Revolving structures (IAS 39 *Financial Instruments: Recognition and Measurement*)—November 2005

The IFRIC discussed a request for guidance on whether ‘revolving’ structures would meet the pass-through requirements in paragraph 19(c) of IAS 39 [now replaced by paragraph 3.2.5(c) of IFRS 9]. In a revolving structure an entity collects cash flows on behalf of eventual recipients and uses the amounts collected to purchase new assets instead of remitting the cash to the eventual recipients. On maturity the principal amount is remitted to the eventual recipients from the cash flows arising from the reinvested assets.

The IFRIC noted that in order to meet the pass-through arrangement requirements in IAS 39 paragraph 19(c) an entity is required to remit any cash flows it collects on behalf of eventual recipients without material delay. This paragraph also limits permissible reinvestments to items that qualify as cash or cash equivalents. Most revolving arrangements would involve a material delay before the original collection of cash is remitted. Furthermore, the nature of the new assets typically acquired means that most revolving arrangements involve reinvestment in assets that would not qualify as cash or cash equivalents. Therefore, it is clear that such structures would not meet the requirements in paragraph 19(c) of IAS 39. Consequently, the IFRIC decided not to add the issue to its agenda as it did not expect significant diversity in practice to arise.