

Classification of Cash Flows related to Variation Margin Calls on ‘Collateralised-to-Market’ Contracts (IAS 7 Statement of Cash Flows)

The Committee received a request about how an entity presents, in its statement of cash flows, the cash flows related to variation margin call payments made on contracts to purchase or sell commodities at a predetermined price and at a specified time in the future.

Fact pattern

The request describes a contract to purchase or sell commodities at a predetermined price and at a specified time in the future. An entity may enter into such a contract for different purposes and applies the relevant requirements in IFRS Accounting Standards accordingly. For example, the entity may use such a contract:

- a. to receive commodities in accordance with its expected usage requirements;
- b. to hedge against fluctuations in the prices of commodities; or
- c. for trading purposes.

Such a contract typically has a maturity of up to three years, can be settled physically or net in cash and is both:

- a. *centrally cleared*—that is, after a new contract is entered into, for the purpose of settlement via a central counterparty, the contract is novated by each counterparty to the central counterparty.
- b. *collateralised-to-market*—that is, during the life of the contract, the counterparties make or receive daily payments based on the fluctuations of the fair value of the contract (variation margin call payments). These variation margin call payments represent a transfer of cash collateral (hence the contract is ‘collateralised to market’), rather than a partial settlement of the contract (as in ‘settled-to-market’ contracts).

The request asked how an entity presents, in its statement of cash flows, the cash flows related to variation margin call payments made on such a contract.

Conclusion

Evidence gathered by the Committee did not indicate that the matter described in the request is widespread. Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.