IFRS

STAFF PAPER

June 2022

IFRS® Interpretations Committee meeting

Project	**Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)**	
Paper topic	Comment letters	
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Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)' published in September 2021.

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

a. the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.

b. an entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date.

can entity derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

MY RESPONSE

In my view, an entity can indeed derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

On the day the customer has initiated a cash transfer via the electronic transfer system, and a bank transfer advise (swift advise) has been issued by the paying bank, this becomes cash in transit and in my view meets the definition of a "highly liquid investments that are readily convertible to known amounts of cash" under paragraph 6 of IAS 7 Statement of Cash Flows.

> *Cash* comprises cash on hand and demand deposits.
>
> *Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Further under paragraph 7 of IAS 7, cash in transit meets the definition of cash equivalents since "it has a short maturity of, say, three months or less from the date of acquisition". In this case "The entity receives the cash in its bank account two days after its reporting date"

> Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent 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.

I therefore agree with the assertion "The entity therefore applies paragraph 3.2.3 of IFRS 9 in determining the date on which to derecognise the trade receivable and paragraph 3.1.1 of IFRS 9 in determining the date on which to recognise the cash as a financial asset". **This is for the above stated reasons.**

Conclusion:

No need to add a standard-setting project to the work plan.

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Subject: Comments on Tentative Agenda Decision and comment letters: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

1) I welcome the opportunity provided for sending comments on Tentative Agenda Decision and comment letters: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

2) My view

IAS 7 definition:-

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent 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.

Cash and cash equivalents in the statement of cash flows

Paragraph 6 of IAS 7 defines 'cash' by stating that it 'comprises cash on hand and demand deposits.' IAS 7 includes no other requirements on whether an item qualifies as cash beyond the definition itself.

IAS 7 and IAS 1 Presentation of Financial Statements indicate that amounts included in cash and cash equivalents may be subject to restrictions. Namely:

a) Paragraph 48 of IAS 7 requires an entity to disclose information about 'significant cash and cash equivalent balances held by the entity that are not available for use by the group'; and
b) Paragraph 66(d) of IAS 1 requires an entity to classify as current an asset that is 'cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period'.

IFRS 9

3.2.3 An entity shall derecognise a financial asset when, and only when:

a) the contractual rights to the cash flows from the financial asset expire, or
b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

Scenario:-

a. the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.
b. an entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date.

can entity derecognize the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

Committee conclusion:-

In the fact pattern described in the request, the Committee concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:

De-recognizes the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

Recognizes the cash (or another financial asset) received as settlement for that trade receivable on the same date.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to de-recognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

My view:-

a) Estimated timeline is 2-3 days and not concrete which is not certain for receipt of money
b) If cash is not received on account of some regulatory issues or if entity is required to provide some documentation, it might not be appropriate to follow logic of 2-3 days. Also if not justified contractual right does not expire for trade receivable as per IFRS 9
c) Example: In India if a SEZ receives money and it is transferred only after receipt of documents like STPI filing, Invoice etc., if there are any observations or queries raised by bankers money will be credited after providing due to data/justification
d) Further cash will not be available for use on balance sheet data. Accordingly not appropriate to show as Cash.

Accordingly in my view it is not appropriate to de-recognise Accounts receivable and show as show as Cash. Further if money is not received expected credit loss assessment will have an impact and can have impact on company's credit rating.

Thanks and regards

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

Sounder Rajan

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I am grateful to be allowed to share my opinion on the following topic :

Comments on Tentative Agenda Decision and comment letters: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

a. the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.
b. an entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date.

My view :

Both cash and customer receivables meet the definition of a financial asset as stated in ias 32 par 11 so they are within the scope of ifrs 9 with respect to recognition and derecognition as well as measurement , Cash is described as cash in treasury or demand deposits ias 7 par 6.

With regard to derecognition of a financial asset, par 3.1.3 (A) of ifrs 9 requires that a financial asset must be derecognised when the contractual rights to cash flows from the financial asset expire , and in the pattern of the facts presented in the case, the trade receivables are canceled by settlement in exchange for obtaining another financial asset represented in cash. Therefore, the transferred cash must qualify for proof as a financial asset first ifrs 9 Par 3.1.1 requires that the financial asset be proven when the entity becomes a party to the contractual rights of the financial instrument and in light of the presented facts pattern, the entity has not yet fulfilled that , paragraph 3.1.2 of IFRS 9—which specifies requirements for a regular way purchase or sale of a financial asset—is not applicable.

The above is consistent with what was stated in the conceptual framework in terms of the requirements to prove items in the financial statements, par 5.6 Only items that meet the definition of an asset and a liability are recorded in the statement of financial position. Also, only items that meet the definition of income and expense are proven in the financial performance statements , The asset was defined Paragraphs 4.3 to 4.25 in the conceptual framework, and the definition contained three elements: the right and the ability to produce future benefits, and the control and projection of the cash proof process from electronic transfer, which will only be achieved when the money arrives and is settled in the entity's bank account, and then a right of the facility is established to access the cash (the asset) And directing its use and obtaining the future benefits associated with it, and this is subject to the control of the entity .

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also in view of the requirements for derecognition in the conceptual framework,par 5.27 The accounting requirements for derecognition aim to honestly express each of any assets and liabilities held after the transaction or other event that led to derecognition as well as expression of change in assets and liabilities as a result of the transaction or other event , par 5.28 The objectives are achieved by derecognizing any assets or liabilities that have expired, been amortized, collected, fulfilled or transferred, and establish what This results in income or expenses, and by dropping on the case, a trade receivable with a customer does not qualify to derecognition except when its cash value is collected, which must qualify for proof in the financial statements according to the above.

From all of the above, we conclude that the notification of the start of the transfer to the company's bank account does not allow pedestrians to access the cash , untill it is deposited in its bank account , The derecognition of the financial asset is subject to the settlement of cash in the bank account of the establishment, that is, on the date of settlement

I agree with your opinion that the principles and requirements contained in IFRS standards provide a sufficient basis for an entity to determine when to re-recognize a trade receivable and to recognize cash received through an electronic transfer system as a settlement of that receivable.

Yours sincerely ,,

sayed shabaan eid

acteo
Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

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Paris, 4 November 2021

Dear Ms Lloyd,

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We are writing in response to the tentative agenda decision "Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)" (agenda decision) which has recently been published for comment.

By means of an introduction to the subject, we would state that this is the second successive occasion recently on which the IFRS Interpretations Committee (IFRIC) has called into question accounting practices which have been in place and accepted for many years and which do not appear to have been called into question or thought to compromise the quality of published financial statements and the usefulness of the information they provide. Thus, the tentative agenda decision relating to the accounting for retirement benefits means that French issuers will have to restate the opening balances, including equity, in their financial statements for significant amounts of heretofore unrecognized income while derecognizing expenses which will have to be accounted for once again in the future, thus incurring a number of costs, including those of having new actuarial computations performed. We doubt whether such restatement is useful for users and whether the cost/benefit balance of such a change is positive. It seems to us that the stability and continuity of accounting methods that have been unchanged since the adoption of IFRS in 2005 should be given preference over yet another exercise in the restatement of prior-period comparatives.

The same issue is raised by the tentative agenda decision on electronic payments. Beyond the technical analysis, about which we will have more to say below, this latest agenda decision will probably bring in its wake a full re-examination of all payment methods, whether they be receipts or payments, even though the its scope is ostensibly limited to a certain category of payment methods. It is equally likely that this IFRS 9-based analysis once applied to all payment methods will lead to changes in practice, once again resulting in disruption of line-items which may be of crucial importance to some companies and onerous modifications to reporting systems and treasury management tools. As stated above, we think that stability in practices established for many years, when accompanied by transparency in the notes to the financial statements (which might perhaps be enhanced), is far preferable to a sudden and disruptive change. In our view, destabilizing effects such as these should be taken into account whenever IFRIC considers whether or not to take any further a submission made to it.

As far as the technical analysis laid out in the agenda decision and the tentative conclusions drawn go, we understand that the IFRIC considers that IFRS 9 should be applied both to the derecognition of the client receivable and to the recognition of the cash. We also understand that the IFRIC has approached the derecognition of the receivable by analogy with the application of IFRS 9's criteria for the derecognition of a debt.

In respect of the derecognition of the receivable, we agree that this should depend on the facts and circumstances and the legislative environment of the entity. It would thus seem to us to be useful to reproduce in the text of the agenda decision the two examples laid out in paragraph 36 of the agenda paper describing the factors that should be taken into account when undertaking the analysis. It might also be appropriate to analyse the rights and obligations that exist between the bank and the customer once the payment has been initiated by the third party, in order to identify who has control of the cash in transit. One might therefore conclude that the initiation of the payment by the third party transforms the entity's client receivable into a receivable from the bank during the period of transit. This asset which is of a very specific nature because of its very liquid character might usefully be presented as a separate line-item and analysed in the light of the definition of cash equivalents.

As far as the accounting for the cash is concerned, we understand from the paper's analysis that the entity is considered not have control of the cash until it is accounted for by the bank in the entity's account. It seems to us that this approach calls into question the notion of cash in transit and the usefulness of performing cash-to-bank reconciliations. If we take the example of cheques, when the entity isolates the cheques issued or received on a specific internal account, they are nonetheless presented in a specific treasury account in the balance sheet under current practice. The same is true of credit card payments which pass through specific accounts for items awaiting value recognition at the bank, which are also included in a treasury caption.

In conclusion, we are of the opinion that the IFRIC should carry out the following work before coming to a definitive conclusion:

- Analyse the cost/benefit balance of the expected impact of the agenda decision; and
- Approach the issue also through a study of the effect on presentation when analysed from the point of view of the definition of cash and cash equivalents.

If you require any further information on this subject, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Lise CHORQUES

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11 November 2021

Ms S. Lloyd
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Dear Ms Lloyd,

IFRS Interpretations Committee tentative agenda decision on Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We welcome the opportunity to comment on the tentative agenda decision made by the IFRS Interpretations Committee (the Committee) at its September meeting in relation to Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9).

In summary, we believe that the reasons stated for the tentative agenda decision may have far reaching and wider implications than just those considered by the Committee in relation to the submission received. We believe that, in reaching its conclusions, the Committee has in effect made significant changes to established accounting practices that have substantial impacts for businesses and a more comprehensive review is required, perhaps as part of a narrow scope standard setting project.

The tentative agenda states that "The staff concluded that only on the transfer settlement date, and not before, that the entity would recognise cash as a financial asset because the entity would have a right to obtain cash from the bank only when cash is deposited in its bank account. In circumstances where an entity concludes that its contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise a financial asset it has received (e.g. a right to receive cash from the customer's bank) on that date, before it recognises the cash." We have the following comments regarding specific areas that we believe require consideration and analysis:

1. Whilst the tentative agenda decision discusses the derecognition of a trade receivable and the recognition of cash it may indirectly establish principles that would also be relevant to the derecognition of a financial liability. Extending the derecognition principles to trade payables has the added complexity that the paying company would have no visibility over when the creditor has received the cash into its bank account.
2. This approach changes accounting practices that are long established in many jurisdictions and appears to change the generally accepted bank reconciliation practices e.g. the deduction from cash and trade payables on the date a cheque is dispatched.
3. The tentative agenda decision suggests that electronic cash transfers between two entities within the same consolidation group, would result in derecognition of cash that is in transit at the reporting date. As well as the potential systems and operational implications for intercompany reconciliation processes there may be a resultant anomalous impact on reported liquidity.
4. We believe that further articulation is required by the Committee concerning why a receivable from a bank that is cash in transit would not be classified as cash and cash equivalents given the short maturity nature of such items.

5. The requirements of the tentative agenda decision may require entities to make substantial changes to their payment, settlement and intercompany processes, which would need to be carefully planned and managed.

If you wish to discuss any of the comments in this letter, we would be happy to do so.

Yours sincerely,

/s/ Jayne Hodgson

12 of November 2021

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Dear Ms Lloyd

Tentative agenda decision – **Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)**

Natwest Group Plc. is pleased to respond to the IFRS Interpretations Committee's (IFRIC or the Committee) publication in the September 2021 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's standard setting agenda the request for clarification on the recognition of cash received via an electronic transfer system as settlement for a financial asset.

We agree with the IFRIC decision not to add this item onto its standard setting agenda however, we consider that the staff analysis requires further research and consideration before finalisation. This is because the tentative agenda decision may have unintended consequences most notably changes to the accounting practice that entities (including financial institutions) apply currently. Such practice relies on settlement date accounting for the recognition (derecognition) of cash i.e., when the electronic transfer effectively reaches the account of the beneficiary. We are also concerned that the TAD only covers a narrow set of financial assets (trade receivables) without extending the principles and analysis to other financial assets and financial liabilities.

The current wording of the TAD states that a financial asset may only be derecognised when 'the contractual rights to the cash flows from the financial asset expire'. Expiration of cash flows is a matter of facts and circumstances which depends on several aspects that do not seem to be considered in the analysis. These include but are not limited to the legal framework governing the contractual relationship between the ordering party and the beneficiary, other laws and regulations of the relevant jurisdiction, the underlying terms and conditions of the transfer scheme and the rights and obligations of the intermediary financial institution processing the transfer. In addition, there is a clear read across between the expiration of cash flows in the context of financial asset derecognition and the discharge (extinguishment) of obligations in a financial liability which does not seem to be addressed in the TAD either.

Specifically, for financial institutions consideration needs to be given to whether cash must be recognised (derecognised) before settlement date and what type of financial asset and financial liability the resulting derecognised cash will be.

In this regard, the terms, and conditions of the transfer scheme most notably whether payments are protected in the event of bankruptcy, the timing of settlement and whether payments can be recalled by the ordering party are key items to assess when considering the recognition (derecognition) of cash prior to settlement date. This is in addition to the legal framework of the different jurisdictions where the financial institution operates which in turn governs the associated transfer schemes.

In addition, financial institutions need to consider whether the ordering party and the beneficiary use the same Bank or not. In instances where the ordering party and the beneficiary use the same Bank the settlement of the transfer is immediate and the transfer cannot be recalled, however if the ordering party and the beneficiary use different Banks the accounting will be governed by the terms and conditions of the transfer scheme (most notably whether the transfer can be recalled) and the relevant applicable laws and regulations. This effectively means that there may be two different accounting answers for the same fact pattern. Using settlement date accounting as a principle avoids unnecessary complexity and maintains the desired level of accounting consistency between the different parties.

Finally, as noted above, we consider that this issue has far reaching consequences because the principles in the TAD can be applied to other products and services offered by financial institutions such as cheque clearing, credit card payments which can be cancelled prior to settlement, invoice discounting without recourse and more generally to other payments that can be recalled prior to settlement date.

Understanding the implications of the tentative agenda decision on all areas (products/services) will be complex and may require significant effort particularly when assessing the legal and regulatory framework applicable to each jurisdiction, assessing changes to current operational processes, systems and controls and potentially adjust accounting practice as a consequential effect. We also consider that this will create undue cost and may actually provide limited benefit to users of the financial statements as settlement date accounting is clear, well understood and widely applied.

As a result, we recommend that the Committee conducts detailed outreach with constituents to understand existing accounting practice and the wider implications of the TAD before finalising it. If the Committee concludes there is diversity in practice and the issue is widespread then it should add it to its standard setting agenda or refer it to the IASB to address this as part of a specific standard setting project. This should follow appropriate due process and be subject to wider consultation before becoming effective.

If you have any questions concerning our comments, please contact Richard Lawrence at +44 (0) 77 6916 2961.

Yours sincerely,

Richard Lawrence

Head of Accounting, Regulatory and Valuation Policy – Natwest Group Plc.

Tentative Agenda Decision and comment letters: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

Under the heading “Recognition of cash (or another financial asset)” it is explicitly said that cash can be recognized only on the settlement date when it is already in the bank account, but in the summery it’s said :

“

a. derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

b. recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.

“

It is a possibility that contractual rights expire when the cash is sent not when it is settled and according to this summery do we recognize cash on that date when the cash is sent and receivable derecognized? This contradicts the above explicit statement regarding cash, that it can be recognized only when it’s in the bank account. Therefore this summery is confusing and contradictory and needs clarification.

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Our ref RD/288

19 November 2021

Dear Ms Lloyd

Tentative Agenda Decision: *Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee's ('the Committee') tentative agenda decision "Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)" ('TAD'). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we agree with the Committee's analysis of the issue. Without further standard setting, we agree that the interpretation of the standard in the context of the query is correct. However, in our view, the potential issues arising from the finalisation of the TAD are considerable. Finalising a decision in respect this specific question does not give the Board sufficient opportunity to consider the matters set out in this letter, which in our view apply to a broader set of transaction flows. We believe these matters are best addressed through the Post Implementation Review ("PIR") of IFRS 9 and may require further standard setting with appropriate due process.

In that context, we have set out the parts of the TAD that could have a widespread impact on the financial reporting of preparers, while acknowledging that we agree with the technical analysis.

Application of IFRS 9.3.1.2 (regular way purchase or sale exemption)

The TAD observes that in the fact pattern of the submission, the entity is neither purchasing nor selling a financial asset. Therefore, paragraph 3.1.2 of IFRS 9 – which specifies requirements for a regular way purchase or sale of a financial asset – is not applicable.

We agree that the wording in 3.1.2 is clear and that the regular way exemption does not apply to the settlement of a trade receivable (notwithstanding that we are aware such an interpretation has been mooted by some preparers). However, we would encourage the Board to examine that paragraph in the context of the IFRS 9 classification and measurement PIR. We note that the intention of the regular way exemption under US GAAP, which formed the basis of the IAS 39 treatment (as originally described in para 274 of the Basis for Conclusions of SFAS 133), was as a practical means to avoid derivative treatment for a great many contracts that would otherwise be treated as such because they meet the definition of a derivative. For example, a bond purchase that takes three days to settle would meet the definition of a forward contract without the regular way exemption:

SFAS 133.274 "…Requiring that all forward contracts for purchases and sales of financial instruments that are readily convertible to cash be accounted for as derivatives would effectively require settlement date accounting for all such transactions. Resolving the issue of trade date versus settlement date accounting was not an objective of the project that led to this Statement. Therefore, the Board decided to explicitly exclude forward contracts for "regular-way" security trades from the scope of this Statement…"

The regular way exemption can be seen as an exception to otherwise applicable derivative recognition rules. Without the regular way exemption, the application of the principles of IFRS 9 relating to the definition of a derivative would lead to less relevant financial information. In a similar manner, we believe that the way in which this analysis fundamentally challenges the well-established methods used to prepare bank reconciliations (see below) merits an investigation on whether the regular-way methodology should be extended to settlements.

We would therefore encourage the Board to consider (as part of the PIR) permitting the extinguishment of a financial payable (as per IFRS 9 3.3.1) and receivable (as per IFRS 9 3.2.3(a)) at the commencement of a market standard settlement mechanism. Cash flows that are paid by market standard payment systems such as Swift or the writing of cheques could be deemed to have been paid on instruction rather than on receipt, as a practical expedient. We believe that such a treatment could avoid many of the issues noted below.

Ultimately, the effect is one of reclassification (generally between cash and trade debtors/creditors). The effort involved in implementing the TAD in full (see below) should be considered in light of whether it leads to more relevant and reliable financial reporting for users. Such arguments may help to support an extension of the regular way exemption.

Reliance on legal analysis

We agree with the statements in the TAD that determining the date on which the entity's contractual rights to trade receivable cash flows expire is a legal matter, which would depend on the specific facts and circumstances, including the applicable laws and regulations and the characteristics of the electronic transfer system.

However, in our experience it has not been common practice to perform such a legal analysis in respect of settlements to date. We understand that the diversity in practice in respect of when such cash flows are treated as settled was the main reason the issue was brought to the attention of the Committee.

The legal date and time at which the rights to cash flows expire, or when the automated payment could or could not be cancelled, may differ by jurisdiction as well as by payment mechanism. For example, the date at which a creditor legally fulfils their obligation to pay (or a debtor is legally paid) may differ in one country vs. another, depending on local law. It is also not clear how the ability of one or both parties to cancel a payment mid cycle would change the analysis. An entity that operates in multiple jurisdictions would be required to obtain legal opinions in respect of each of the jurisdictions in which it operates and each of the payment mechanisms that are used in that jurisdiction. Given that there are hundreds of payment processing entities globally, ranging from online retail payment transfer mechanisms and interbank systems to simple cheques written by hand, this could be a large, expensive and time-consuming task that will need to be performed by a great many IFRS reporters.

We would encourage the Board to consider the potential implementation timeframes that will arise on finalisation of the TAD if such legal analysis is required.

Application of the TAD to trade creditors

Although it is not explicitly mentioned in the TAD, IFRS 9 B3.2.15 states that to the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The implication of that is that there is symmetry between the recognition of cash in the books of the entity holding (then derecognising) the trade receivable and the derecognition of a trade payable (and the cash payment) from the books of the entity holding the trade creditor. The alternative – that there is a time period when the cash is derecognised by the payer and not recognised in the books of the payee – would mean that there would be a period when the cash should be recognised by the payment processor. We have not observed such a treatment in our experience and do not believe that would be appropriate in the absence of legal analysis that confirmed the ownership of the cash by the payment processor.

Given the implied symmetry, further questions arise as to the nature of cash held by the payer subject to payment instruction. Cash that is under payment instruction is generally no longer available for withdrawal or other use. For example, an entity that holds 1,000CU cash in an account and instructs the bank to make payment of 900CU under the BACS payment system would expect to be able to make use of only 100CU of the 1,000CU reported in its bank statement after the instruction is made.

It is not clear whether such amounts (the 900CU in the example above) should continue to be shown as cash, restricted cash or whether such amounts qualify as cash equivalents. In our experience, such cash amounts are currently derecognised, along with the associated trade creditor in the books of the payer, at the BACS instruction date. If symmetry would be required, and the cash is not derecognised on payment initiation by the payer, we would welcome the Board addressing the matter through the PIR process.

Application of the TAD to credit card and charge card transactions

Logically, the analysis performed by the staff can be extended to include other payment mechanisms, including credit and debit card transactions. However, when a credit card sale takes place, the receivable recognised by the Merchant is not a “trade receivable” from the customer, rather, it is a receivable from the credit card Acquiring bank from the inception of the transaction.

Different credit card and charge cards in various jurisdictions have different settlement periods with the Merchant, ranging from 24 hours to a number of weeks. Applying the staff analysis in the TAD, the Merchant would be required to perform legal analysis to determine when its rights to the cash flows due under the receivable from the Acquiring bank expire. As noted above, this may require a great deal of effort from retailers across many jurisdictions. Unlike a trade receivable (where a payment made by the creditor is facilitated by a third-party payment processor or bank), a receivable in a credit card transaction due from the payment processor itself – an Acquiring bank.

In addition, given the diverse settlement periods in credit and charge card transactions, the determination of how the settlement period affects the treatment of the receivable from the Acquiring bank (as a cash equivalent – see below) becomes a critical question to avoid diversity in practice.

Cash equivalents in the Statement of Cash Flows and Statement of Financial Position

The TAD states that if an entity’s contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise any financial asset received as settlement for the trade receivable. Such a receivable would be a very short-lived receivable from the entity that is processing the payment, such as a bank, before it became cash on settlement. This is also true of credit card receivables from an Acquiring bank as noted above.

It is not clear whether the definition of cash equivalent in IAS 7.6 would extend to those receivables. That is, whether a receivable to be settled in (say) 2 days could be considered a “short term highly liquid investment”. The inclusion of such amounts as cash equivalents can impact KPIs that rely on cash as part of the calculation. There may also be an effect on bank covenants if cash balances are part of the covenant calculation.

Treatment of such amounts as cash and cash equivalents could alleviate some of the implications arising from the TAD. We would welcome the committee clarifying how such amounts should be recorded under IAS 7.

Changes in long standing practice

Typically, accounting in many jurisdictions sees a difference between the recorded cash balance in an entity’s books and records (the book balance) and the balance per the bank statement (the bank balance). The two figures are reconciled in a market standard bank reconciliation whereby unpresented items (uncleared cheques for example) are deducted from the bank statement balance to reconcile the statement to the book balance. In many entities, such a mechanism is largely automated and integrated into the financial reporting system and it is standard practice to record the balance on the book as the cash balance in the financial statements.

The implication of the TAD is that such an automated process is not possible without a full analysis of when mid cycle payments (such as unpresented cheques, or BACS payments after initiation but before settlement) are legally complete. Automated systems would require updating such that payment process items “in transit” are deducted from the correct side of the reconciliation, and that the correct cash balance is recorded in the financial statements.

In some simple cases, it appears that application of the analysis from the TAD would indicate that the financial statements should take the cash balance from the bank statement without adjustment. Even in such cases, while the bank reconciliation control would still serve the same function, there are likely to be system changes required to ensure that it is the bank statement balance that is presented as cash in the financial statements, rather than the book balance.

Given the widespread need for system changes, we believe that it would be more appropriate to tackle this issue as part of the PIR of IFRS 9. The change can be further debated, and reporters provided with a longer notice period in which to make appropriate changes should the suggested change noted under the regular way section above not take place. Please contact Reinhard Dotzlaw at rdotzlaw@kpmg.ca or Colin Martin at colin.martin@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

STELLANTIS

Sue Lloyd
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UK

Comments on Tentative Agenda Decision - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

November 19, 2021

Dear Sue,

The IFRIC received a request about the recognition of cash received via an electronic transfer system as settlement for a financial asset. In the fact pattern described in the request:

1. the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.
2. an entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date.

The request asked whether the entity can derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

STELLANTIS

Paragraph 39 of the Staff Paper that was drafted in relation to the Tentative Agenda decision contains the following statement:

> "*In the fact pattern described in the submission, the entity is party to the contractual provisions <u>of an instrument—its bank account</u>—under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank." [emphasis added]*

IAS 32 defines a financial instrument as "*any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.*" The cash held in a bank account represents a financial asset to an entity who controls the bank account. The bank account itself is not an instrument, rather it is just a mechanism to hold the entity's cash. When an entity opens an account at a bank, that action in and of itself does not give rise to a financial asset or liability; rather only when cash is deposited into the account is there a financial asset that the entity controls. As such, we do not believe that a bank account meets the definition of an instrument. We propose to change the wording of the Tentative Agenda decision as follows to clarify that the financial asset to which the assessment of control relates is the cash within the bank account and not the bank account itself.

"*In the fact pattern described in the submission, the entity is party to the contractual provisions <u>of an instrument, cash which is received from its customer, the control of which is facilitated by the bank in which it has an account.</u>* "

Bonnie Van Etten
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19 November 2021

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Dear Ms Lloyd

Tentative agenda decision – Cash Received via Electronic Transfer as Settlement of a Financial Asset (IFRS 9)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2021 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's agenda the request for clarification on the timing of recognition of cash received via an electronic transfer system as settlement for a financial asset.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda. However, as explained below, we believe the analysis presented in the TAD:

- has applicability to other related transactions not analysed by the Committee (e.g. cash settlement of trade payables and banking cash transactions)
- presents significant practical, operational and legal challenges for preparers for the transaction presented in the TAD and other related transactions
- could result in significant costs to implement (e.g. costs for legal analyses to be performed for multiple jurisdictions and payment systems)
- has the potential for unintended consequences or to increase diversity in practice for other related transactions.

Consequently, we believe that this issue should be referred to the Board to consider the wider consequences of the analysis in the TAD and to perform a comprehensive cost/benefit analysis before concluding on the matter. Given that the Board is considering certain derecognition issues as part of the post-implementation review (PIR) of IFRS 9, it may be appropriate to consider this issue, at the heart of which is the timing of recognition and derecognition of financial assets (and financial liabilities), as part of that PIR.

The issues identified above are explained in more detail below.

Applicability to other related transactions

The analysis in the TAD considers only the specific transaction submitted to the Committee, which is the receipt of cash via electronic transfer to settle a trade receivable. In the context of this transaction, the Committee's conclusion is that, applying IFRS 9, the trade receivable is derecognised only once the contractual rights to cash flows from the trade receivable have expired.

However, key reasons why diversity arises in practice when accounting for this seemingly basic transaction include the practicalities of application of the derecognition requirements and the need for consistency with the treatment of related transactions, namely the accounting for the payments made to settle trade payables and other liabilities.

Although not explicitly addressed in the TAD, it seems that the conclusion that the trade receivable should not be derecognised until the contractual rights to cash flows from the trade receivable have expired could also apply to the counterparty's trade payable as noted in the IFRIC Staff's Agenda Paper[1]. Consequently, if the TAD is finalised, the analysis presented in the TAD may need to be applied to the settlement of trade payables as well as trade receivables. In our experience, it is common practice for the payer to derecognise cash at the point when the electronic payment to settle a trade payable is instigated. This reflects the fact that at that point the cash is no longer available to the payer for any other purpose, i.e. the cash in transit to settle the trade payable is not available 'on demand' as the payment process is designed to ensure financial intermediaries complete the payment as instructed. Accordingly, if a more exhaustive analysis is not provided, in particular to address the accounting for the settlement of trade payables, there is a risk that the TAD could increase diversity in practice. For example, diversity in the accounting for trade payables may increase if some, but not all entities, align their accounting for the settlement of trade payables to the analysis presented in the TAD for trade receivables. There is also the risk that entities could apply inconsistent derecognition principles to trade receivables versus trade payables.

Presentation of cash by the payer

From the payer's perspective, if a trade payable is not extinguished at the point of instigating an electronic cash transfer (and therefore not derecognised), a question arises as to the impact of the initiation of the cash transfer on the entity's reported cash balance. Cash is defined in IAS 7 as 'cash on hand and demand deposits'. In some cases, the instigated payment may be cancellable and immediately demandable without cost and therefore the cash in transit may continue to meet the definition of cash. However, in other cases, once payment is instigated, the cash is no longer available on demand. This will be the case when the cancellation of the instigated payment is subject to further procedures, including cancellation fees, before the cash in transit is returned. This will also be the case when an instigated payment cannot be cancelled, and cash is returned to the payer only if there is a failure in the settlement process. This raises the question of how cash in transit that is no longer available 'on demand' should be presented if the related trade payable is not yet considered settled. Preparers will face this issue, not currently addressed in the TAD, if the TAD is finalised as currently drafted.

The analysis required to determine when the instigation of a cash transfer results in derecognition of cash is complex because of the multiple settlement mechanisms that exist, each with different rules on the ability to cancel initiated transfers, the incurrence of cancellation fees, the exact time of expiry of that cancellation window and the time taken for procedures to be completed for the return of cash from cancelled transfers. It is unlikely that these analyses have been typically conducted until now given that entities do not routinely cancel electronic payments unless the payment is instigated in error (which will be limited if effective controls are in place).

[1] Paragraphs 32-35 of Agenda Paper 6 from the September 2021 IFRIC meeting

Timing of legal extinguishment

A similar question arises in respect of the timing of the legal extinguishment of the trade receivable (and the corresponding trade payable). If legal extinguishment occurs when the paying bank has transferred cash to the receiving bank rather than when the cash is available in the receiving entity's bank account (which may be later in the settlement cycle), the timing of extinguishment may not be known without additional information and analysis (e.g. for international transfers legal extinguishment may arise sometime in the middle of the settlement cycle, rather than only at the end). To answer this question, it will be necessary to understand the legal rights of the parties if the receiver's bank failed after the cash was received by the bank but before the receiver's bank account was credited with the funds. Would the receiver have a claim on the payer, or would the payer's obligation be extinguished at this point and the receiver's claim be solely on its own bank?

Similarly, from the payer's perspective, although the entity may no longer have access to the cash on demand from its bank, it may not know the precise time its bank has transferred the funds to the receiver's bank or when the cash is credited in the receiver's bank account. This adds further uncertainty regarding the timing of extinguishment.

Obtaining legal advice to establish when trade receivables (and trade payables) are extinguished for the different jurisdictions and settlement systems involved will be time consuming and costly for entities, particularly large international groups.

Other transactions

In addition to affecting the accounting treatment for the settlement of trade receivables and trade payables via electronic cash transfers, the analysis in the TAD may also be relevant for other settlement transactions. We would encourage the Committee (and the Board) to consider the impact, if any, on these other transactions before concluding on the matter. For example, current practices in respect to the timing of extinguishment and derecognition of the following transactions may also be affected by the analysis in the TAD:

- settlement of trade payables and trade receivables via the issue and banking of cheques
- cash settlement of banking transactions (e.g. timing of extinguishment of loans receivable and loans payable settled in cash using electronic transfers or cheques)
- settlement of trade payables and trade receivables via overdrafts (i.e. payment to settle a liability resulting in an increase in an overdraft position or receipt of cash to reduce an overdraft position resulting in a need to consider not only recognition/derecognition of cash but also recognition/derecognition of financial liabilities (e.g. overdrafts)).

Cost/benefit analysis

Based on our experience, although there is diversity in practice for the treatment of cash settlements, we believe that there are two prevalent practices. Cash is either recognised/derecognised at the point of instigation of the transfer or at the point of settlement of the transfer, with the corresponding trade receivable/payable derecognised at the same time.

If the TAD is finalised as currently proposed, we are concerned that, due to some of the complexities highlighted above, entities may still reach different conclusions on the point of legal extinguishment. This could mean that despite the significant costs incurred by preparers to align their accounting policies to the conclusions reached by the Committee, inconsistent accounting for the same transactions will remain.

Furthermore, the accounting treatment applied for cash transactions often follows long established processes and procedures that are embedded in an entity's systems and controls. The effect of adopting the analysis in the TAD is expected to require significant changes to these processes and procedures which in some cases will be time consuming and costly to implement.

Given the significant practical, operational, legal and cost challenges identified above, the benefit of derecognising the trade receivable/payable at the exact point of legal extinguishment needs to be weighed up against the costs of achieving this accuracy (especially when the policy adopted is clearly disclosed). Consequently, we believe this issue should be referred to the Board to perform a comprehensive cost/benefit analysis and consider clarifying the meaning of extinguishment in IFRS 9 in respect of financial assets and financial liabilities settled through established settlement systems as part of the PIR on IFRS 9 currently underway.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

Mojtaba Tajgardan, Master of Accounting

November 2021 mojtaj@gmail.com

The Tentative Agenda Decision is the conclusion of a money transfer contract between two entities that the entity receiving the cash is not one of the parties to the contract. In other words, the contract is concluded between the entity that pays the cash and the bank that transfers the cash, and the recipient of the cash is another entity, which generally consists of two parts. One part is the cash section and the other part is the accounts receivable.

1- Cash section:

1.1- Regarding cash, according to IAS 7, it must have one of the following two conditions:

a) comprises cash on hand and demand deposits.

b) short‑term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.2- The two conditions mentioned above include cash on hand or demand deposits, as well as an investment that is ready to be converted into a certain amount of cash on the reporting date, which is different from the cash section of the issue. Due to the fact that the electronic transfer will be provided to the entity after two days from the reporting date, the issue is not ready to be converted into a specific amount of cash on the reporting date and entity decision makers are not able to use it immediately after the reporting date.

1.3- Financial reporting should move in the direction that the sum of all financial reporting worldwide shows the amount of assets identified worldwide. Therefore, if the cash of the issue in the receiving entity is recognized before full receipt, the same cash will be recognized in the transferring bank account due to its receipt on the reporting date. Therefore, a cash amount has been identified in the reporting of two entities (receiving entity and transferring bank) at the reporting date, which leads to double recognition of financial assets at the level of total financial reporting.

1.4- Therefore, recognizing the cash in that issue on the reporting date by the receiving entity is not appropriate due to unavailability cash on the reporting date and preventing the presentation of irrelevant information to shareholders and the conditions set forth in IAS 7 to recognize cash and cash equivalents indicating cash on hand and do not need to be changed.

2- Accounts receivable:

2.1- The paying entity concludes a contract with the bank on the reporting date and issues the transfer order to the receiving entity by transferring the cash to the bank. This contract is concluded between the paying entity and the bank, while the main beneficiary is the cash receiving entity.

2.2- Regarding the above-mentioned issue, the following is generally done:

By transferring cash and concluding a contract with the bank, the paying entity would be to derecognize trade accounts payable on the reporting date. The receiving entity does not derecognize its accounts receivable due to non-receipt of cash on the reporting date and compliance with IAS 7. Therefore, on the reporting date, the accounts of these two entity will be in conflict with each other, and if they are in the same group, there will be problems in preparing consolidated financial statements to clear the accounts between them, as well as the liability created in the transfer bank to either Receiving and paying entity are not compatible.

2.3- The proposed method includes two modes as follows:

a) In case of acceptance of the cash transfer contract by the receiving entity:

In cases where such cash transfer contracts are normally successful, the cash-receiving entity shall derecognize the accounts receivable on the reporting date after receiving the transferee contract as the beneficiary and recognizes the accounts receivable from the transferring bank so that the obligation created in the bank for the amount received will be compatible with the accounts receivable of the receiving entity.

b) In case of non-acceptance of the money transfer contract by the receiving entity:

In the event that such cash transfer contracts are not normally successful or risky, the cash-receiving entity will not recognize the accounts receivable at the reporting date. As a result, the paying entity is not allowed to derecognize trade accounts payable on the reporting date, and instead the paying entity must recognize accounts receivable from the transferring bank in return for the cash paid and after the reporting date and at the same time with receiving the cash by the receiving entity, the paying entity will derecognize the accounts payable and receivable. In this way, there will be no discrepancy between the accounts of the transferring entity and the receiving entity on the reporting date, and the obligation incurred in the bank for the amount received will be compatible with the accounts receivable of the paying entity.

3- **Therefore, according to the above, it is suggested that the Committee add a standard-setting project to the work plan for IFRS 9 as the following mentioned:**

In contracts concluded between two parties, including the cash paying entity and the cash transferring entity, and the cash receiving entity (beneficiary) is not a party to the contract. If the receiving entity has confidence in the transferee and usually transfers the benefits to them with very little risk, it must recognize the accounts receivable of the transferee and derecognize the accounts receivable of the transferee on reporting date. In cases where the receiving entity does not accept the contract due to high risk and does not recognize and derecognize the above, the cash paying entity on the reporting date against the transfer of cash must recognize the accounts receivable of the transferring entity.

Buenos Aires, Argentina, November 10, 2021

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REF: IFRS IC Tentative Agenda Decisions reached in the September 14 and 15, 2021 meeting

Dear Board Members,

The "Group of Latin American Standards Setters"[1] (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meeting on September 14 and 15, 2021, which included the following topic:

- **Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9, Financial Instruments)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the TAD of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchange between its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments:

GLASS agrees that in the situation described, the entity receiving the transfer should derecognize the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; it

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Dominican Republic, Uruguay (Board) and Venezuela (Board).

should simultaneously recognizes the cash transferred as settlement for that trade receivable when such cash is actually received.

However, some members have expressed concern about the non-existence of a “mirror” recognition in the accounting of the paying entity, which will surely derecognize the cash and the cancellation of the corresponding liability upon initiation of the transfer, which means that the cash will not appear in the financial statements of either party to the transaction until received by the holder of the account receivable. This aspect, in GLASS' opinion, merits being addressed by the IFRS IC, including a definition of its applicability.

We also agree that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate for a response to be made explicit through the Agenda Decision (AD) process about the reasoning to be used and therefore the application of an adequate accounting treatment of the subject.

It is also agreed that the AD should provide the appropriate bases to determine when to derecognize a trade receivable and to recognize cash received via an electronic transfer system as settlement for that receivable.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

Jorge José Gil
Chairman
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23 November 2021

Dear Sue

Tentative agenda decision – Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We are pleased to comment on the above tentative agenda decision.

We do not disagree with the technical analysis presented in the tentative agenda decision based on the fact pattern that has been analysed. However, our outreach since the tentative agenda decision was published indicates that the technical analysis of the issue raised by the submitter of the question has broad and pervasive implications beyond the fact pattern presented, which we believe will require standard setting to address.

The fact pattern included in the submission relates to a single electronic transfer system, but the analysis provided in the tentative agenda decision would result in entities having to reconsider their approaches for a wide range of payment systems, as well as other more traditional forms of payment settlement, including the issuance of cheques. This is because the analysis considers that for an amount receivable (or amount payable) to be derecognised, the derecognition criteria in IFRS 9 must be met. In many cases, the derecognition criteria might not be met until the point when payment ultimately clears and is settled in the bank account of the recipient. Based on our outreach, in many cases, this would differ significantly from the approach which has been followed for many years in multiple jurisdictions, where a receivable or payable may be derecognised at an earlier point (e.g. when a payment is initiated, when a cheque is written, when a cheque is deposited, etc.).

Consequently, we believe that it would not be appropriate to finalise the agenda decision as it would result in widespread and pervasive changes to how entities account for common transactions, with the costs to entities of adopting the approach set out in the tentative agenda decision being very likely significantly to exceed the benefits.

Instead, the IFRS Interpretations Committee should refer the issue to the Board in accordance with section 8.2(d) of the Due Process Handbook. It is likely that the issue could be addressed efficiently as part of the IFRS 9 post-implementation review, which is presently underway.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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23 November 2021

Dear Sue,

Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We are responding to your invitation to comment on the tentative agenda decision (TAD) - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9) - published in September 2021, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In the narrow fact pattern considered, we believe the analysis and conclusion in the tentative agenda decision appropriately considers the IFRS 9 guidance. However, we believe that this issue is too broad for the Committee to conclude on without considering all the related implications. As a result, we think that this issue is best dealt with by the Board in a more holistic manner. We expand on the broader implications in the paragraphs below.

- In the fact pattern covered in the TAD, the cash is received by the entity via an electronic transfer system as settlement for a financial asset (accounts receivable). The submission didn't ask the logical extension to the question, and therefore the TAD doesn't cover the situation in which the entity sells its goods or services to customers who pay via electronic payment systems - eg. by credit or debit cards. In those cases, the entity does not have an existing receivable from the customer at the moment when the electronic payment is initiated. Although the entity has not yet received the cash, the receivable it might have is from the bank rather than from the customer. We are aware of many retailers in practice today treating this as "cash and cash equivalents" at initial recognition. We believe that

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the agenda decision has the potential to change this practice if its principles need to be applied more broadly to such a fact pattern.

We do not believe that the potential change in practice would necessarily improve financial reporting. We think that a credit sale is different from a "cash" sale facilitated by an electronic payment system because the transactions have different underlying risks, i.e. a receivable from a customer is commercially different to a receivable from a bank. However, application of the agenda decision might result in these transactions being presented in the same financial statement line item at the point of sale (i.e. accounts receivable). In our view, such an outcome would not comply with the IAS 7 objective: "*Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.*"

- Similarly, the submission did not ask the question, and therefore the TAD does not cover situations where a creditor is paid via an electronic payment system. The question therefore arises as to how the entity settling the obligation would account for the arrangement if the underlying principles in the TAD are applied. In many arrangements, at the time that the entity initiates an electronic payment to a creditor, the bank removes the funds from the entity's "available balance" account, meaning the entity no longer has control of the cash. However, the entity cannot derecognise the payable if it is legally not released following the principles laid out in the tentative agenda decision. Therefore entities will need to consider how to present and describe the "debit" if this is no longer cash, but also not the derecognition of a payable.

  Moreover, the subledger systems of many reporting entities might be set up in a way that when the payment order to the financial institution is initiated (or a cheque mailed), the payable account is automatically debited and the cash account is credited. This might be the case even though the final settlement, i.e. when the cash is deposited in the recipient's bank account, might only happen a few days later. If the conclusions reached in the TAD are applied broadly, reporting entities will need to reconsider how to change their accounting systems to comply with the requirements of the agenda decision.

- We also observe that if the debtor (or creditor) is not derecognised by the entity before the payment process is complete, this would result in bank reconciliations being redundant because the book and bank balance would be equal. Indeed, our understanding is that long standing practice in several jurisdictions is that a bank reconciliation addresses this timing difference as one of its objectives. Therefore, if the principles in the TAD were to be applied to the payable side of the balance sheet, this would lead to a significant change in practice considering the fact these principles would have to be applied retrospectively.

We prioritised the Cash Flows project as one to be added to the IASB work plan for 2022 - 2026 in our comment letter to the IASB's Third Agenda Consultation. We believe that the Board should consider this issue more holistically as part of the IAS 7 comprehensive review project that the IASB is considering undertaking.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney PwC Head of Reporting and Chief Accountant (henry.daubeney@pwc.com), Gary Berchowitz (gary.x.berchowitz@pwc.com) or Marie Kling (marie.kling@pwc.com).

PricewaterhouseCoopers

Yours Sincerely
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23 November 2021

Tentative agenda decision– Cash received via electronic transfer as settlement for a financial asset

Grant Thornton International Ltd is pleased to respond to the IFRS Interpretations Committee's publication in its September 2021 update of the tentative decision on 'Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)'.

Our assessment is the tentative agenda decision would reduce diversity in the timing of recognition of receipts in amounts received via electronic payment systems. While we have not noted any clear flaws in the analysis in the context of the fact pattern, as explained below we think agenda decision is linked to a much broader issue that will require more comprehensive analysis. We have noted that IFRIC's analysis was carried out in relation to the BACS system on the timing of recording of cash receipts and derecognition of trade receivables, with the agenda decision being clear it will impact other transfers of cash that use electronic payment systems.

Our view is the analysis reflected in the tentative agenda decision and the associated agenda paper would equally apply to non-electronic methods (ie cheques) which still remain a very common method of payment in many parts of the world.

Further, the analysis set out by IFRIC would equally impact the timing of recognition of payments and derecognition of trade payables.

The ramifications arising from this tentative decision would be pervasive, in many cases altering very long-standing practices which have been designed around robust control procedures. For instance, it is common for entities to carry out payment runs a few days in advance of when payables are legally extinguished. It is also common for entities to derecognise such trade payables (and reduce cash balances) on those dates that such transfers are initiated which may be in advance of actual legal settlement date. This process exists solely to promote an environment of sound financial control; not to manipulate a predetermined financial outcome.

If this decision remains unchanged our view is many adjustments to systems and control procedures will be needed, and in many instances, this might not be able to be done quickly.

In addition, under the tentative decision, the timing of settlement would depend on legal analysis of the relevant electronic system. Again, this could present practical challenges and the analysis could vary depending upon the legal jurisdiction that was involved.

Given the practical implications we recommend this tentative decision is not finalised until the IFRS 9 post implementation review is completed. This would allow for the evaluation of and potential inclusion of some practical areas such as the timing of recognition of payments and derecognition of financial liabilities.

We have expanded our analysis of the implications of the tentative decision in the Appendix to this letter.

If you have any questions on our response, or wish us to amplify our comments, please contact either Alan Chapman (alan.chapman@uk.gt.com) or me (mark.hucklesby@gti.gt.com) by email.

Yours sincerely

Mark Hucklesby
Director – Financial Reporting
Grant Thornton International Ltd

Appendix – detailed comments

Receipts covered by tentative decision – would be wider than electronic systems

The tentative decision was drafted in the context of the BACS system which is common in the UK. The features of the electronic transfer system would clearly also be relevant to other settlement systems.

The tentative decision concludes the trade receivable should only be derecognised once the criteria in IFRS 9.3.2.3 are met. Similarly the cash received should only be recognised once it meets the criteria in IFRS 9.3.1.1.

While the decision is drafted in the context of electronic systems, we consider the decision would be equally relevant to more traditional settlement methods such as cheques. It is common for entities to record cash received and derecognise trade receivables on receipt of cheques which will often be delivered to the supplier's bank on the date of the receipt. However, actual legal settlement would be unlikely until the date of clearance some days later. During the cheque clearance period, and entity would then typically track the timing difference via bank reconciliation control procedures.

If finalised, the tentative decision would result in the recipient neither recognising the cash received nor derecognising the trade receivable until the cheque has cleared the banking system. This would result in changes to existing systems, and entities would also be likely to need to implement new control procedures in tracking cheques received which have not cleared.

Why we consider the decision would also impact payments

The tentative decision is clear in that the recipient derecognises the trade receivable only when the criteria in IFRS 9.3.2.3 are met, that being when the contractual rights to the cash flows from the financial asset expire. Paragraph 32 of the agenda paper acknowledges that IFRS 9 does not provide specific requirements for assessing when cash flows from a financial asset expire, but it then considers the guidance for liabilities in its analysis, referring to IFRS 9 B3.3.1.

By consequence of this analysis, one would have to therefore conclude that financial liabilities should not be derecognised until legally extinguished, which would typically be the date that payments have cleared rather than initiated (although would depend on legal analysis). That is that if on T0 an entity initiates payment to a supplier, but that payment does not settle and legally discharge a payable until T0+2 days, then that entity should continue to record the trade payable until settlement date.

Long standing systems and control procedures

While we welcome that the tentative decision would reduce diversity on timing of recognition of receipts of cash via electronic transfers, we observe that when an entity receives remittance via more traditional cheque methods, good financial control procedures have typically been to record the receipt (in cash) and derecognise the associated trade receivable. This is for good control reasons, allowing an entity to reconcile its expected cash position to that reported by the bank (via bank reconciliation controls) and to control cheques which it has received but not yet cleared.

The consequences of the tentative decision would result in entities having to change such procedures in a manner which maintains appropriate financial control.

On the payment side, whether via electronic payment or via cheque payment, it is common practice for entities to record trade payables as settled at the point of initiating payment. This may be a small number of days in advance of actual legal settlement date. This practice has control benefits as it guards against duplicated payment of liabilities and also allows an entity to track bank account entries via bank reconciliation procedures.

Cash flow statement consequences

The tentative decision states that in some cases the entity would recognise an amount receivable from the customer's bank. In such as case, further questions would arise as to whether this forms part of cash equivalents as defined in IAS 7. The tentative decision does not comment on this aspect.

Further, as explained in this letter, if this decision were finalised it could have consequences for transactions on the payment side. This would give rise to further considerations for the cash flow statement. For instance if a payment had been instructed to an entity's bank, whether that then led to a restriction on the cash available, and therefore whether that portion of the bank account balance continued to meet the definition of cash in IAS 7.

Potential practical expedients which could be useful

Should the tentative decision be finalised in its current form, we believe it would reduce diversity in the timing of entities recognising electronic receipts. In addition, for electronic settlement systems, it may require legal analysis over multiple electronic settlement systems which many entities will not have easy access to, and it could also depend on the legal jurisdiction involved. As noted in our covering letter, we recommend this issue is resolved through the IFRS 9 post implementation review because we would like to see practical relief and expedients provided in some areas such as:

- On bank receipts received via electronic settlement, a practical choice to only recognise the cash received and derecognise the receivable on settlement date (ie the date the recipient receives the cash in its bank account). Such an expedient would allow an entity to avoid potential costly legal analysis as to exactly which date the entity is no longer able to claim from its customer (instead having a claim from customer's bank)
- For cheque receipts, which have been received from the customer and submitted to the entity's bank to allow recording of cash received and derecognition of receivables. This would allow practices which exist for good control reasons to continue, and
- On the payables side, we consider a practical relief could be provided to allow payments to suppliers to be recognised, derecognising trade payables (and cash balances reduced) at the date of initiating payment. Again, this would allow practices which have been applied for good control reasons to continue unchanged.

November 24, 2021

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decisions (TAD) reached by the IFRS Interpretations Committee (the Committee) in its meetings on September 14-15, 2021. Those TADs deal with:

- Demand Deposits with Restrictions on Use (IAS 7), and
- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9).

Set forth below you will find our comments on the conclusions reached in the TADs.

Overall comments

We agree with the conclusions reached by the Committee in the TADs, both with respect to the technical conclusions and the decision not to add standard-setting projects to the work plan of the IASB. We agree that the principles and requirements in IFRS standards provide an adequate basis for an entity to reach the same conclusions as the Committee.

Specific comments

Demand Deposits with Restrictions on Use (IAS 7)

We observed unanimous agreement that in the situation described, restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash.

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

The majority of our constituents here in Mexico agree with the conclusion of the Committee, that is, until the cash is received by the entity thereby giving it control of the cash, the cash should not be recognized or the account receivable derecognized.

However, several of our constituents expressed concern about the non-existence of a “mirror” recognition in the accounting of the paying entity, which will surely derecognize the cash and cancel the corresponding liability upon initiation of the transfer. This means that the cash will not appear in the financial statements of either party to the transaction until received by the holder of the account receivable. Those preferring this approach believe that a “deposit in transit” should be recognized in the entity’s bank account reconciliation, and the receivable derecognized, at the reporting date.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

PETROBRAS

Rio de Janeiro, November 24, 2021

CONTRIB 0035/2021

Ms. Lloyd, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

Subject: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

Reference: Tentative Agenda Decision (TAD)

Dear Ms. Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision – Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Committee's activities.

We noted that the Committee received a request about the recognition of cash received via an electronic transfer system as settlement for a financial asset. In the fact pattern described in the TAD the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.

Regarding whether the recipient recognize cash on the date the cash transfer is initiated rather than on the date the cash transfer is settled, the TAD sets forth 'In the fact pattern described in the request, it is therefore only when cash is deposited in its bank account that the entity would have a right to obtain cash from the bank. Consequently, the entity recognises cash as a financial asset on the transfer settlement date, and not before.'

In the TAD, the Committee observed that, if an entity's contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise any financial asset received as settlement for the trade receivable (for example, a right to receive cash from the customer's bank) on that same date.

It follows from the preceding paragraphs that in certain circumstances an entity shall recognize a financial asset in accordance with paragraph 3.1.1 of IFRS 9 (for example, a right to receive cash from the customer's bank – a deposit in the customer bank) before the transfer settlement date and such a right shall not be recognized as cash by that entity.

We noted that in accordance with IAS 7 Statement of Cash Flow, cash is defined as cash on hand and demand deposits. However, the term demand deposit is not defined in IAS 7. Accordingly, there is no explicit restriction in IAS 7 to classify as cash a deposit (financial asset – right to receive cash) that is:

i) available within 48 hours, or two working days; and/or
ii) held by a financial institution where the reporting entity has no bank account.

In this sense, it appears that the requirements in IFRS Standards do not provide only one possible answer to the fact pattern about the presentation of a financial asset before the date the cash transfer is settled (for example, a right to receive cash from the customer's bank – a deposit in the customer bank).

Actually, the issue involves an accounting judgement that should be applied by each company. However, the TAD will remove that prerogative as it indicates that such a financial asset shall not be presented as cash.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contrib@petrobras.com.br).

Respectfully,

/s/Edmilson Nascimento das Neves
Edmilson Nascimento das Neves
Chief Accountant and Tax Officer

ICAEW
REPRESENTATION 112/21

TENTATIVE AGENDA DECISION: CASH RECEIVED VIA ELECTRONIC TRANSFER AS SETTLEMENT FOR A FINANCIAL ASSET (IFRS 9)

Issued 25 November 2021

ICAEW welcomes the opportunity to comment on the Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9) published September 2021, a copy of which is available from this link.

This response of 25 November 2021 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 157,800 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

1. ICAEW welcomes the opportunity to comment on the IFRS Interpretation Committee's tentative agenda decision regarding cash received via electronic transfer as a settlement for a financial asset (IFRS 9).

2. We agree with the logic applied by the IFRS Interpretations Committee to the specific fact pattern described in the tentative agenda decision and that, based on the fact pattern, the conclusions reached reflect the requirements of IFRS 9, paragraphs 3.2.3 and 3.1.1.

3. While we do not disagree with the way in which IFRS 9 *Financial Instruments* has been interpreted we are nevertheless concerned with the possible wider impact of the resulting conclusions. The specific fact pattern described covers one example of derecognition of a financial asset and recognition of cash; however, the conclusion that has been reached has the potential to affect many other fact patterns and, therefore, we believe the issue is far broader than the matter set out in the consultation description. Other types of transactions that might be affected if the rationale behind the tentative agenda decision were extended could include but are not limited to:
   - Cheque payments made for trade payables/received for trade receivables.
   - Credit card receipts that can be cancelled before they are settled.
   - Payments made for a financial liability by electronic transfer.
   - Intragroup cash transfers at or across a reporting period end.

4. We would also like to raise a point regarding the practical implications that could arise as a result of this decision. An entity's contractual right to obtain cash from a bank may require the entity to obtain a legal opinion for each electronic settlement system in each individual jurisdiction. This could be highly impractical, from a time and resource point of view, for all entities affected to obtain such opinions. It could also result in inconsistent treatment internationally based on potentially very nuanced differences in the various legal environments.

5. This agenda decision has the potential to change practice substantively. While we acknowledge that entities do generally have 'sufficient time' to implement agenda decisions issued by the IFRS Interpretations Committee, the scale of effort that may be involved and the pervasiveness of the issue considered has the potential to far exceed that which would normally apply to an agenda decision.

6. We believe that a final agenda decision from the IFRS Interpretations Committee is not the most appropriate way in which to deal with the submission received, and that more careful consideration needs to be given to a wide spectrum of payment transactions that are affected by this decision if the logic were to be followed through. In our view, this fact pattern cannot be considered in isolation as it is only one facet of a potentially much larger issue and we ask that the matter is subject to a full and open debate.

7. One option could be that this matter is deferred for now and instead considered as part of the wider IFRS 9 post-implementation review (IFRS 9 PIR). Whilst the IASB have not included derecognition in the list of topics to be considered as part of the IFRS 9 PIR, it could be discussed under 'other issues'. This would allow more detailed and further consideration over an appropriate time-scale to be made in proportion with the scale of the issue at hand. We believe this would be appropriate as any decision is likely to have a significant impact, as almost all companies account for cash transactions of this kind.

25 November 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

- Demand Deposits with Restrictions on Use (IAS 7 *Statement of Cash Flows*)
- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

November 25, 2021

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

We agree with the staff analysis and IFRS IC conclusion in the TAD pertaining to derecognition of the trade receivable and recognition of cash received via electronic transfer (or another financial asset) as settlement for that trade receivable.

With kind regards,

CA. Parminder Kaur
Secretary,
Accounting Standards Board
Institute of Chartered Accountants of India

Canadian Accounting Standards Board
277 Wellington Street West,
Toronto, ON Canada M5V 3H2
T. 416 977.3222 F. 416 204.3412
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November 24, 2021

Submitted electronically via ifric@ifrs.org

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs:

Re: Tentative Agenda Decision – Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretation Committee's (Committee) Tentative Agenda Decision (TAD) on Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9), issued in September 2021.

In formulating the views expressed in this letter, we considered input from our IFRS® Discussion Group (Group). The Group consists of members with a range of backgrounds and experience, including preparers, users and auditors of financial statements prepared in accordance with IFRS Standards.

Prevalence and Materiality

In Canada, there is not widespread diversity in terms of the application of IFRS 9 to cash received via electronic transfer as settlement for financial assets. Overall, we understand that it is common practice for entities to derecognize trade receivables when their customers initiate cash payments via electronic transfer. This is because in Canada electronic payments normally settle either immediately or with a very short delay. However, a short delay could cause an electronic payment to be initiated in one period and settled in another. Therefore, the application of this TAD could have an impact on the financial statements of entities. In the absence of further research, it is not clear whether this impact would be material or not and whether the change would result in useful information.

Scope of the Issue

While we understand that the TAD is based on a very narrow fact pattern, we are concerned that the agenda decision has broader implications, resulting in unintended consequences when entities account for other arrangements involving payments in transit. For example, there is a longstanding accounting practice of derecognizing accounts payable when a cheque is issued. The agenda decision will prompt stakeholders to question this practice and consider delaying derecognition until the cheque is deposited into the customer's bank account. Due to the potential broader implications, we think the IFRIC should not finalize this agenda decision as it is not sufficiently narrow in scope. As such, we think that a standard-setting project would be required to adequately address the issue. Any standard setting project to address this matter should begin with extensive research on the scope of transactions impacted.

Standard-Setting Options

We think that the Committee should recommend that the IASB consider this issue in the context of its post-implementation review of IFRS 9. Specifically, we think that the Board could explore expanding the:

- scope of the settlement date/trade date policy choice for regular way purchases or sales to apply to payments in transit, or
- definition of cash equivalents to include payments in transit.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or alternatively, Katharine Christopoulos, Director, Accounting Standards at +1 416 204-3270 (email kchristopoulos@acsbcanada.ca) or Jamie Goodman, Principal, Accounting Standards at +1 416 204-3294 (email jgoodman@acsbcanada.ca).

Yours truly,

Linda F. Mezon-Hutter, FCPA, FCA, CPA (MI), CGMA
Chair, Canadian Accounting Standards Board
lmezon@acsbcanada.ca
+1 416 204-3490

About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

About the IFRS® Discussion Group

The IFRS Discussion Group (the Group) is an advisory committee of the Canadian Accounting Standards Board (AcSB) that provides a regular public forum to discuss issues arising in Canada from the application of IFRS Standards. The Group is made aware of such issues through its members, who have an in-depth knowledge of IFRS Standards, and our stakeholders, who can submit issues for consideration by the Group. Potential agenda items are assessed against a set of criteria including whether the issue is widespread (either within an industry or across various industries) in Canada, and whether there is divergent practice or the potential for divergent practice. The Group's discussion generally acts to raise awareness in order to help stakeholders understand the principles and requirements in IFRS Standards. However, at times, the Group may make a recommendation to the AcSB to refer a particular issue to the IASB or IFRS Interpretations Committee. The AcSB discusses the recommendation and decides on next steps.

November 24, 2021

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)*.

We concur with the Committee's conclusion that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Chief Executive Officer

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BUSINESSEUROPE

IFRS Interpretations Committee
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

25 November 2021

Dear Member of the IFRS Interpretations Committee,

Re: Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset

BusinessEurope welcomes the opportunity to provide comments on the "Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset" (the TAD) issued by the IFRS Interpretations Committee (the Committee) following its meeting in September.

We are concerned by this TAD since we believe that the analysis and conclusions drawn may have much wider implications than for just the specific fact pattern discussed. In the light of this TAD, auditors may require entities to undertake a complete review of all payment methods and the consequence of this TAD may well be that long-established accounting practices may be substantially altered, resulting in disruption and confusion for preparers and users. We think that before this topic is concluded upon definitively there should be a more comprehensive review, including consideration of all other payment methods such as, for example, credit-card payments and cheque payments, whether made or received by the entity.

Although the TAD deals only with electronic transfers in a certain jurisdiction it raises the question of what the derecognition trigger would be for other instruments, such as cheques or credit-card payments. In the case of a cheque received in settlement of a trade receivable, the practice in most jurisdictions would be to derecognise the receivable and recognise cash in transit when the cheque is transmitted to the entity's bank. Where a cheque is cancellable by the emitter or the emitter's bank, the principle established by the TAD would be not to derecognise the receivable until the cheque clears the banking system and the cash is shown in the entity's account. If this principle were also applied to the extinguishment of the trade payable, this would also be very different from the current practice of showing the cheques written as reductions of cash at the bank on the date of expedition to the creditor and derecognising the liability at the same time.

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EU Transparency register 3978240953-79

The conclusion of the TAD states that the entity recognises the cash (or another financial asset) received as settlement for the trade receivable on the same date as that on which the contractual rights to the cash flows from the trade receivable expire. The analysis states that in a case where the contractual rights to the cash flows from the receivable expire (because the customer has issued the payment order, for example) before the transfer settlement date (when cash is deposited in the entity's bank account) the entity cannot recognise cash but has to recognise a different financial instrument (for example, a right to receive cash from the customer's bank). This "cash in transit" would traditionally be presented as cash and cash equivalents since its (very) short-term, highly liquid nature and readily convertible characteristic appear to conform to the definition of cash equivalents. However, the TAD is silent on whether this practice is appropriate and in discussions, some have stated that the instruments representing cash in transit are not an investment, thus implying that these instruments cannot be either cash or cash equivalents. We think that further explanation is required on this matter.

We would therefore recommend that before the Committee finalises this TAD, it should undertake an examination of all common payment instruments and the current accounting practice related to them, determine whether such practice is consistent with the current requirements of IFRS 9, and assess whether any diversity is the result of different legal situations or of different interpretations of the standard. It should also determine whether any consequent fundamental change to long-established practice would result in more useful and relevant information than the current practice.

If you wish to discuss any of the above, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser

PO Box 1411
Beenleigh QLD 4207
25 November 2021

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/cash-received-via-electronic-transfer-as-settlement-for-a-financ/

Dear Sue

Tentative agenda decision - Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I do not agree with the analysis of the issue that rejects the application of the regular way purchase of financial assets provisions.

Irrespective of my views on the application of the regular way provisions, I believe that the matter should be referred to the IASB for consideration as part of the post-implementation review of IFRS 9.

This interpretation, if issued, would appear to require significant changes that are likely to be impractical to implement, to accounting that has been in practice for many years, without any improvement in financial reporting.

Also, the implications of what appears to be a very narrowly interpreted decision would have consequent effect on 'mirror accounting' for trade payables In particular, that unpresented cheques would not be considered a settlement of a trade payable. It has been common practice, for many, many years (decades) that cheques sent to a creditor are treated as a payment to that creditor, and that unpresented cheques should be deducted from the cash at bank balance reported in the balance sheet.

Application of the regular way purchase of financial assets provisions

The provisions under IFRS 9 for regular way purchases are:

> **Regular way purchase or sale of financial assets**
>
> **3.1.2 A *regular way purchase or sale* of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting (see paragraphs B3.1.3–B3.1.6).**
>
> **Regular way purchase or sale is defined as**
>
> A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned

It seems that IFRIC has interpreted a "purchase" of a financial asset as being the exchange of a financial asset for another financial asset (only being cash). I see no reason that an exchange of a financial asset (cash) for the exchange of another financial asset (trade receivable) should not have the same accounting applied – i.e. a choice of trade date or settlement date accounting.

If an amendment to IFRS 9 is required to get a common sense answer for both the payment of trade receivables and trade payables, then such amendments would be a far better approach than disrupting existing practices for an approach that is likely to be impractical to apply.

Impracticality of application

The impracticality of application is illustrated using an example of a business being paid by cheque – while cheques are not used today as frequently as in the past, the issue also applies with other payments where crediting a bank account is deferred. From a practical point of view, I do not know which day the bank credits my account with the cash value for which cheque. I know that the bank has credited my bank account balance (that I will be able to withdraw in the near future), and I know that not all the balance is immediately available for withdrawal today (as my available balance is less than my account balance), but I do not know which cheques have been delayed in settlement.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

IFRS Foundation

Columbus Building, 7 West ferry Circus

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United Kingdom

25 November 2021

Dear Sir/Madam,

Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission – commentary on Tentative Agenda Decision on Cash Received via Electronic Transfer as Settlement for Financial Asset (IFRS 9).

In response to your request for comments on Tentative Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset, attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS specialists, and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Nyasha Chakuma
Project Director

Webster Sigauke
Project Director

Project team : Simbarashe Mazanhi
: Allen Mazhaume
: Wilbert Mudukuti

Our comments are as follows:

The opening of Tentative Agenda Decision on cash Received via Electronic Transfer as settlement for a Financial Asset for commentary is an opportunity for all IFRS adopters to clear the hurdles brought about by determining the date to derecognize trade receivables when settlement is via Electronic Transfer system and when to recognize cash.

Tentative Agenda Decision

The Committee received a request about the recognition of the cash received via an electronic transfer system as settlement for a financial asset. In the fact pattern described in the request:

a. the electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.

b. an entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date.

The request asked whether the entity could derecognize the trade receivable and recognize cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

Conclusion

In the fact pattern described in the request, the Committee concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:

a. derecognizes the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

b. recognizes the cash (or another financial asset) received as settlement for that trade receivable on the same date.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to derecognize a trade receivable and recognize cash received via an electronic transfer system as settlement for that receivable. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Our responses to the decision are as below:

We agree with the committee's thinking pattern and decision because of the following:

1. Some banks may allow the payer to take a screen shot of the payment being processed as a proof of payment before the payment process is completed (i.e. before the final signatory confirms the payment) , due to fraudulent purposes . This is due to individuals who want to fraudulently deceive their creditors that they have made a payment whilst in fact, nothing was paid. Another issue with Zimbabwe's banking sector is the constant system downtime experienced which prolongs the processing time of bank transactions. The committee's conclusion, therefore, helps reduce misrepresentative cash and trade receivable balances and is in line with the conceptual framework's calls for financial statements to faithfully represent the economic phenomenon in words and numbers [Conceptual Framework 2.12].

   For faithful representation, a depiction would have three characteristics. It would be complete, neutral, and free from error [Conceptual Framework 2.1.3].

   A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasized, deemphasized, or otherwise manipulated to increase the probability that financial information will be received favorably or unfavorably by users [Conceptual Framework 2.1.5].

   Given the fact pattern above in the question sent to the board, the derecognition of trade receivable and the recognition of cash on the year-end date which will be settled only 2 days after can be viewed as a form of manipulation of data to increase the probability of favorable reception by users especially in entities with cashflow constraints. Consistency with the board's conclusion would therefore enhance the reliability of the financial statements to the end-user.

2. Another enhancing qualitative characteristic of the conceptual framework is verifiability.
   Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent [conceptual framework 2.30]. In relation to the questions above, can the derecognition of trade receivables and recognition of cash at the year-end date, 2 days before settlement be verified following accounting principles to have occurred in the stated financial year-end.

   According to the conceptual framework, an asset is a present economic resource controlled by the entity as a result of past events [Conceptual Framework 4.3]. Looking at the recognition of cash in bank, it can only be classified as an asset when an entity can control the use if it is sitting in its bank balance on settlement date. Now, with uncertainty surrounding proof of payments in the Zimbabwean context, bank statements would then be a more reliable tool of verification for observers and can only reflect the deposit of cash into the account two days after reporting date. This then will be inconstant with what was disclosed in the financials (unfaithful representation).

Mrs Sue Lloyd

IFRS Interpretations Committee Chair

Columbus Building,
7 Westferry Circus, Canary Wharf
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La Défense, 25 November 2021

Tentative Agenda Decisions – IFRIC Update September 2021

Dear Sue,

MAZARS is pleased to comment on the IFRS Interpretations Committee Tentative Agenda Decisions published in the September 2021 IFRIC Update.

We have gathered our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully,

Michel Barbet-Massin

Edouard Fossat

Financial Reporting Technical Support

mazars

Appendix 1

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

We agree with the IFRS Interpretations Committee's analysis of the fact pattern described in the Tentative Agenda Decision and with its conclusion on the accounting for the derecognition of the trade receivable and the recognition of cash.

We therefore agree with the Committee's decision not to add this item onto its agenda.

Appendix 2

Demand Deposits with Restrictions on Use (IAS 7)

We agree with the IFRS Interpretations Committee's analysis of the fact pattern described in the Tentative Agenda Decision and with its conclusion in terms of presentation in the statement of financial position and disclosures.

We therefore agree with the Committee's decision not to add this item onto its agenda.

Comment Letter

PRE-061/21
November, 25 th, 2021

IFRS Foundation
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Canary Wharf
London
commentletters@ifrs.org

Reference: Tentative Agenda Decision (TAD) - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)

Dear Sirs,

The Brazilian Association of Public Companies (ABRASCA, as abbreviated in Portuguese) welcomes the opportunity to submit comments on the Tentative Agenda Decision - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9). Our comments reflect the views of our 434 members, which include public companies of different sizes and different segments in Brazil.

ABRASCA welcomes the IFRS Interpretations Committee (Committee) initiative to discuss a request received about the recognition of cash received via an electronic transfer system as settlement for a financial asset.

In the fact pattern described in the TAD, cash transfers made via the electronic transfer system are settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.

Regarding whether cash is recognized by the recipient on the date the cash transfer is initiated rather than on the date the cash transfer is settled, the TAD sets out "In the fact pattern described in the request, it is therefore only when cash is deposited in its bank account that the entity would have a right to obtain cash from the bank. Consequently, the entity recognises cash as a financial asset on the transfer settlement date, and not before."

Moreover, the Committee observed in the TAD that 'if an entity's contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise any financial asset received as settlement for the trade receivable (for example, a right to receive cash from the customer's bank) on that same date." In such circumstance, an entity would be precluded to present as cash or cash equivalents the financial asset received as settlement for the trade receivable.

In accordance with IAS 7, cash comprises cash on hand and demand deposits. However, the term "demand deposit" is not defined by that Standard. Furthermore, IAS 7 defines cash equivalent as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In our view, the presentation of a financial asset before the date the cash transfer is settled as described in the fact pattern is a matter of judgement to be applied by reporting entities. Accordingly, we believe the Interpretation Committee should refer the matter to the Board or revise the content of the TAD.

If you have any questions regarding our comments, please contact us at. abrasca@abrasca.org.br, or milton@abrasca.org.br.

Yours sincerely,

Eduardo Lucano dos Reis da Ponte
Executive president
ABRASCA Brazilian Association of Public Companies