STAFF PAPER

8-9 September 2015

IFRS Interpretations Committee Meeting

IFRS IC Nov 2014, Jan 2015

Project	**IAS 32 *Financial Instruments: Presentation***		
Paper topic	Classification of liability for prepaid cards issued by a Bank in the Bank's financial statements		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Background

1. In November 2012 the IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify the classification of the liability for prepaid cards issued by a bank ('bank') in the bank's financial statements and accounting for the unspent balance of the prepaid cards with the following features:[1]

   (a) no expiry date;

   (b) the customer cannot obtain a refund for the card or exchange the card for cash;

   (c) redeemable for goods or services only at selected merchants ('supplier') and, depending upon the card programme, ranges from a single merchant to all merchants that accept a specific card network; and

   (d) no inactive balance charges, which means that the balance on the prepaid card does not reduce unless it is spent by the holder.

   The same submission was sent to the Emerging Issues Task Force (EITF) of the US Financial Accounting Standards Board (FASB).

[1] In this paper, any reference to a 'bank' should be read to include any financial institution and any reference to prepaid card(s) should be read as prepaid card(s) with the features as explained in paragraph 1 of this paper.

2. Discussion of this issue was on hold until completion of the joint Revenue Recognition project because of the concern that any prior decision on this issue could conflict with the joint project.

3. After completion of the joint project, in November 2014, the Interpretations Committee discussed the submission and tentatively observed that:

   (a) the liability for the prepaid cards with features previously explained meet the definition of a financial liability, because the bank has a contractual obligation to deliver cash to the supplier, which is conditional upon the cardholder using the prepaid card to purchase goods or services from the supplier; and

   (b) the bank would apply the guidance in IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*) to determine when to derecognise the liability for prepaid cards.

4. However, the Interpretations Committee was concerned about other similar arrangements and requested the staff to:

   (a) analyse other similar arrangements to identify the basis to distinguish between those arrangements and the prepaid card; and

   (b) follow the discussions of the EITF on this issue.

5. At its January 2015 meeting, the Interpretations Committee was presented with an analysis of other similar arrangements such as customer loyalty programmes or prepaid cards issued by a non-banking entity that can be redeemed for goods or services of the issuer or a third party. The Interpretations Committee asked the staff to analyse other more complex arrangements to consider the basis for distinction with the prepaid cards.

6. At its March 2015 meeting, the EITF reached a consensus that the liability for a prepaid stored-value card meets the definition of a financial liability if the card (a) does not have an expiration date; (b) is not subject to unclaimed property laws; (c) is redeemable for cash or for goods and services (or both) only at third-party merchants; and (d) is not directly attached to a segregated bank account like a customer depository account. However, it and the FASB decided to propose a narrow-scope

amendment to US GAAP so that, in limited circumstances, a customer's unexercised rights ('breakage') would be recognised in respect of the issuer's financial liabilities (see paragraphs 40-43 of this paper).

Informal feedback from IASB members

7. We consulted some IASB members at various meetings in July 2015 to obtain their individual views on this issue. We did not ask the IASB members to make any decisions when we consulted them.

8. In summary, the informal comments arising from those meetings were as follows:

    (a) the IASB members we consulted observed that the bank's obligation in respect of the prepaid card would be classified as a financial liability because the bank does not have an unconditional right to avoid delivering cash.

    (b) those IASB members acknowledged the consequence of this classification as a financial liability and the view that the application of the derecognition requirements in IAS 39 / IFRS 9 would result in the financial liability for the unused balance on the prepaid card remaining in the bank's financial statements in perpetuity, even if the customer is not expected to use the prepaid card. However, few IASB members expressed a view in favour of an amendment of IFRS 9 (or IAS 39) to reflect the breakage in the bank's liability related to the prepaid card.

Objective

9. The discussions of the Interpretations Committee at the past two meetings highlighted that the determination of whether the entity issuing prepaid cards (or loyalty points) has a financial liability on issuance of those prepaid cards (or loyalty points) would very often be straightforward when there are only two parties in the arrangement—the party issuing and the party holding the prepaid card (or loyalty points). In those cases, the entity issuing prepaid cards (or loyalty points) would not have a financial liability if the holder cannot redeem the prepaid card (or loyalty points) in exchange for cash.

10. Accordingly, in this paper we have focused on arrangements in which there are at least three parties—(a) an entity issuing prepaid cards (or loyalty points); (b) a customer who is the holder of prepaid card (or loyalty points); and (c) a third party merchant who supplies goods or services to the customer in exchange for redemption of prepaid cards (or loyalty points). Further, consistent with the previous agenda papers, in the fact patterns that we considered in this paper we assumed that the customer cannot receive cash against redemption of prepaid cards (or loyalty points).

11. The objective of this paper is to:

    (a) provide an analysis of other similar arrangements, such as customer loyalty programmes, to consider the basis for distinction with the prepaid cards; and

    (b) obtain a recommendation from the Interpretations Committee on the submission received.

Structure of the paper

12. This paper is organised as follows:

    (a) description of the issue;

    (b) analysis of other similar arrangements;

    (c) update of the discussions on the issue at the FASB;

    (d) staff analysis and recommendation; and

    (e) questions to the Interpretations Committee.

Description of the issue

13. The question is about whether the liability recognised by the bank on the issuance of the prepaid card should be classified as a financial or a non-financial liability.

14. The classification of the liability is important because recognition of breakage for non-financial liabilities differs from recognition for financial liabilities:

    (a) in respect of a non-financial liability, in accordance with IAS 37, expected breakages are generally considered when measuring the liability, ie when determining the best estimate of the outflow of resources required to settle the obligation. Alternatively, breakages are recognised in profit or loss by derecognising the non-financial liability if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

    (b) however, IAS 39 / IFRS 9 require that a financial liability is derecognised only when it is extinguished–ie when the obligation is discharged or cancelled or expires. Furthermore, IFRS 13 *Fair Value Measurement* specifies that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Consequently, expected breakage cannot be reflected in the initial measurement of a financial liability with a demand feature.

Non-financial liability view (breakage applicable)

15. The following arguments are made by those who think that the bank's liability in respect of the prepaid card is a non-financial liability.

Neither customer nor supplier has a financial asset.

16. The definition of a financial instrument in paragraph 11 of IAS 32 *Financial Instruments: Presentation* states that a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

17. Those supporting this view argue that the bank's liability, which arises on the issuance of the prepaid card, does not arise from a financial instrument and need not therefore be accounted for in accordance with the financial instruments guidance. This is because they argue that there is no counterparty that has a financial asset on the issuance of the prepaid card. That is:

    (a) the prepaid card cannot be redeemed in exchange for cash. Therefore, the customer does not have a financial asset.

    (b) the supplier has no financial asset until it has provided services or goods to the customer. Only after that date will it have a right to receive cash from the bank.

18. Consequently, they argue that the prepaid card does not meet the definition of a financial instrument, hence the bank's liability would not be classified as a financial liability. Proponents of this view argue that the bank could instead recognise a non-financial liability on issuance of prepaid cards and reflect the expected breakage in the measurement of the liability on the basis that:

    (a) IAS 37 requires that an entity's expectations of the probability of future cash outflows are reflected in the measurement of a non-financial liability.

    (b) the prepaid card arrangement is similar to those arrangements within the scope of IFRIC 13 *Customer Loyalty Programmes*, that requires an entity to consider the proportion of award credits that are not expected to be

redeemed by customers when measuring the fair value of award credits with reference to the fair value of awards.

(c) under US GAAP, the liability is, in practice, derecognised at the point in which redemption by customers becomes remote, on the basis of a 2005 speech of the SEC staff[2], which acknowledged that derecognition may be acceptable if the vendor that issued gift cards can demonstrate that it is remote that a customer will require performance.

19. Under this view, the bank will have a financial liability only when the customer uses the card to pay for goods/services purchased from the supplier, which is the point at which the supplier has a financial asset.

Financial liability view (breakage not applicable)

The bank's liability meets the definition of a financial liability.

20. IAS 32 states that:

(a) a financial liability is any liability that is a contractual obligation to deliver cash to another entity (paragraph 11 of IAS 32); and

(b) if an entity does not have an unconditional right to avoid delivering cash to settle a contractual obligation, the obligation meets the definition of a financial liability (paragraph 19 of IAS 32).

21. Those supporting this view argue that the bank's liability meets the definition of a financial liability in that:

(a) the bank has a contractual obligation to pay cash to a supplier on behalf of the customer at the discretion of the customer, similar in substance to a demand deposit, and does not have an unconditional right to avoid delivering cash to settle this contractual obligation.

[2] Refer to Remarks Before the 2005 AICPA National Conference on Current SEC and PCAOB Developments from 5 December 2005 SEC Speech.

(b) to meet the definition of a financial liability, IAS 32 does not require an entity to identify the specific counterparty that has a financial asset at the same time.

(c) both the customer and the supplier have a contractual right as follows:

  (a) the customer has the contractual right to direct the bank to pay cash to the supplier as payment for goods or services; and

  (b) the supplier has a right to receive cash from the bank after providing goods or services to the customer in the future.

22. Consequently, the liability for the prepaid card would be classified as a financial liability. In accordance with the derecognition requirements in IAS 39/IFRS9, the bank cannot derecognise the financial liability until the obligation is extinguished, even if the prepaid card is not expected to be redeemed by the customer. Also, in accordance with measurement guidance, the bank cannot measure the financial liability at less than the demand amount. This is because:

(a) paragraph 47 of IFRS 13 specifies that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid, which in this case is immediately; and

(b) IAS 39 (and IFRS 9) requires that a financial liability is measured initially at fair value except for particular trade receivables, and that subsequently it is derecognised only when it is extinguished–ie when the obligation is discharged or cancelled or expires.

Analysis of other similar arrangements

23. We will focus our analysis on customer loyalty programmes to address the concern raised by the Interpretations Committee on whether there is a common basis to distinguish the prepaid card from the loyalty programmes.

24. One difference between accounting for loyalty programmes and the prepaid card is that loyalty programmes are explicitly in the scope of IFRIC 13. The prepaid card is

not in the scope of IFRIC 13 because it is not granted to its customers as part of a sales transaction.

25. IFRIC 13 notes that loyalty programmes operate in a variety ways:

    (a) customers may be required to accumulate a specified minimum number or value of award credits before they are able to redeem them;

    (b) points may be linked to individual purchases, or groups of purchases, or to continued custom over a specified period;

    (c) an entity may operate the customer loyalty programmes itself or participate in a programme operated by a third party; and

    (d) the awards offered may include goods or services supplied by the entity itself and/or rights to claim goods or services from a third party.

26. With regard to the accounting for loyalty programmes, IFRIC 13 states that:

    (a) the consideration received or receivable from the sales transaction shall be allocated between the award credits that will be redeemed in the future and the goods or services delivered (paragraph 5 of IFRIC 13);

    (b) the consideration allocated to the award credits shall be measured by reference to their fair value. If there is not a quoted market price for an identical award credit, fair value must be measured using another valuation technique. An entity may measure the fair value of award credits (for which there is not a quoted market price) by reference to the fair value of the awards for which they could be redeemed, taking into account the proportion of points that are not expected to be redeemed by customers, as appropriate (paragraphs AG1 and AG2 of IFRIC 13); and

    (c) if a third party will supply the award credits and the entity pays the third party for each award credit it grants, it could measure the fair value of the award credits by reference to the amount that it pays the third party, adding a reasonable profit margin (paragraph AG3 of IFRIC 13).

27. We think that additional key differences identified between loyalty programmes and the prepaid card are as follows:

(a) the substance of the transaction in the issuance of award credits is commercial rather than financial, that is, the substance of issuer's performance obligation is to provide goods or services to the customer in the future rather than to provide a payment facility.

(b) for a loyalty programme the value of the goods/services to which the customer is entitled may vary, whereas for a prepaid card the entitlement is to goods/services to a specified monetary amount.

28. However, we have considered examples of a customer loyalty programme that could be considered similar to the prepaid card, in that it also gives rise to an obligation of the issuer to deliver cash to the supplier. The features of that example are that:

(a) a retailer (the issuer) sells goods to a customer, and also issues (sells) award credits (points) to the customer. The number of points issued depends on the sales price of the goods that have been sold.

(b) when the customer has accumulated sufficient points, it may use them to purchase a flight, subject to availability, from an airline (the 'supplier'). The points never expire.

(i) Case 1: The customer can redeem the points only from the supplier to purchase a flight. The issuer has an obligation to pay cash to the supplier and no further obligation to the customer.

(ii) Case 2: The customer can redeem the points either from the supplier to purchase a flight *by the arrangement of the issuer* or from the issuer to purchase goods. That is, although the customer may redeem points directly with the supplier, the issuer retains control over the redemption of the points and may vary or limit the extent to which award credits may be redeemed directly with the supplier, rather than being redeemed with the issuer itself. In other words, the issuer has primary responsibility to provide goods or services to the customer.

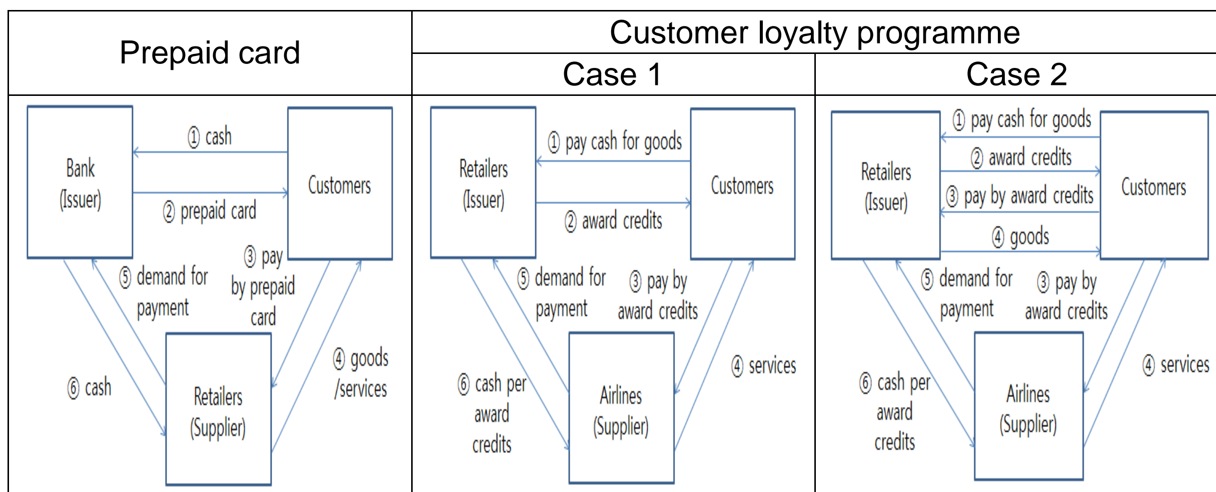
(c) in both Case 1 and Case 2 when the flight purchased using points is provided by the supplier, the issuer must pay cash to the supplier. The

amount of cash payable is based on a fixed value per point and the number of points redeemed.

29. Both Case 1 and Case 2 have the following common features with the prepaid card:

(a) the issuer has a contractual obligation to pay, or stand ready to pay, cash to the supplier, subject to the discretion of the customer; and

(b) the customer can redeem the points with no expiry date, in exchange for goods or services from a third party or in Case 2, from the issuer, but cannot receive cash.



30. Accordingly, this example also gives rise to the same question of whether the issuer's obligation to pay cash to the supplier at the discretion of the customer should be classified as a financial or a non-financial liability.

31. However, IFRIC 13 is silent on whether the issuer's liability should be classified as a financial or a non-financial liability.

32. Depending on the nature of the issuer's obligation, we think that there will be different approaches to the accounting for the loyalty programme.

Analysis of the fact pattern

Case 1: the issuer has an obligation to pay cash to the supplier (Financial liability)

33. We think that the issuer's obligation is accounted for as a financial liability if the issuer has an obligation to pay cash to the supplier and the issuer does not have an unconditional right to avoid delivering cash. In this case, the supplier has an obligation to provide goods or services, and the issuer's accounting is as follows (see Appendix A):

    (a) the consideration received from the sales transaction is allocated first to the financial liability at the amount payable on demand from the supplier, and then to the goods or services delivered[3]; and

    (b) when the points are redeemed, the issuer derecognises the financial liability after paying cash to the supplier.

34. We think that the analysis of Case 1 is similar to the analysis of the prepaid card. We think that the issuer's remaining involvement in the transaction, after the points are issued, is only to pay cash to the supplier. Consequently we think that the issuer has a financial liability that cannot be derecognised until the customer redeems the points, even if the probability that the customer will redeem the points becomes remote.

35. Some argue that this accounting could be in conflict with IFRIC 13 because this accounting does not reflect breakage. However, we disagree with this view. We think this accounting is consistent with IFRIC 13 because:

    (a) the guidance in IFRIC 13 refers to reflecting breakage in the measurement of the fair value of award credits when measuring fair value by reference to the fair value of the awards for which the award credits could be redeemed (AG2).

[3] IFRIC 13 does not specify whether the amount allocated to the award credits should be equal to their fair value (irrespective of the fair values of the other components) or at amount that is pro rata to their fair value – see paragraph BC14 of IFRIC 13. In this paper, we assume that management's judgement on the allocation method is to allocate consideration to the award credits equal to their fair value.

(b) if there is a quoted price for award credits, the fair value of the award credits is the quoted price (AG1); that quoted price is fixed at the time of the initial sale, not adjusted for breakage.

36. However, we think that Case 1 is unlikely to be common in practice. This is because we think that the issuer would effectively be issuing the supplier's points, rather than its own points, and therefore would be more likely to be required to pay the supplier at the date of issuance of the points (as illustrated in Example 2 to IFRIC 13) rather than at the redemption date, as in this example.

Case 2: the issuer has an obligation to provide good or services (Non-financial liability)

37. We think that the loyalty programme of Case 2 is likely to be more common than that of Case 1. If the issuer has primary responsibility to provide goods or services when customers redeem the points, the issuer's obligation should be accounted for as a non-financial liability. This is because:

(a) the issuer has received consideration allocated to the points for accepting an obligation to supply goods or services if customer redeems the points granted as part of a larger sale.

(b) the issuer can avoid paying cash to the supplier, for example, by restricting the award flights or increasing the required points to redeem a flight.

(c) accordingly, the obligation recognised for the award credits represents deferred revenue. Deferred revenue is not a financial liability because the outflow of economic benefits associated with the deferred revenue is the delivery of goods or services rather than a contractual obligation to pay cash or another financial asset (paragraph AG11 of IAS 32).

38. In this case, the issuer's accounting is as follows (see Appendix A):

(a) at the time of the initial sale, the consideration received or receivable from the sales transaction is allocated to the points as deferred revenue (non-financial liability) by reference to their fair value reflecting breakage if a quoted market price for the point is not available, and the goods or services delivered; and

(b) when the points are redeemed with the supplier via the issuer, the issuer recognises revenue and a financial liability to pay cash to the supplier.

39. Consequently, we think that the issuer's obligation related to the points that will be redeemed in the future, would be accounted for as a financial liability or deferred revenue (non-financial liability), depending on the terms of the arrangements in loyalty programmes:

(a) if the issue of award credits to the customer is the fulfilment of the issuer's obligation to the customer, the issuer's obligation should be accounted for as a financial liability. Recognising the financial liability for the future payment to the supplier reflects the only remaining obligation for the issuer.

(b) if the issuer retains primary responsibility to provide goods or services to the customer, and through this retains control over how the points are redeemed, this should be reflected in the issuer's financial statements. The issuer will recognise a financial liability only if and when the customer redeems the points with the supplier.

Update of the discussions on the issue at the FASB

40. The FASB discussed the submission at its meeting on 5 November 2014 and added the prepaid card issue to the EITF agenda.

41. At its March 2015 meeting, the EITF decided:

(a) an issuing bank's liability for prepaid stored-value cards without expiry date, redeemable for goods and services from a third party, would meet the definition of a financial liability. This is because the substance of prepaid stored-value card sales is a single transaction between the entity and the customer that is settled in cash through the merchant; and

(b) the guidance would be amended to include a narrow-scope exception to recognise customer's unexercised rights.

42. On 30 April 2015, the FASB issued the Exposure Draft (ED) *Liabilities─Extinguishments of Liabilities* (Subtopic 405-20) *Recognition of Breakage for Certain Prepaid Stored-Value Cards*. The summary of the ED is as follows:

(a) liabilities related to the sale of prepaid stored-value cards are financial liabilities;

(b) the amendments would provide a narrow-scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistently with the breakage guidance in Topic 606 (*Revenue from Contracts with Customer*) for the liabilities described; and

(c) the amendments would be applied using a modified retrospective basis of application by means of a cumulative-effect adjustment to retained earnings as of the beginning of the annual period in which the guidance is effective.

43. The comment period on this ED ended on 29 June 2015. The EITF is to consider the feedback at a future meeting.

Staff analysis and recommendation

44. We think that the obligation of the bank for the prepaid card is a financial liability. The reasons are that:

(a) the bank's liability meets the definition of a financial liability because the issuer has an obligation to pay cash to the supplier on behalf of the customer, similar to a demand deposit in substance, and does not have an unconditional right to avoid delivering cash to settle this contractual obligation; and

(b) accordingly, the bank's liability cannot be derecognised even if the probability that the customer redeems the prepaid card becomes remote.

45. With regard to customer loyalty programmes, we think that loyalty programmes should not be considered in this prepaid card issue. This is because:

(a) customer loyalty programmes operate in a variety ways. Accordingly, the issuer's obligation could be accounted for as a financial liability or deferred revenue (non-financial liability), depending on the terms of the arrangements in customer loyalty programs.

(b) in customer loyalty programmes, there might be similar structures with the prepaid card. However, we think that the cases when it is similar may not be common.

(c) we think that in customer loyalty programmes, where the issuer retains control over how the points are redeemed, this will result in different accounting, ie a non-financial liability will be recognised.

46. We do not propose a narrow-scope amendment to IFRS to reflect breakage in the financial liability related to the prepaid card, similar to the amendment proposed by the FASB. This is because:

(a) we are concerned that a narrow-scope amendment could give rise to unintended consequences for other aspects of financial instruments accounting; and

(b) our outreach on this issue did not provide evidence that the issuance of prepaid cards with no expiry date is widespread. Consequently, we do not think that there is a need to address this narrow issue.

47. On the basis of our analysis and our assessment of the Interpretations Committee's agenda criteria, we recommend that the Interpretations Committee should not take this issue onto its agenda.[4]

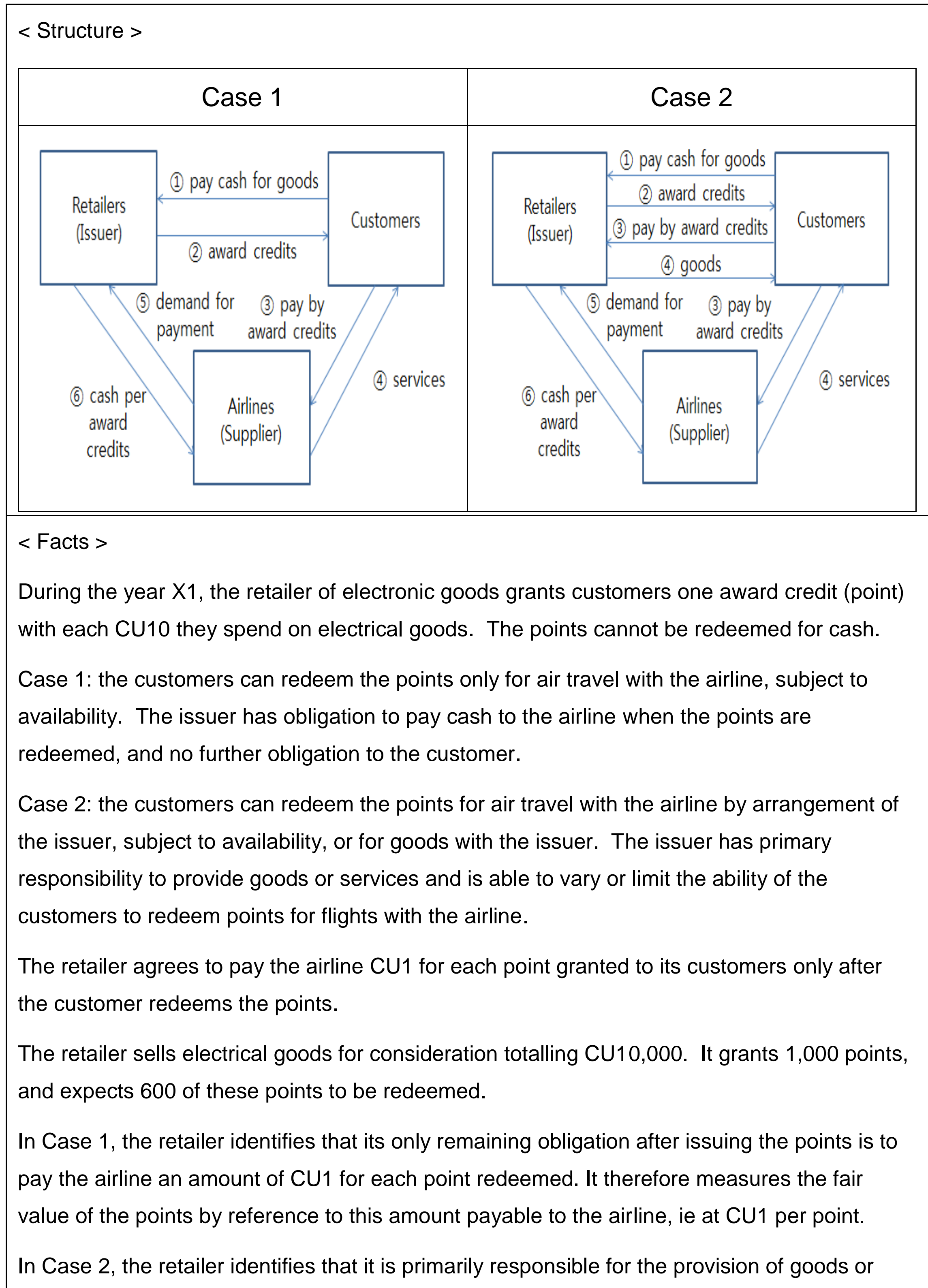
48. We have set out proposed wording of the tentative agenda decision in Appendix B.

Questions to the Interpretations Committee
1. Does the Interpretations Committee agree with the staff analysis?
2. Does the Interpretations Committee have any comments on the drafting of the tentative agenda decision?

[4] Refer to Agenda Paper 13 of the Interpretations Committee's November 2014 meeting.

Appendix A

Example: Customer loyalty programme



< Structure >

< Facts >

During the year X1, the retailer of electronic goods grants customers one award credit (point) with each CU10 they spend on electrical goods. The points cannot be redeemed for cash.

Case 1: the customers can redeem the points only for air travel with the airline, subject to availability. The issuer has obligation to pay cash to the airline when the points are redeemed, and no further obligation to the customer.

Case 2: the customers can redeem the points for air travel with the airline by arrangement of the issuer, subject to availability, or for goods with the issuer. The issuer has primary responsibility to provide goods or services and is able to vary or limit the ability of the customers to redeem points for flights with the airline.

The retailer agrees to pay the airline CU1 for each point granted to its customers only after the customer redeems the points.

The retailer sells electrical goods for consideration totalling CU10,000. It grants 1,000 points, and expects 600 of these points to be redeemed.

In Case 1, the retailer identifies that its only remaining obligation after issuing the points is to pay the airline an amount of CU1 for each point redeemed. It therefore measures the fair value of the points by reference to this amount payable to the airline, ie at CU1 per point.

In Case 2, the retailer identifies that it is primarily responsible for the provision of goods or

services to the customer on redemption of points. It therefore measures the fair value of each point by reference to the fair value of the goods or services for which the points could be redeemed, which it determines to be CU1.25 per point.

At the end of X1, 450 of the points have been redeemed in exchange for air travel.

At the end of X2, 150 of the points have been redeemed in exchange for air travel.

< Analysis >

Depending on the nature of the issuer's obligation, the issuer's liability is accounting for as a financial liability (FL) or a non-financial liability (non-FL), and the retained earnings and the balance of the liability are different:

	Case 1 (FL)		*Case 2 (Non-FL)*	
	Dr	*Cr*	*Dr*	*Cr*
X1, On issuance of points	*Cash 10,000*	*Revenue 9,000* *FL 1,000**	*Cash 10,000*	*Revenue 9,250* *Non-FL 750**
	** CU1 × 1,000 = 1,000*		**CU1.25 × 60% × 1,000 = 750*	
X1, 450 points redeemed	*FL 450*	*Cash 450*	*Non-FL 562* *FL 450*	*Revenue 112** *FL 450* *Cash 450*
			**(CU1.25 – CU1) × 450 = 112*	
X2, 150 points redeemed	*FL 150*	*Cash 150*	*Non-FL 188* *FL 150*	*Revenue 38** *FL 150* *Cash 150*
			**(CU1.25 – CU1) × 150 = 38*	
Retained earnings at X1	*9,000*		*9,362*	
Retained earnings at X2	*9,000*		*9,400*	
Balance of liability at X2	*400*		*-*	

Appendix B

Tentative agenda decision

A1. We propose the following revised wording for the tentative agenda decision.

IAS 32 *Financial Instruments: Presentation*—classification of liability for prepaid cards issued by a bank in the bank's financial statements

The Interpretations Committee received a request to clarify the classification of the liability for prepaid cards issued by a bank in the bank's financial statements and accounting for the unspent balance of the prepaid cards with the following features:

(a) no expiry date;

(b) cannot be refunded, redeemed or exchanged for cash;

(c) redeemable for goods or services only;

(d) redeemable only at selected merchants, and depending upon the card programme, ranges from a single merchant to all merchants that accept a specific card network; and

(e) no back-end fees, which means that the balance on the prepaid card does not reduce unless spent by the holder.

The Interpretations Committee was asked to consider whether the liability for those prepaid cards is a non-financial liability, because the issuing bank does not have an obligation to deliver cash to the cardholder.

Based on the responses to the outreach request, the Interpretations Committee observed that the issue is not widespread. The Interpretations Committee also observed that the liability of the issuing bank for prepaid cards would meet the definition of a financial liability, because the bank has a contractual obligation to deliver cash to the merchants on behalf of the cardholders that is conditional upon the cardholder using the prepaid card to purchase goods or services, which is similar in substance to a demand deposit, and the bank does not have an unconditional right to avoid delivering cash to settle this contractual obligation. Consequently, a bank that issues such a card would apply the guidance in IFRS 9 (IAS 39) to determine when to derecognise the liability for prepaid cards.

The Interpretations Committee therefore concluded that in the light of the existing guidance in IAS 32, and IFRS 9 (IAS 39), neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.