IAS 39: Classification of Cash and Cash Equivalents

Extract, IFRS Discussion Group Report on Meeting – May 14, 2015

IAS 39 *Financial Instruments: Recognition and Measurement* requires financial assets to be classified into one of four categories at initial recognition: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale. Paragraph 9 of IAS 39 contains the relevant guidance.

In practice, cash and cash equivalents are generally classified as loans and receivables or financial assets at fair value through profit or loss.

Issue: What category best reflects the measurement of cash and cash equivalents?

View A – Cash and cash equivalents are classified as held for trading and, therefore, measured at fair value through profit or loss.

This view presumes that cash and cash equivalents are acquired for the purpose of selling or repurchasing in the near term. As the turnover of cash and cash equivalents is relatively quick (less than three months for cash equivalents and daily for cash), these amounts meet the criteria as held for trading in paragraph 9 of IAS 39 and, thus, should be measured at fair value through profit or loss.

View B – Cash and cash equivalents are classified as loans and receivables and, therefore, measured at amortized cost.

This view considers that cash and cash equivalents are not actively marketed or destined for sale. Cash simply represents a deposit with a financial institution. Cash equivalents are considered similar to cash because they are readily convertible to a known amount of cash. There is an insignificant risk of changes in value and, thus, these amounts should be measured at amortized cost.

The Group's Discussion

Most Group members supported the view that cash and cash equivalents should be classified as loans and receivables and, therefore, would be measured at amortized cost (View B). Paragraph AG26 in IAS 39 includes deposits held in banks as an example that could potentially meet the definition of loans and receivables. Group members observed that the classification of cash could also depend on specific facts and circumstances. For example, one Group member noted that cash held in a vault or on site could be different from deposits held in a bank. Another member also noted that certain instruments classified as cash equivalents may not meet the definition of loans and receivables and, thus, there could be a different classification between cash and cash equivalents. In general, the Group observed that many practitioners are not overly concerned with the classification of cash and cash equivalents as the implications to the financial statements would not be viewed as significant.

The Group's discussion raises awareness about the item. No further action is recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).