



STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)	
Paper topic	Comments on tentative agenda decision	
CONTACT(S)	Syamsul Hidayah	shidayah@ifrs.org
	Gustavo Olinda	golinda@ifrs.org

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Introduction

1. In September 2021, the IFRS Interpretation Committee (Committee) published a [tentative agenda decision](#) in response to a submission about the recognition of cash received via an electronic transfer system as settlement for a financial asset applying IFRS 9 *Financial Instruments*.
2. In the fact pattern described in the submission:
 - (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.
3. The submission asked whether the entity could 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).

4. The Committee observed that:
 - (a) both the trade receivable, and the cash the entity receives, are financial assets within the scope of IFRS 9. 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.
 - (b) in the submitted fact pattern, 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.

5. Regarding the derecognition of the trade receivable, the Committee observed that:
 - (a) except when an entity transfers a financial asset, paragraph 3.2.3 of IFRS 9 requires an entity to derecognise a financial asset when, and only when, ‘the contractual rights to the cash flows from the financial asset expire’. In the submitted fact pattern, the entity therefore derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire.
 - (b) determining the date on which the entity’s contractual rights to those 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.

6. Regarding the recognition of cash (or another financial asset) received as settlement for the trade receivable, the Committee observed that:
 - (a) paragraph 3.1.1 of IFRS 9 requires an entity to recognise a financial asset when, and only when, ‘the entity becomes party to the contractual provisions of the instrument’. In the submitted fact pattern, the entity is party to the contractual provisions of an instrument—its bank account—under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank. In the fact pattern described in the submission, 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.

- (b) 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. An entity would not however recognise cash (or another financial asset) received as settlement for a trade receivable before it derecognises the trade receivable.
7. The Committee concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:
- (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.
8. Based on its analysis, the Committee concluded that the principles and requirements in IFRS Accounting 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. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.
9. The objective of this paper is to:
- (a) analyse comments on the tentative agenda decision (paragraphs 11–56); and
 - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 57–58).
10. Appendix A to this paper sets out the proposed wording of the agenda decision.

Comment letter summary

11. We received 27 comment letters by the comment letter deadline. All comment letters received are available on our [website](#).¹ This agenda paper includes an analysis of

¹ At the date of posting this agenda paper, there were no late comment letters.

comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 3A.

12. Almost all respondents agree (or do not disagree) with the Committee’s analysis and conclusions in the tentative agenda decision. In particular, they agree (or do not disagree) with the observations that:
 - (a) an entity applies the requirements in paragraphs 3.2.3 and 3.1.1 of IFRS 9, respectively, in determining when to derecognise the trade receivable and recognise cash in the submitted fact pattern; and
 - (b) the requirements for regular way purchases or sales of financial assets in paragraph 3.1.2 of IFRS 9 are not applicable.

13. Nonetheless, many respondents comment on the outcomes of finalising the agenda decision. These respondents say finalising the agenda decision would:
 - (a) cause undue disruption to long-standing accounting practices, such as the accounting for cheques and the performance of bank reconciliations.
 - (b) have unintended consequences on the accounting for other payments methods, such as payments made by cheque or credit card, and for payments an entity makes to settle trade payables.
 - (c) be costly and complex to apply, both in terms of (i) adapting systems and processes, and (ii) undertaking legal analysis to determine when rights to cash flows expire across different payment methods and jurisdictions.

14. These respondents suggest that the Committee not finalise the agenda decision. Instead, some respondents suggest that the matter be referred to the International Accounting Standards Board (IASB) and addressed as part of the Post-Implementation Review of IFRS 9 or another standard-setting project.

15. A few respondents disagree with the Committee’s conclusions in the tentative agenda decision. Specifically:
 - (a) one respondent says, in the submitted fact pattern, an entity can apply the requirements for regular way purchases or sales of financial assets in paragraph 3.1.2 of IFRS 9; and

- (b) some respondents either say an entity can recognise as cash a financial asset received as settlement for the trade receivable before cash is received (for example, a right to receive cash from the customer’s bank), or suggest that the Committee clarify whether such a financial asset would qualify as ‘cash equivalents’ applying IAS 7 *Statement of Cash Flows*.

16. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

17. We have separately analysed comments on:
- (a) the Committee’s technical analysis and conclusions in the tentative agenda decision (paragraphs 18–29); and
 - (b) the outcomes of finalising the agenda decision and requests for standard-setting (paragraphs 30–56).

Technical analysis and conclusions

Application of ‘regular way purchase or sale’ accounting

Respondents’ comments

18. The tentative agenda decision states:

The Committee observed that, in the fact pattern described in the request, 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.

19. David Hardidge says the tentative agenda decision seems to interpret the term ‘purchase’ as the exchange of a financial asset for another financial asset (cash). In his view, an entity can apply the requirements for regular way purchases or sales of financial assets because, in the submitted fact pattern, the entity exchanges a financial asset (cash) for another financial asset (trade receivable).

Staff analysis

20. We continue to agree with the Committee that, in the submitted fact pattern, the entity is neither purchasing nor selling a financial asset. Instead, the entity receives cash as settlement for an existing financial asset—the trade receivable from the customer. In our view, the settlement of a trade receivable cannot be characterised as either the ‘purchase’ of cash or the ‘sale’ of that trade receivable.
21. We also note that paragraph BA.4 of IFRS 9 states ‘a regular way purchase or sale gives rise to a fixed price commitment between trade date and settlement date that meets the definition of a derivative’. The receipt of cash as settlement for a trade receivable gives rise to no such fixed price commitment.
22. We therefore conclude that, in the submitted fact pattern, the requirements in paragraph 3.1.2 of IFRS 9 for a regular way purchase or sale of a financial asset are not applicable.

Classification of ‘cash-in-transit’ as cash or cash equivalents

Respondents’ comments

23. The tentative agenda decision states:

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. An entity would not however recognise cash (or another financial asset) received as settlement for a trade receivable before it derecognises the trade receivable.
24. Some respondents suggest that the Committee clarify whether a financial asset received as settlement for the trade receivable before cash is received (for example, a right to receive cash from the customer’s bank)—which some respondents refer to as ‘cash-in-transit’—would qualify as ‘cash equivalents’ applying IAS 7.² These

² Paragraph 6 of IAS 7 defines ‘cash equivalents’ 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.’

respondents say such a financial asset would appear to be a cash equivalent because it is highly liquid.

25. Petrobras and ABRASCA say IAS 7 defines cash as ‘cash on hand and demand deposits’, but does not define the term ‘demand deposit’. In their view, it is possible for the financial asset referred to in paragraph 24 above to be considered a demand deposit—and thus classified as ‘cash’—because it is available within two working days and is due from a financial institution. In their view, the requirements in IFRS Accounting Standards provide more than one possible answer, and an entity would apply judgement in determining its accounting.

Staff analysis

26. At its September 2021 meeting, the Committee discussed and decided not to comment on whether an entity, applying IAS 7, could classify as ‘cash equivalents’ a financial asset received as settlement for a trade receivable before cash is received. The Committee concluded that dealing with such a question would be beyond the scope of the question asked in the submission. We continue to agree with the Committee’s decision.
27. Nonetheless, we note the following:
- (a) to meet the definition of ‘cash equivalents’ in IAS 7, items need to be more than just highly liquid. They need to be ‘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’.
 - (b) we disagree with respondents who say an entity could consider the financial asset (referred to in paragraph 24 above) to be a demand deposit because it is available within two working days and is due from a financial institution. In the submitted fact pattern, the entity has neither deposited amounts with the customer’s bank nor can it access such amounts on demand.

Other comments

28. The following table summarises respondents’ comments on other matters related to the Committee’s technical analysis and conclusions, together with our analysis of these comments:

Respondents' comments	Staff analysis and conclusions
<p><i>1. Symmetry between the payer's and payee's accounting</i></p> <p>Paragraph B3.2.15 of IFRS 9 states '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...'. KPMG says this requirement implies that there must be symmetry between the receiving entity's recognition of cash (and derecognition of the trade receivable) and the paying entity's derecognition of cash (and the trade payable).</p> <p>The Group of Latin American Standards Setters (GLASS) and the Consejo Mexicano de Normas de Información Financiera (CINIF) express concerns about potential differences in when the receiving entity recognises cash and when the paying entity derecognises cash.</p>	<p><i>We recommend no further action.</i></p> <p>The requirements in paragraph B3.2.15 of IFRS 9 apply only when an entity has transferred a financial asset but the transfer does not qualify for derecognition, for example because the transferring entity retains substantially all the risks and rewards of ownership of the financial asset. In our view, the requirements in paragraph B3.2.15 are not applicable in the submitted fact pattern.</p> <p>The payer's accounting does not affect the entity's accounting in the submitted fact pattern.</p>
<p><i>2. Wording and other suggestions</i></p> <p>Respondents suggest the following wording changes:</p> <p>a. the tentative agenda decision states that '...the entity is party to the contractual provisions of an instrument—its bank account...'. Stellantis says the bank account itself is not an instrument, but just the mechanism used to hold the entity's cash. It therefore suggests changing the wording in the tentative agenda decision accordingly.</p> <p>b. the tentative agenda decision states that an entity recognises cash (or another financial asset) on the same date it derecognises the trade receivable. The National Bank of Georgia says this statement could create confusion because it seems to contradict the conclusion that the entity recognises cash as a financial asset on the transfer settlement date, and not before.</p>	<p><i>We recommend no further action.</i></p> <p>Respondents' suggestions would no longer be applicable should the Committee agree with our recommendation to simplify the tentative agenda decision discussed in paragraphs 46–51 of this paper.</p>

<p>c. ACTEO suggests that the Committee include in the agenda decision the facts and circumstances an entity considers in determining whether its rights to receive cash flows have expired.³</p>	
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Staff conclusion

29. Based on our analysis in paragraphs 18–28 of this paper, we continue to agree with the Committee’s technical analysis and conclusions in the tentative agenda decision. Accordingly, we agree with the Committee’s:
- (a) analysis that, in the submitted fact pattern, the entity applies paragraph 3.2.3(a) of IFRS 9 to determine the date on which to derecognise the trade receivable and paragraph 3.1.1 of IFRS 9 to determine the date on which to recognise the cash as a financial asset; and
 - (b) conclusion that the principles and requirements in IFRS Accounting 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.

Question 1 for the Committee

1. Does the Committee agree with the conclusion set out in paragraph 29 of this paper?

Outcomes of finalising the agenda decision

Respondents’ comments

Disruption to long-standing accounting practices

30. Many respondents say the agenda decision, if finalised, would cause undue disruption to long-standing accounting practices, such as performing bank reconciliations and

³ See paragraph 36 of [Agenda Paper 6](#) for the Committee’s September 2021 meeting.

accounting for cheques when written or received (before amounts are cleared and available to the payee). For example:

(a) KPMG says:

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 unrepresented items (uncleared cheques for example) are deducted from the bank statement balance to reconcile the statement to the book balance.

(b) BDO says:

In many cases, the derecognition criteria [in IFRS 9] 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.).

Unintended consequences for other fact patterns

31. Although the tentative agenda decision addresses only a narrow fact pattern, many respondents say it would affect the accounting for:

- (a) other payment methods (for example, cheques and credit cards); and
- (b) payments an entity makes (for example, to settle trade payables).

32. For example, BusinessEurope says:

We are concerned by this [tentative agenda decision (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.

33. Respondents raise concerns about applying the analysis in the tentative agenda decision to these other fact patterns:
- (a) in the case of payments made, some say:
 - (i) entities often derecognise payables upon initiating an electronic transfer or writing a cheque. A few respondents say this is done for internal control purposes and entities might have no visibility of when a creditor receives the payment after they initiate it.
 - (ii) when a payment is initiated, the related amount might no longer be available to the entity. It is unclear whether such amounts could continue to be classified as cash.
 - (b) in the case of payments received by credit card, some respondents say an entity often has no trade receivable for which it is receiving payment but recognises a receivable from the credit card acquirer (a bank) when it makes a sale. The settlement date of that receivable varies from a few days to weeks. PwC says many entities classify such receivables as cash equivalents—in their view, such a receivable is different from a trade receivable.
34. Some respondents say there is a risk that the agenda decision could be applied inconsistently to transactions or payment methods beyond the submitted fact pattern (for example, should some entities apply the agenda decision only to the submitted fact pattern but others apply it more broadly).

The agenda decision will be costly and complex to apply

35. Some respondents say implementing the agenda decision would be costly and complex. They say implementing the agenda decision could require entities to:
- (a) make substantial changes to systems, processes and internal controls⁴—for example, Deloitte says:

...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.
 - (b) performing legal analysis to determine when rights to cash flows expire across different jurisdictions and for each payment method used. For example:
 - (i) the Institute of Chartered Accountants in England and Wales (ICAEW) says applying the agenda decision may require an entity to ‘obtain a legal opinion for each electronic settlement system in each individual jurisdiction’ and that could result in ‘inconsistent treatment internationally based on potentially very nuanced differences in the various legal environments’; and
 - (ii) Deloitte says, because of these complexities, entities could reach inconsistent conclusions about the timing of legal extinguishment (that is, when the rights to cash flows expire) for each payment system.

The agenda decision should not be finalised

36. Many respondents suggest that the Committee not finalise the agenda decision but, instead, refer the matter to the IASB. These respondents say:
- (a) finalising the agenda decision would not be cost-effective because its implementation would require significant cost and might not improve financial reporting;

⁴ BP also says the agenda decision would affect intercompany reconciliation processes.

- (b) the agenda decision has broad and pervasive implications beyond the submitted fact pattern; and
 - (c) further research is needed to understand the scope of transactions affected by the agenda decision and thus its overall effects on entities.
37. Those respondents suggest that the IASB consider the matter as part of the post-implementation review of IFRS 9, a potential project on the statement of cash flows⁵ or a separate project.
38. In considering whether to undertake standard-setting, some respondents say the IASB could explore:
- (a) providing an exception from the general recognition and derecognition requirements in IFRS 9 for transactions such as the one in the submitted fact pattern—that exception could be similar to the exception for regular way purchases or sales of financial assets; and
 - (b) changing the definition of ‘cash equivalents’ in IAS 7 to include ‘cash-in-transit’.

Further outreach with respondents

39. To better understand respondents’ concerns about the outcomes of finalising the agenda decision, we met with some respondents representing preparers and accounting firms. Appendix B to this paper includes a summary of information obtained from that outreach.

Staff analysis

Disruption to long-standing accounting practices

40. We acknowledge respondents’ concerns that the agenda decision, if finalised, may require entities to reconsider long-established accounting practices. Nonetheless, the tentative agenda decision outlines only the applicable requirements in IFRS 9 with which entities are already required to comply. Publishing—or not publishing—the

⁵ In April 2022, the IASB added to its research pipeline a project on the statement of cash flows and related matters.

agenda decision does not change those requirements. We note that almost all respondents explicitly agreed (or did not disagree) with the Committee’s conclusion that an entity applies the general recognition and derecognition requirements in IFRS 9 to the submitted fact pattern; the requirements for regular way purchases or sales of financial assets are not applicable.

41. It is not unusual for agenda decisions with explanatory material to result in change for at least some entities—questions are often submitted to the Committee because there is some doubt about how to read the principles and requirements in IFRS Accounting Standards and entities either have applied, or are expected to apply, those principles and requirements differently (thus resulting in material effects for entities affected). The outreach performed as part of the Committee’s initial consideration of this matter indicated that entities account for cash received via electronic transfer differently.⁶ In our view, if the Committee decides to finalise the agenda decision, the result would be greater consistency in accounting for such transactions.

Unintended consequences for other fact patterns

42. The tentative agenda decision explains how the applicable requirements in IFRS 9 apply to the submitted fact pattern. It does not *directly* apply to:
- (a) other payment methods (for example, cheques and credit cards)—there could be other facts and circumstances (different from those in the submitted fact pattern) that the Committee has not considered; and
 - (b) the derecognition of trade payables—requirements in IFRS 9 different from those discussed in the agenda decision apply to the derecognition of financial liabilities.
43. Nonetheless, we understand that the agenda decision may provide additional insights that might change an entity’s understanding of the recognition and derecognition requirements in IFRS 9. This might result in entities determining that they need to change their accounting policy for fact patterns beyond the submitted fact pattern. In our view, this is consistent with the expectation set out in paragraph 8.6 of the *Due Process Handbook* that explanatory material in agenda decisions may ‘provide

⁶ See paragraphs 16–19 of [Agenda Paper 6](#) for the Committee’s September 2021 meeting.

insights that might change an entity’s understanding of the principles and requirements in IFRS [Accounting] Standards’. Entities would determine whether and to which extent the explanatory material is applicable—or provides insights into the application of IFRS Accounting Standards—to fact patterns beyond the one described in the agenda decision.

Costs of applying the agenda decision: overall costs

44. We acknowledge that the agenda decision could result in costs for entities that determine they need to change their accounting to comply with the general recognition and derecognition requirements in IFRS 9. Nonetheless, we note that:
- (a) those requirements are generally well understood; they apply to all financial assets (other than regular way purchases and sales) and remain unchanged for quite some time.
 - (b) determining when the contractual rights to cash flows expire could be complex in some situations, but we would expect that consensus would develop for payment methods in each jurisdiction.
 - (c) the outreach performed as part of the Committee’s initial consideration of this matter indicates that it is unlikely to be material for all entities.⁷
45. Some respondents that commented on the costs of applying the agenda decision also said finalising the agenda decision might not improve financial reporting. In our view, the agenda decision would improve the information provided to users of financial statements (investors) in two ways:
- (a) *it would reduce diversity in accounting for the submitted fact pattern*—the agenda decision would result in entities applying the same requirements in determining when to derecognise trade receivables and recognise cash; and
 - (b) *applying the general recognition and derecognition requirements in IFRS 9 would result in useful information for investors*—applying these requirements would faithfully reflect the entity’s contractual rights and obligations.

⁷ See paragraph 15 of [Agenda Paper 6](#) for the Committee’s September 2021 meeting.

Costs of applying the agenda decision: legal analysis

46. The tentative agenda decision states:
- Determining the date on which the entity’s contractual rights to those 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.
47. Many respondents say the agenda decision would require an entity to perform a legal analysis to determine when its rights to cash flows expire, with some saying entities would have to obtain legal opinions. We note that IFRS Accounting Standards often require entities to reflect their contractual rights and obligations in financial statements. The fact that entities would need to ascertain their contractual rights and obligations in the submitted fact pattern is therefore similar to other assessments an entity makes in applying the Standards.
48. Nonetheless, the wording in the tentative agenda decision might have placed too much emphasis on legal analysis—on the determination of the date of derecognition being a legal matter. Feedback received suggests that this wording could be read to imply that a detailed legal analysis is always required, whereas in our view an entity would determine the extent to which any such analysis is needed based on the specific facts and circumstances (in the same way it does in accounting for other transactions).
49. Feedback received on other areas of the tentative agenda decision (see comment 2 in the table below paragraph 28 of this paper) also indicate that the detailed explanation about how entities would apply the recognition and derecognition requirements in IFRS 9 could potentially be confusing. One reason for this confusion could be that, although providing a detailed explanation, the Committee does not conclude on the exact timing of derecognition of the trade receivable in the submitted fact pattern.
50. Overall, the agenda decision simply explains that, in the submitted fact pattern:
- (a) 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; instead

(b) the entity applies the general recognition and derecognition requirements in paragraphs 3.2.3(a) and 3.1.1 of IFRS 9, respectively, in determining the date on which to derecognise the trade receivable and recognise cash.

51. Having considered the feedback received, we therefore propose that, if finalised, the Committee simplifies the agenda decision so that it explains only the above. Appendix A to this paper sets out the changes we would propose to the tentative agenda decision should the Committee decide to finalise it.

Should the agenda decision be finalised?

52. Although many respondents suggest that the Committee not finalise the agenda decision, many other respondents support (or do not oppose) finalising the agenda decision.
53. In deciding whether to add a standard-setting project to the work plan, paragraph 5.16(b) of the *Due Process Handbook* requires the Committee to assess, among other criteria, whether:
- it is necessary to add or change requirements in IFRS [Accounting] Standards to improve financial reporting—that is, the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting
54. In our view, this criterion is not met because, as discussed in paragraph 29 of this paper, the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine the required accounting in the submitted fact pattern.
55. The *Due Process Handbook* neither requires (nor permits) the Committee to determine whether to add a standard-setting project to the work plan on the basis of a cost-benefit assessment of applying *existing requirements* in IFRS Accounting Standards. Such a cost-benefit assessment is made when new requirements are developed. When the criterion in paragraph 5.16(b) is not met, a decision to add a standard-setting project to the work plan on that basis would be inconsistent with the requirements in the *Due Process Handbook*. It would also be inconsistent with the Committee’s past decisions to finalise agenda decisions when the criterion in

paragraph 5.16(b) was not met and when those agenda decisions were expected to result in costs for affected entities.

56. We note that paragraph 8.6 of *Due Process Handbook* states that ‘it is expected that an entity would be entitled to sufficient time to...implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change).’ Therefore, if the Committee were to decide to finalise the agenda decision, affected entities would be expected to have ‘sufficient time’ to implement any necessary accounting policy changes.

Staff recommendation

57. Based on our analysis in paragraphs 17–56, we recommend finalising the agenda decision with the changes suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.
58. We also recommend reporting to the IASB respondents’ concerns about the outcomes of finalising the agenda decision.

Questions 2–4 for the Committee

2. Does the Committee agree with our recommendation set out in paragraphs 57–58 of this paper?
3. Do Committee members have any comments on the wording of the agenda decision in Appendix A?
4. In addition to respondents’ comments on the outcomes, are there any other matters Committee members would wish to report to the IASB?

Appendix A—proposed wording of the agenda decision

- A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

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

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 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 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).

~~The applicable requirements in IFRS 9~~

The fact pattern described in the request involves the receipt of cash as settlement for a trade receivable. Both the trade receivable, and the cash the entity receives, are financial assets within the scope of IFRS 9.

The Committee observed that, in the fact pattern described in the request, 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. The entity instead ~~therefore~~ applies paragraph 3.2.3(a) 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.

The Committee observed that, in the fact pattern described in the request, 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.

Derecognition of the trade receivable

Except when an entity transfers a financial asset, paragraph 3.2.3 of IFRS 9 requires an entity to derecognise a financial asset when, and only when, ‘the contractual rights to the cash flows from the financial asset expire’. In the fact pattern described in the request, the entity therefore derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire.

Determining the date on which the entity’s contractual rights to those 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. In the fact pattern described in the request, if the entity’s contractual right to receive cash from the customer expires only when the cash is received, the entity would derecognise the trade receivable on the transfer settlement date (the date it receives the cash in its bank account).

Recognition of cash (or another financial asset)

Paragraph 3.1.1 of IFRS 9 requires an entity to recognise a financial asset when, and only when, ‘the entity becomes party to the contractual provisions of the instrument’. In the fact pattern described in the request, the entity is party to the contractual provisions of an instrument—its bank account—under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank. 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.

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. An entity would not however

~~recognise cash (or another financial asset) received as settlement for a trade receivable before it derecognises the trade receivable.~~

~~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) 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.~~

The Committee concluded that the principles and requirements in IFRS Accounting 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. Consequently, the Committee {decided} not to add a standard-setting project to the work plan.

Appendix B—Further outreach with respondents

- B1. In our meetings with respondents, we asked for further information about the possible effects of finalising the agenda decision, including:
- (a) the specific payment systems affected;
 - (b) the nature and extent of changes to systems and processes, and
 - (c) the complexity of the analysis required to determine when rights expire and obligations are extinguished.

Summary of outreach

Implications for other fact patterns

- B2. Respondents were mostly concerned about the potential effects of the agenda decision on fact patterns beyond the submitted fact pattern; in particular, (a) cash received via other payment methods (for example, cheques and credit cards), and (b) payments an entity makes to settle trade payables. Respondents said, for example, cheque payments continue to represent material amounts of payments in some jurisdictions and that entities commonly account for payments made by cheque when the cheque is written.
- B3. Respondents said, even though the agenda decision would address only a narrow fact pattern, entities would be expected to apply the technical analysis to all related fact patterns—including those discussed above.

Changes to systems and processes

- B4. Although the effects of applying the agenda decision have yet to be fully assessed, respondents said changes to systems and processes are likely to be required. The agenda decision might also require entities to reassess how they account for amounts in the process of being cleared ('cash-in-transit') across different payment methods.

Legal analysis

- B5. Respondents said it could be complex to determine when rights and obligations to receive or deliver cash expire (or are extinguished). This assessment would require an understanding of the legal framework and contractual arrangements that underpin

payment systems, to which entities have no access. One respondent said they read the tentative agenda decision as requiring entities to perform a detailed legal analysis to determine their accounting; therefore an entity could not simply assume that contractual rights to cash flows expire when cash is received.

- B6. In the case of payments made, respondents said entities generally have no visibility of when the counterparty has received a payment. One respondent said, in some electronic transfer systems, banks might remove funds from a payer's account before transferring these funds to the payee. These situations could make the analysis of contractual rights and obligations complex.