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International Accounting Standards Board

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Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting:	**January 2008, London**
Project:	**Review of Tentative Agenda Decisions published in November IFRIC Update – IAS 37 – Provisions, Contingent Liabilities and Contingent Assets - Deposits on returnable containers (Agenda Paper 4B)**

The IFRIC was asked to provide guidance on the accounting for the obligation to refund deposits on returnable containers. In some industries, entities that distribute their products in returnable containers collect a deposit for each container delivered and have an obligation to refund this deposit when containers are returned by the customer. The issue is whether the obligation should be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

The IFRIC noted that paragraph 11 of IAS 32 *Financial Instruments: Presentation* 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.' Following delivery of the containers to its customers, the seller has an obligation only to refund the deposit for any returned containers. That obligation is an exchange transaction of cash (the deposit) for the containers (non-financial assets). Whether that exchange transaction occurs is at the option of the customer. Because the transaction involves the exchange of a non-financial item, it does not meet the definition of a financial instrument in accordance with IAS 32 and therefore is not within the scope of IAS 39.

The IFRIC concluded that divergence in this area was unlikely to be significant and therefore [decided] not to add this issue to its agenda.