

Bruce Mackenzie
Chair
IFRS Interpretation Committee
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Ref: Tentative Agenda Decision: Classification of Cash Flows related to Variation Margin Calls on “Collateralised-to-Market” Contracts (IAS 7)

Dear Mr Mackenzie,

The European Securities and Markets Authority (ESMA) would like to thank you for the opportunity to respond to the IFRS Interpretations Committee’s (IFRS IC) publication of a tentative agenda decision (TAD) on ESMA’s submission relating to the Classification of Cash Flows related to Variation Margin Calls on “Collateralised-to-Market” Contracts (IAS 7). We would like to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA notes that the IFRS IC concluded that that the matter does not have widespread effect. ESMA also notes that the TAD does not contain any references to specific IFRS requirements that would be applicable or considerations that should be made to assess how to classify the cash flows related to variation margin call payments on the contracts in question.

Based on the discussions with the European enforcers and the observations they have made in their respective jurisdictions, ESMA strongly believes that providing clarity on this question would have a positive effect on the consistent application of the IAS 7 requirements. ESMA notes that the statement of cash flows is integral to a complete set of financial statements and should therefore be subject to the same level of attention as other parts of financial statements. Investors should be provided with transparent, meaningful, and high-quality cash flow information consistent with the other components of the financial statements.

Moreover, ESMA notes that, according to the staff paper prepared for the IFRS IC June 2023 meeting (in the following ‘staff paper’), a significant number of the respondents to IFRS IC’s information request, the responses to which were used as evidence that the issue is not widespread, said that they have (not rarely) observed the contracts described in the submission to the IFRS IC, which in ESMA’s view, is an important indication of the significance of the issue. ESMA would also like to emphasise the point made by one respondent that entities generally do not provide detailed disclosures on the contracts, making it difficult to determine whether there is widespread diversity.

In addition, ESMA notes that the TAD specifically refers to centrally cleared contracts with a maturity of up to three years. ESMA is of the opinion that the question of the correct

classification of cash flows related to variation margin calls also arises in relation to bilateral (i.e., not centrally cleared) contracts with different maturities.

Finally, ESMA also notes that, according to the staff paper, differences in the classification of cash flows because of differences in the underlying contractual terms, the contract duration, the purposes for which entities are using the contracts as well as differences in the business activities of entities “do not necessarily indicate diversity in the application of the relevant requirements”. While ESMA agrees that the classification of cash flows may depend on some of the above factors, it considers that there should be clarity as to what impact these factors have on the classification of cash flows. This is apparently not the case for the contracts in question.

Based on the above, ESMA kindly suggests that the IFRS IC considers clarifying the question of the classification of cash flows raised in its submission to the Committee.

In case you have any questions or comments regarding this letter, please contact Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit (Isabelle.Grauer-Gaynor@esma.europa.eu).

Yours sincerely,

[Verena Ross]