COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
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December 11, 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: IAS 7 Statement of Cash Flows: Definition of cash equivalents

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)1 welcomes the opportunity to respond the IFRS Interpretations Committee - IAS 7 Statement of Cash Flows: Definition of cash equivalents attending an email request from Denise Durant (IASB Technical Manager) received on November 14, 2012 .

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

IAS 7

1. Summary of the case

Paragraph 7 of IAS 7 requires that the classification of an investment as a 'cash and cash equivalent' is focused on the instrument's maturity from its acquisition date. For an investment to qualify as a cash equivalent (emphasis added):

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.

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

The submitter's views

A submission has been received in which the submitter argues that the classification of investments as cash equivalents based on the remaining period to maturity as at the balance sheet date would lead to a more consistent classification than the current focus on the instrument's maturity from its acquisition date.

2. Question

Q1. How is the guidance in paragraph 7 of IAS 7 regarding the definition of cash and cash equivalents, applied in practice in the classification of investments as cash and cash equivalents? Please explain how the "three months or less" guidance is applied.

In Brazil, application of CPC 3 standard (equivalent to IAS 7) is consistent, and classification of cash equivalent takes into consideration the "three months or less" approach from the acquisition date in accordance with the general understanding of paragraph 7 of IAS 7.

However, CPC does believe that considering "three months or less" from the balance sheet date would provide more meaningful information to the financial statements users, considering that all other paragraph 7 requirements (readily convertible to a known amount of cash and insignificant risks of change in value) would be met. For example, considering the example provided in the submission, if a note is acquired in January 1, 2012 with maturity date on January 31, 2013, such note should be classified as cash equivalent in the balance sheet for the period ending December 2012, considering that the realization amount is clearly known and subject to an insignificant risk of change in value giving the short timing for maturity. If the Board consider such change, it might be also necessary to also revise requirements of IAS 39 paragraph 50 (see excerpt of the paragraph below), concerning classification of an investment into held to maturity, loans and receivables, fair value through profit or loss, trading, and available for sale, in order to allow reclassification into the categories in accordance with certain criteria to be defined by the Boards.

"50 An entity:
(a) shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued;
(b) shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss; and
(c) may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category if the requirements in paragraph 50B or 50D are met.
An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:

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(a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
(b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;
(c) financial assets are reclassified when an insurance company changes its accounting policies in accordance with paragraph 45 of IFRS 4.
50B A financial asset to which paragraph 50(c) applies (except a financial asset of the type described in paragraph 50D) may be reclassified out of the fair value through profit or loss category only in rare circumstances.
50C If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.
50D A financial asset to which paragraph 50(c) applies that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
50E A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
50F If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50D or out of the available-for-sale category in accordance with paragraph 50E, it shall reclassify the financial asset at its fair value on the date of reclassification. For a financial asset reclassified in accordance with paragraph 50D, any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. For a financial asset reclassified out of the available-for-sale category in accordance with paragraph 50E, any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for in accordance with paragraph 54."

If you have any questions about our comments, please contact Mr. Idésio da Silva Coelho Júnior (operacoes@cpc.org.br), Deputy Chair of International Affairs and coordinator of a working group constituted to study any proposal issued by the IASB.

Yours sincerely,

Idésio da Silva Coelho Júnior
Deputy Chair of International Affairs