve held at central banks. It is therefore unclear whether the Committee considers the different types, described in the limited listing, as cash in accordance with paragraph 6 of IAS 7. Basically the main question is whether the Committee considers the nature or source of restriction as a criteria that determines whether a demand deposit is considered as cash or cash equivalents, as some respondents have suggested[1]. In my opinion a comprehensive definition of demand deposits is required to ensure consistency of application and symmetrical presentation in the Statement of Cash flow and Financial Position.

In my opinion the current conclusion of the Committee that restrictions on use of a demand deposit arising from a contract do not result in the deposit not being cash is to narrow. In my opinion the condition should that those restrictions do not change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7, irrespective whether the cash is restricted due to regulatorily, legal, or contractual reasons. The focus should be on the characteristics of the cash instead of the type of restriction. Under this narrow definition, deposits at central banks – for the purpose of a minimum cash reserve – (in my opinion) cannot be considered as cash, although this restricted cash is held for a very limited period (in the EBA region maximum 6 weeks). Besides the purpose of the minimum reserve is meant to improve liquidity within the banking sector and avoid that banks have liquidity problems, not being able to pay their short term cash commitments.

Perhaps it was not the intention of the Committee to use a narrow definition – concentrating on a contract, but the consequence is that some Audit firms currently do explain it this way, while others do not. This leads to a asymmetrical accounting for identical cash items.

[1] Paragraph 17 of AP05

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

<u>Our Ref.: C/FRSC</u>

Sent electronically through the IFRS Website (www.ifrs.org)

16 November 2021

Sue Lloyd
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sue,

Tentative agenda decision – Demand Deposits with Restrictions on Use (IAS 7 *Statement of Cash Flows*)

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our views on this tentative agenda decision (TAD).

The HKICPA and its respondents agree with the conclusion in the TAD with respect to the specific fact pattern in the submission. However, our respondents are concerned about the potential implications of the following principle introduced in the TAD:

> *"The Committee concluded that restrictions on 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 particular, our respondents questioned whether, and if so, how the above principle applies to similar fact patterns in the real estate industry and to entities holding client money, which are prevalent in Hong Kong and Mainland China. For example,

a) In Mainland China, pursuant to local regulatory requirements, property developers are required to place proceeds from pre-sale of properties to designated bank accounts, which can only be withdrawn to settle construction costs of the associated property projects before reaching specific completion milestones. Each withdrawal needs to be supported by invoices from contractors.
b) In Hong Kong, proceeds from pre-sale of properties are placed in stakeholders' accounts under the custodian of lawyers. Similarly, funding in the stakeholders' accounts can only be used for settling construction costs of the associated property projects before reaching specific completion milestones.
c) Securities brokers hold client money in segregated bank accounts and the use of such client money is subject to laws and regulations.

Our respondents noted that a lot of the restrictions on the entities' ability to access the deposits are not necessarily imposed by contracts but by laws and regulations, and therefore questioned whether and how the effect of laws and regulations would change the nature of the deposits applying the above principle in the TAD. Our respondents also questioned whether the conclusion would differ simply because the related contracts have or have not incorporated the requirements of the laws and regulations.

We acknowledge our respondents' concerns and consider that the IASB should further analyse the interplay between laws and regulations and contractual terms. In particular, we note that such question also arises in other financial reporting areas, e.g. classification of financial instruments as liabilities or equity which the IASB is trying to address as part of its *Financial Instruments with Characteristics of Equity* (FICE) project. In this regard, we recommend that the IC:

a) consider carefully the timing of finalising the TAD and the exposure draft (ED) of the FICE project[1] given that the outcomes of both the TAD (once finalised as an agenda decision) and the ED could have potential implications on how entities should consider the interaction between laws and regulations and contractual terms; and
b) provide guidance on how the principle in the TAD would apply to arrangements where restrictions on the use of deposits are imposed by laws and regulations, if the IC were to finalise the TAD before the publication of the FICE ED.

Work undertaken by HKICPA in forming its views:

In response to this TAD, the HKICPA:

a) issued an Invitation to Comment on the TAD to its members and other stakeholders;
b) sought input from its Disclosure Initiative Advisory Panel and Financial Instruments Advisory Panel, which are mainly comprised of technical and industry experts from accounting firms; and
c) developed its views through its Financial Reporting Standards Committee, which comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact me (ceciliakwei@hkicpa.org.hk) or Katherine Leung (katherineleung@hkicpa.org.hk), Associate Director of the Standard Setting Department.

Sincerely,

Cecilia Kwei

Cecilia Kwei
Director, Standard Setting Department

[1] The IASB has not yet decided on the timeline for the ED of the FICE project according to its work plan as of 16 November 2021.

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19 November 2021

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Ms Lloyd

Tentative agenda decision – Demand Deposits with Restrictions on Use (IAS 7)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification on 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.

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

Whilst it is clear in the fact pattern that the decision applies to restrictions on use arising from contractual agreements with third parties, we believe that it would be useful if this could also be made clear in its title. Therefore, we would suggest that the decision could be renamed "Demand Deposits with *Third Party Contractual* Restrictions on Use" to ensure that the decision is not applied too broadly.

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

Demand Deposits with Restrictions on Use (IAS 7)

Mojtaba Tajgardan, Master of Accounting

November 2021 mojtaj@gmail.com

1- One of the conditions mentioned in paragraph 6 of IAS 7 to recognize the cash element include cash equivalents in the financial statements are cash on hand or ready to convert to a known amount of cash.

2- According to paragraphs 48 and 49 of IAS 7, if there is a restriction on the group's use of cash and this restriction results in cash balances not being available to the parent or other subsidiaries, this restriction must be disclosed. In other words, there is no such restriction for the subsidiary on the reporting date and the subsidiary recognizes that amount as cash. However, due to the existing restrictions, the group is not able to use the cash on the reporting date and according to the mentioned standard, identifies the amount in the group's financial statements as cash and discloses the mentioned limit in the disclosures.

3- According to the above, the disclosure of the mentioned restriction is in contradiction with the nature and definition of the cash element. In preparing financial statements, it is necessary to identify the elements of financial statements according to the definitions and nature of the elements so that management, decision makers and users of financial statements can make the right decisions by observing the elements of financial statements. Disclosure is also intended to provide more information to users of financial statements and to provide additional information regarding the nature and definition of that element, and if there is a discrepancy between the explanatory notes and the nature and definition of that element in the financial statements, it means Lack of proper identification of elements of financial statements according to the nature and definition and lack of attention to additional information in identifying elements.

4- If in the financial statements a part of the cash is not ready to be converted into cash due to contractual restrictions, etc., by displaying it in the cash notes section as a separate line or presenting a disclosure to explain the restrictions, it cannot minimize the existing errors in the use of financial statements. Because in any case, the amount is presented as cash in the statement of financial position, and if users do not refer to the notes and disclosure of statements (most of the relevant analysis and formulas are done on the elements of financial statements), users will have inappropriate analysis of the entity.

5- As a result, it is suggested that cash amounts that have restrictions on the conversion of cash on hand for the use of decision makers and management should not be recognized as an element of cash in the financial statements and the amount in other assets according to the definition of IAS 1 Presented in the form of current and non-current assets or if it is related to a specific debt in a deductible form in that part of the financial statements. It is also suggested that this issue be included in the work plan in order to amend IAS 7.

Buenos Aires, Argentina, November 10, 2021

IFRS Foundation
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London E14 4HD
United Kingdom

REF: IFRS IC Tentative Agenda Decisions reached in the September 14 and 15, 2021 meeting

Dear Board Members,

The "Group of Latin American Standards Setters"[1] (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meeting on September 14 and 15, 2021, which included the following topic:

- **Demand Deposits with Restrictions on Use (IAS 7)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the TAD of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchange between its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments:

GLASS agrees that in the situation described, 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 which case the demand deposit would be included as a component of 'cash and cash equivalents' in its statement of cash

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Dominican Republic, Uruguay (Board) and Venezuela (Board).

flows, unless the presentation as an separate line item is relevant to an understanding of the entity's financial position.

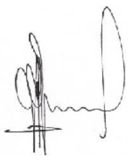
We also agree that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate for a response to be made explicit through the Agenda Decision (AD) process about the reasoning to be used and therefore the application of an adequate accounting treatment of the subject.

It is also agreed that the AD should provide the appropriate bases to determine whether to include demand deposits subject to third-party contractual restrictions on use as a component of cash and cash equivalents in its statements of cash flows and financial position.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,



Jorge José Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

Ms Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

23 November 2021

Dear Sue,

Tentative Agenda Decision (TAD): Demand Deposits with Restrictions on Use (IAS 7)

We are responding to your invitation to comment on the tentative agenda decision - Demand Deposits with Restrictions on Use (IAS 7) - published in September 2021, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the technical analysis in the tentative agenda decision. However, we are concerned that the guidance in the TAD, might potentially lead to inconsistencies in assessing the substance of restrictions with respect to *cash* and to *cash equivalents* as they are defined in paragraph 6 of IAS 7.

The demand deposits discussed in the TAD are de-facto not available to meet the entity's short-term cash commitments. Nevertheless based on the conclusions reached in the TAD they should be presented as part of *'cash and cash equivalents'* both in the statement of financial position and in the statement of cash flows because they fall under the definition of *cash* in IAS 7. If an entity was assessing a potential cash equivalent (e.g. money market fund) that had the same restriction as discussed in the TAD, it might be argued that the classification of that instrument as a cash equivalent would not be consistent with the description in paragraph 7 of IAS 7. This is because paragraph 7 states that *'cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes'*. As a result, two very similar assets might be presented differently, although the attached restrictions might be of the same nature. We believe that

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the guidance in assessing the attached restrictions and their impact to the presentation of the assets in the financial statements should be consistent regardless of whether it relates to *cash* or *cash equivalents*. We would recommend that this potential inconsistency is considered in the IAS 7 comprehensive review project that the IASB is considering to undertake and that we prioritised as one of the projects to be added to the IASB work plan for 2022 - 2026 in our comment letter to the IASB's Third Agenda Consultation.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney PwC Head of Reporting and Chief Accountant (henry.daubeney@pwc.com) or Gary Berchowitz (gary.x.berchowitz@pwc.com).

PricewaterhouseCoopers

Yours Sincerely
Henry Daubeney
Global Chief Accountant and Head of Reporting

KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

reinhard.dotzlaw@kpmgifrg.com

Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

24 November 2021

Dear Ms Lloyd

Tentative agenda decision *Demand Deposits with Restrictions on Use (IAS 7 Statement of Cash Flows)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (the Committee) tentative agenda decision (the TAD) *Demand Deposits with Restrictions on Use (IAS 7 Statement of Cash Flows)* published in the September 2021 IFRIC Update. We have consulted with, and this letter represents the views of, the KPMG network.

While we do not disagree with the conclusion in the specific fact pattern presented, we believe that the TAD, if finalised, would be of limited use since the fact pattern is not representative of the diversity and complexity of fact patterns commonly seen in practice. Since the terms 'demand deposits' and 'restrictions' are not defined in IFRS Standards, practice diverges for the classification of deposits in other fact patterns similar to, but not the same, as the one described in the TAD. As outlined in our comment letter on the Request for Information *Third Agenda Consultation*, we believe the International Accounting Standards Board (the Board) should undertake a comprehensive review of IAS 7, focussing on the classification criteria for cash, cash equivalents and restricted cash, amongst other areas highlighted.

For these reasons, we recommend that the Committee does not finalise the TAD, but instead refers the issues identified to the Board as part of a comprehensive review of IAS 7. We believe piecemeal, narrow-scope clarifications will not be effective.

Our key concerns are as follows.

Ambiguity within current IFRS Standards

Since 'demand deposits' and 'restrictions' are not defined in IFRS Standards, practice varies in classification of amounts placed by an entity in a separate account it controls to meet third party commitments. Without a clear definition of these terms, the analysis in the first paragraph of the TAD is circular – saying essentially that a demand deposit with restrictions remains a demand deposit unless the restrictions change its nature such that it is no longer a demand deposit. In the absence of a definition of a demand deposit and further guidance on the types of restrictions that may change the nature of the deposit, this statement is not helpful.

We believe this requires clarification by way of examples or further guidance on what are the restrictions on use that could change the nature of the asset.

While ‘restrictions’ are not defined in IAS 7, IFRS 12.13 refers to restrictions (e.g. statutory, contractual and regulatory restrictions) on the entity’s ability **to access or use** the assets. Paragraph 26 of the staff paper seems to imply that while assessing whether a demand deposit is cash or a cash equivalent, an entity considers restrictions **on access** to the deposit - i.e. restrictions in the terms and conditions of the deposit but **not restrictions on the use** of the deposit - i.e. contractual restrictions imposed by third parties. It is not clear as to the basis in IAS 7 for distinguishing types of restrictions in this manner.

Given that fact patterns related to deposits vary significantly in practice, a clear explanation of how the restrictions are to be analysed is very important. The TAD itself may not eliminate existing ambiguity and divergent interpretations may continue for similar or more common fact patterns.

We note that the Board considered addressing ‘restrictions’ in its Exposure Draft 2015-06 *Disclosure Initiative - Proposed Amendments to IAS 7*; however, the Board did not confirm these specific proposals in the final amendments to IAS 7 since it believed that further work was needed. We believe the Board is best suited to consider this matter further, rather than the Committee.

> *BC 25 To supplement the current disclosure requirements in paragraph 48 of IAS 7 the 2014 Exposure Draft proposed additional disclosure requirements about an entity’s liquidity such as restrictions that affect an entity’s decision to use cash and cash equivalent balances.* ***However, in the light of the responses, the Board decided that further work is needed before it can determine whether and how to finalise requirements arising from that proposal.*** *The Board decided to continue that work without delaying the improvements to financial reporting that it expects will result from adding paragraphs 44A–44E to IAS 7. The Board may also, in due course, consider adding to its technical work programme a project that would look at liquidity disclosures more broadly. [Emphasis added]*

Usefulness of classification outcomes under IAS 7

If the TAD is finalised as drafted, we question whether current IFRS requirements provide decision-useful information to users of the financial statements – i.e. is it helpful to present an amount as ‘cash’ even when its use is restricted so that it is not available to meet short-term cash commitments? Current IAS 7 requires the ‘purpose test’ only for cash equivalents. In a slightly amended fact pattern, it appears that the deposited amount would not be classified as cash and cash equivalents, despite the arrangement being economically similar. Consider the following example.

The fact pattern is identical to that described in the TAD except that the entity decides to deposit the amount into a 7-day deposit account (that is, were the entity to request any amount from the deposit, it would receive that amount after 7 days). Following the logic in the TAD, since the amount is not accessible on demand, it is not a demand deposit and is therefore not 'cash'. The deposit would be subject to the 'purpose test' under IAS 7.7 and arguably would not be classified as a 'cash equivalent' either given the purpose test would not be met.

When the overall objective of IAS 7 is considered, it is questionable whether users are getting appropriate information if amounts that cannot be used to meet short-term cash commitments because of third-party restrictions are classified as 'cash' as long as the amounts are accessible on demand from the deposit-taker.

Clarity of the TAD and its scope

It is not clear how broadly the conclusion in the specific fact pattern should be applied, specifically whether the sequence of events matters or not. In some common fact patterns, restrictions on cash deposits stem from a contractual arrangement that involves a transfer of cash between two counterparties, for example, a lease contract: the lessee is required to pay a maintenance deposit to the lessor, which the lessor may then, upon receipt, deposit with a financial institution under terms at its discretion.

Some read the TAD in a way that the sequence of events matters, specifically where the demand deposit comes first and the third-party restrictions on use come second. That is:

1) The entity has a demand deposit.
2) It then enters into a contractual arrangement with the third party which does not change the terms of the demand deposit but introduces additional contractual obligations on use.
3) The conclusion in the TAD is that the subsequent contractual restrictions do not result in the deposit no longer being cash, unless the restrictions change the nature of the original deposit.

However, others read the TAD more widely to apply to **any** fact pattern where a deposit is accessible on demand from the deposit-taker while also being subject to third-party restrictions that stem from a pre-existing or concurrent contractual arrangement. In the lease example above, if the TAD is assumed to apply irrespective of the sequence of events, then the amount deposited by the lessor would be considered 'cash' despite the pre-existing contractual restrictions on its use. This may affect how such deposits are classified currently in practice.

We are concerned that this lack of clarity will create more diversity in practice rather than reduce it.

Disclosures under IAS 7.48

Lastly, we note that the reference to IAS 7.48 may not be appropriate for providing the requisite disclosures in the fact pattern presented in the TAD as this paragraph discusses “significant cash and cash equivalent balances held by the entity **that are not available for use by the group”** [Emphasis added]. This is not necessarily the case in the fact pattern described in the TAD.

In summary, in light of the concerns outlined above we recommend that the Committee does not finalise the TAD but instead refers the issues identified to the Board. We believe the Board should undertake a comprehensive review of IAS 7.

Please contact Reinhard Dotzlaw at reinhard.dotzlaw@kpmgifrg.com or Gabriela Kegalj at gabrielakegalj@kpmg.ca if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

25 November 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

- Demand Deposits with Restrictions on Use (IAS 7 *Statement of Cash Flows*)
- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

November 24, 2021

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decisions (TAD) reached by the IFRS Interpretations Committee (the Committee) in its meetings on September 14-15, 2021. Those TADs deal with:

- Demand Deposits with Restrictions on Use (IAS 7), and
- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9).

Set forth below you will find our comments on the conclusions reached in the TADs.

Overall comments

We agree with the conclusions reached by the Committee in the TADs, both with respect to the technical conclusions and the decision not to add standard-setting projects to the work plan of the IASB. We agree that the principles and requirements in IFRS standards provide an adequate basis for an entity to reach the same conclusions as the Committee.

Specific comments

Demand Deposits with Restrictions on Use (IAS 7)

We observed unanimous agreement that in the situation described, 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.

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

The majority of our constituents here in Mexico agree with the conclusion of the Committee, that is, until the cash is received by the entity thereby giving it control of the cash, the cash should not be recognized or the account receivable derecognized.

However, several of our constituents expressed concern about the non-existence of a "mirror" recognition in the accounting of the paying entity, which will surely derecognize the cash and cancel the corresponding liability upon initiation of the transfer. This means that the cash will not appear in the financial statements of either party to the transaction until received by the holder of the account receivable. Those preferring this approach believe that a "deposit in transit" should be recognized in the entity's bank account reconciliation, and the receivable derecognized, at the reporting date.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

November 24, 2021

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Demand Deposits with Restrictions on Use (IAS 7)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Demand Deposits with Restrictions on Use (IAS 7)*.

We concur with the Committee's conclusion that the principles and requirements in IFRS 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.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Chief Executive Officer

November 25, 2021

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India on TAD issued by IFRS Interpretations Committee (IFRS IC) on Demand Deposits with Restrictions on Use (IAS 7)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

We do agree that definition of cash as given in IAS 7 does not prescribe any conditions with regard to restrictions on use. Therefore, conclusion in the TAD is in line with current language of IAS 7 that since the item under consideration i.e., demand deposit, meets the definition of cash, it will be classified as cash and cash equivalent.

However, we have some concerns with regard to the TAD:

- We note that TAD concludes that 'restrictions on 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 view of this, it may be mentioned that:
  - ✓ If the TAD concludes that demand deposit with restrictions on use qualifies as cash, based on strict interpretation of definition of cash, then assessment as to whether restrictions on use of demand deposits change the nature in a way that it would no longer meet the definition of cash contradicts the basic premise of the TAD that meeting definition of cash is the only criterion for an item to get classified as cash.
  - ✓ Further, from the rider that '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', it appears that some restrictions may change the nature of the deposits, however, there is no guidance on the term 'restriction' i.e. clarity is required with regard to the nature or sources of restrictions that can result in deposit no longer being cash. It may be relevant to note that IFRS 12, *Disclosure of Interests in Other Entities,* in paragraph 13 considers significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group. In our view,

restriction from any source on ‘use’ or ‘ability to access’ should be considered while determining whether the demand deposit qualifies to be cash.

- Further, with regard to the meaning of ‘demand deposit’ and impact of restrictions on classification as ‘cash and cash equivalent’ , we may mention that:
  - ✓ There is no guidance in IAS 7 on the term ‘demand deposit’.
  - ✓ Paragraph 7 applies only in determining whether an item—that does not meet the definition of ‘cash’—qualifies as a ‘cash equivalent’. An item that is restricted from use does not qualify to be cash equivalent because it is not available for the purpose of meeting short-term cash commitments. On the other hand, an item which qualifies the definition of cash would continue to be classified as ‘cash’ even if there is restriction on its usage. This does not appear to be conceptually correct because cash, particularly demand deposits, with restrictions on use are classified as cash, however, other short term investments with similar restrictions on use may not be classified as ‘cash equivalent’. For example, if the amounts with restrictions on use would have been held in a time (or term) deposit, rather than in a demand deposit, such amount would have been excluded from cash equivalents.

  In view of the above, presenting a demand deposit having restrictions on its use as cash would not provide relevant information that faithfully represents the state of affairs of the entity.

- Further, we understand that as per Third Agenda consultation, IAS 7 needs revisions based on the issues identified by the IASB, however, indicative size of the project is yet to be decided. In this direction, in view of the concerns raised above, we are of the view that to ensure faithful representation, the impact of restrictions on classification and presentation of cash, particularly, demand deposits need to be dealt with under IAS 7.

With kind regards,

CA. Parminder Kaur
Secretary,
Accounting Standards Board
Institute of Chartered Accountants of India

PO Box 1411
Beenleigh QLD 4207
25 November 2021

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
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Online submission: https://www.ifrs.org/projects/work-plan/demand-deposits-with-restrictions-on-use-ias-7/

Dear Sue

Tentative agenda decision - Demand Deposits with Restrictions on Use (IAS 7)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Demand Deposits with Restrictions on Use (IAS 7).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I found the TAD confusing. It seems to say that an of cash ta bank is cash, unless it isn't.

I do not believe that TAD has adequately distinguished between when cash at bank is cash or not cash under IAS 7.

Also, the agenda decision has not addressed non-contractual restrictions, for example through legislation.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

IFRS Foundation

Columbus Building, 7 West ferry Circus

Canary Wharf, London E14 4HD

United Kingdom

25 November 2021

Dear Sir/Madam,

Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission - Commentary on IFRIC tentative agenda decision on demand deposits with restrictions on use.

In response to your request for comments on tentative agenda decision on demand deposits with restrictions on use attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS and IPSAS specialists and academics in Zimbabwe.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Nyasha Chakuma	Webster Sigauke
Project Director (CAA)	Project Director (CAA)

Project team:

Desmond Makoni	Gamuchirai Mahachi	Nyashadzaishe Samukange

Conclusion as expressed in Tentative Agenda Decision

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 classified as cash and cash equivalent unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash and cash equivalent in IAS 7.

Our Views

We agree with the conclusion reached by the Committee. However, we have also noted that accounting for some restrictions that do not meet the definition of cash in IAS 7 may prove to be complicated as there is no clear guidance.

According to the conceptual framework, information must both be relevant and provide a true and fair view of what it purports to represent if it is to be useful. Cash and cash equivalents are an asset defined by the conceptual framework as a present economic resource controlled by the entity because of past events. To ensure that the cash and equivalent presented in the financial statements represent relevant and give a true and fair view of the entity, information about restrictions imposed on the use of demand deposits is a significant issue.

Paragraph 6 of IAS 7 defines 'cash' by stating that it 'comprises cash on hand and demand deposits. According to Farlex Financial dictionary demand deposits are defined as funds in a bank account that may be withdrawn on demand of the customer. However, some demand deposits may have restrictions on ***when*** or ***how and what*** they are used for depending on the contract. IAS 7 paragraph 7 provides guidance on the "***when"*** and states that investments normally qualify as cash and cash equivalents when they have short maturity of around three months. However, guidance on contract restrictions that guide an entity on ***"what and how"*** demand deposits may be used for is not available as these types of restrictions may change the substance of the deposits.

The main issue would be that of control of the demand deposit. Control in the conceptual framework is defined as *"present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. It also involves the ability to prevent others from directing the use of the resource or benefiting from it. When one party controls a resource no other party controls that resource."*

The question then becomes, who then controls the restricted cash deposits? A good example of this scenario would be in the construction industry where contractors under a build and supply contract are paid deposits by clients specifically which can only be withdrawn to purchase material for the client. These types of deposits are not covered in the standard and the committee should consider giving additional guidance on how to account for them i.e., whether these deposits should be recognised as assets given that the receiver of these deposits may not have control over the use of these amounts.

IAS 7 paragraph 45 requires that the entity discloses the demand deposit subject to contractual restrictions on use as a component of cash and cash equivalents and the amount of significant cash and cash equivalent balances unavailable for use by the group, as well as information about that amount.

mazars

Mrs Sue Lloyd

IFRS Interpretations Committee Chair

Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

La Défense, 25 November 2021

Tentative Agenda Decisions – IFRIC Update September 2021

Dear Sue,

MAZARS is pleased to comment on the IFRS Interpretations Committee Tentative Agenda Decisions published in the September 2021 IFRIC Update.

We have gathered 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 tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully,

Michel Barbet-Massin | Edouard Fossat

Financial Reporting Technical Support

Appendix 1

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We agree with the IFRS Interpretations Committee's analysis of the fact pattern described in the Tentative Agenda Decision and with its conclusion on the accounting for the derecognition of the trade receivable and the recognition of cash.

We therefore agree with the Committee's decision not to add this item onto its agenda.

mazars

Appendix 2

Demand Deposits with Restrictions on Use (IAS 7)

We agree with the IFRS Interpretations Committee's analysis of the fact pattern described in the Tentative Agenda Decision and with its conclusion in terms of presentation in the statement of financial position and disclosures.

We therefore agree with the Committee's decision not to add this item onto its agenda.