STAFF PAPER

September 2022

IASB® meeting

Project	**Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)**
Paper topic	Next steps

CONTACT Gustavo Olinda golinda@ifrs.org

Purpose of the meeting

1. At its June 2022 meeting, the IFRS Interpretations Committee (Committee) voted to finalise the agenda decision *Cash Received via Electronic Transfer as Settlement for a Financial Asset* (IFRS 9). The agenda decision addresses the recognition of cash received via an electronic transfer system as settlement for a trade receivable.

2. The purpose of this meeting is to:

   (a) provide the IASB with a summary of the Committee's discussions;

   (b) report to the IASB respondents' comments on the potential outcomes of finalising the agenda decision, together with our analysis of those comments; and

   (c) ask the IASB whether it would like to explore narrow-scope standard-setting in response to respondents' comments.

3. If the IASB decides not to explore narrow-scope standard-setting, we will ask IASB members whether they object to the Committee's agenda decision as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Structure of the paper

4. This paper is structured as follows:

   (a) summary of the Committee's discussions (paragraphs 6–20);

   (b) respondents' comments and staff analysis (paragraphs 21–48); and

   (c) should the IASB explore standard-setting? (paragraphs 49–62).

5. There are two appendices to this paper:

   (a) Appendix A—The Agenda Decision; and

   (b) Appendix B—Further outreach with respondents.

Summary of the Committee's discussions

Initial consideration of the matter

6. In September 2021, the 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*.

Fact pattern and question in the submission

7. 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.

8. 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).

Committee's analysis and conclusions[1]

9. 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.

10. 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 would depend on the specific facts and circumstances including the applicable laws and regulations. In the submitted fact pattern, 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).

[1] Paragraphs 11–15 of this paper reflect the wording of the agenda decision approved by the Committee at its June 2022 meeting.

11. 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 when it has the contractual right to obtain cash from the bank for amounts deposited with that bank. In the fact pattern described in the submission, it is therefore only when cash is deposited with the bank 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.

12. The Committee concluded that, applying paragraphs 3.2.3(a) 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.

13. 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.

Feedback on the tentative agenda decision

Overview of feedback

14. The Committee received 27 comment letters on its tentative agenda decision.

15. Almost all respondents agreed (or did not disagree) with the Committee's technical analysis and conclusions in the tentative agenda decision. In particular, they agreed (or did not disagree) with the observations that:

    (a) an entity applies the requirements in paragraphs 3.2.3(a) 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.

16. Nonetheless, many respondents commented on the potential outcomes of finalising the agenda decision.[2] These respondents said 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 payment 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.

17. These respondents suggested that the Committee not finalise the agenda decision. Instead, some respondents suggested that the matter be referred to the IASB and addressed as part of the Post-Implementation Review of IFRS 9 or another standard-setting project.

[2] These respondents include five large accounting firms, six preparers, two national standard-setters or accounting bodies and two individuals.

The Committee's decision

18. At its June 2022 meeting, the Committee considered this feedback and confirmed the analysis and conclusions in the tentative agenda decision. The Committee made small changes to the wording of the tentative agenda decision, having considered the comments received.[3]

19. Eleven of 14 Committee members voted to finalise the agenda decision. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

20. In addition to voting to finalise the agenda decision, Committee members decided to report to the IASB respondents' comments on the potential outcomes of finalising the agenda decision. We include a summary of these comments and our analysis in the following paragraphs.

Respondents' comments and staff analysis

Respondents' Comments

Disruption to long-standing accounting practices

21. Many respondents said the agenda decision, if finalised, would cause undue disruption to long-standing accounting practices, such as performing bank reconciliations and accounting for cheques when written or received (before amounts are cleared and available to the payee). For example:

    (a) KPMG said:

    > 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

[3] The main change was the removal of a statement that determining the date on which the entity's contractual rights to cash flows expire is a 'legal matter'—instead, the agenda decision states that such determination would depend on the specific facts and circumstances.

bank statement balance to reconcile the statement to the book balance.

(b) BDO said:

> 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

22. Although the tentative agenda decision discussed only a narrow fact pattern, many respondents said 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).

23. For example, BusinessEurope said:

> 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.

24. Respondents raised concerns about applying the analysis in the tentative agenda decision to these other fact patterns:

(a) in the case of payments made, some said:

(i) entities often derecognise payables upon initiating an electronic transfer or writing a cheque. A few respondents said 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 said 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 said many entities classify such receivables as cash equivalents—in their view, such a receivable is different from a trade receivable.

25. Some respondents said 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

26. Some respondents said implementing the agenda decision would be costly and complex. They said implementing the agenda decision could require entities to:

(a) make substantial changes to systems, processes and internal controls[4]—for example, Deloitte said:

> …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.

[4] BP also said the agenda decision would affect intercompany reconciliation processes.

(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) said 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 said, 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

27. Many respondents suggested that the Committee not finalise the agenda decision but, instead, refer the matter to the IASB. These respondents said:

(a) finalising the agenda decision would not be cost-effective because its implementation would require significant cost and might not improve financial reporting;

(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.

28. Those respondents suggested that the IASB consider the matter as part of the post-implementation review of IFRS 9, a potential project on the statement of cash flows[5] or a separate project.

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

29. In considering whether to undertake standard-setting, some respondents said 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 *Statement of Cash Flows* to include 'cash-in-transit'.

Further outreach with respondents

30. 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

31. Respondents commented on what they viewed as the potential outcomes of finalising the agenda decision. However, in our view, the agenda decision simply outlines the applicable requirements in IFRS 9 with which entities are already required to comply. Almost all respondents explicitly agreed (or did not disagree) with the Committee's technical analysis, which the Committee confirmed at its June 2022 meeting.

32. Therefore, in this paper we analyse whether the IASB should change the requirements in IFRS 9 in response to respondents' comments, rather than whether the agenda decision should be published.

Disruption to long-standing accounting practices

33. The agenda decision explains that, in the submitted fact pattern, an entity applies the general recognition and derecognition requirements in IFRS 9 in determining the date

on which to derecognise the trade receivable and recognise cash. Applying these requirements, an entity:

(a) recognises cash as a financial asset when the entity is party to the contractual provisions of a financial instrument (paragraph 3.1.1 of IFRS 9)—in the submitted fact pattern, that happens when the entity has the contractual right to obtain cash from a bank for amounts deposited with that bank; and

(b) derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (paragraph 3.2.3(a) of IFRS 9).[6]

34. In our view, the general recognition and derecognition requirements in IFRS 9 result in the most useful information for users of financial statements (investors) in accounting for the financial instruments in the submitted fact pattern. These requirements faithfully represent an entity's contractual rights and obligations at the reporting date.

35. We note that the potential for disruption to long-standing practices is not, in itself, a reason for the IASB to undertake standard-setting. In our view, the IASB should not undertake standard-setting simply to allow entities to retain long-standing accounting practices that are not compliant with the requirements in IFRS 9. Disruption is justified to the extent it:

(a) results in entities changing their current practices to comply with the requirements in IFRS 9; and

(b) reduces diversity in the way entities account for the transaction discussed in the agenda decision.[7]

36. Nonetheless, we acknowledge respondents' concerns about the potential for disruption to long-standing accounting practices and the costs entities may incur in

[6] IFRS 9 also include requirements that apply when an entity transfers a financial asset. These requirements are not applicable in the submitted fact pattern.

[7] 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. See further information in paragraphs 16–19 of Agenda Paper 6 for the Committee's September 2021 meeting.

changing these practices to comply with the requirements in IFRS 9. We also acknowledge that the agenda decision would:

(a) apply to virtually all entities (although not all of them would need to change their practices to comply with the requirements in IFRS 9); and

(b) affect long-standing accounting practices in many jurisdictions that are deeply embedded in many entities' financial reporting systems, processes and controls.

Unintended consequences for other fact patterns

37. In our view, there would be no unintended consequences in applying the general recognition and derecognition requirements in IFRS 9 to fact patterns beyond the one discussed by the Committee, including those mentioned by respondents.

38. Except for regular way purchases or sales of financial assets, the IASB designed the requirements in IFRS 9 to apply in all situations in which an entity recognises or derecognises financial assets and financial liabilities in the scope of the Standard.

39. However, we acknowledge that entities might need to change their practices to comply with the requirements in IFRS 9 for other fact patterns, including accounting for other payment methods (such as cheques) and for payments an entity makes (rather than receives).

40. Some respondents also raised questions about whether receivables from a credit card acquirer, and amounts no longer available to an entity after it initiates a payment, could be classified as cash or qualify as 'cash equivalents' applying IAS 7. The agenda decision does not address the classification of such items as cash and cash equivalents and, therefore, these comments are beyond the scope of our analysis in this paper.

Costs of applying the agenda decision

41. We acknowledge respondents' concerns that entities could incur costs if they determine that they need to change their accounting practices to comply with the requirements in IFRS 9. We also acknowledge that determining when rights and obligations to receive or deliver cash expire (or are extinguished) could be complex.

For example, in the case of payments made by an entity to settle a liability, determining the exact point at which the entity's contractual obligation is extinguished could be complex in some situations.

42. On the other hand, we note that:

(a) the general recognition and derecognition requirements in IFRS 9 are well understood; they apply to all financial assets (other than regular way purchases and sales) and financial liabilities and remain unchanged for some time.

(b) we would expect that consensus would develop regarding when contractual rights to cash flows expire, and obligations to deliver cash are extinguished, 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 likely to be immaterial for some entities.[8]

43. Some respondents that commented on costs also said applying the agenda decision—and thus changing some current practices to comply with the requirements in IFRS 9—might not improve financial reporting. However, in our view, more consistent application of the requirements in IFRS 9—which would result from application of the agenda decision—would improve the information provided to 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*—as discussed in paragraph 34 of this paper, applying these requirements would faithfully reflect the entity's contractual rights and obligations.

[8] See paragraph 15 of Agenda Paper 6 for the Committee's September 2021 meeting.

The agenda decision should not be finalised

44. It is common for stakeholders to comment on the potential outcomes of finalising an agenda decision. For example, stakeholders often comment on:

(a) the costs of applying an agenda decision; and

(b) whether applying the agenda decision would result in useful information for investors.

45. Paragraphs 40–56 of [Agenda Paper 3] for the Committee's June 2022 meeting (June 2022 Committee paper) include our analysis of whether the Committee should have voted to finalise the agenda decision in the light of respondents' comments. That analysis considered the requirements in the *Due Process Handbook* that the Committee considers in determining whether to add a standard-setting project to the workplan. In particular, 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* [emphasis added]

46. Based on our analysis, we concluded that:

(a) the criterion in paragraph 5.16(b) of the *Due Process Handbook* was not met because 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.

(b) 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.

(c) when the criterion in paragraph 5.16(b) is not met, the Committee would fail to comply with its due process—as set out in *Due Process Handbook*—

if it were to decide to add a standard-setting project to the work plan based on a cost-benefit assessment of applying existing requirements. 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.

47. Therefore, we agree with the Committee's decision not to add a standard-setting project to the work plan—and thus to vote to finalise the agenda decision—based on its conclusion that 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.

48. In the June 2022 Committee paper, we not only recommended that the Committee vote to finalise the agenda decision in accordance with its due process; we also recommended reporting to the IASB respondents' comments about the potential outcomes of finalising the agenda decision. In our view, it is possible for the IASB to decide to add a standard-setting project to the work plan in response to respondents' comments, despite the Committee's vote to finalise an agenda decision. This is because the IASB's consideration of whether to add a standard-setting project can go beyond the criteria set out in paragraph 5.16 of the *Due Process Handbook*, which the Committee is required to apply. Therefore, the IASB—as the body responsible for standard-setting—could decide to add a standard-setting project to the work plan for reasons other than those the Committee considers. When the due process requirements in paragraph 8.7 of the *Due Process Handbook*[9] were developed, it was anticipated that, in rare circumstances, the IASB might consider adding a standard-setting project to the work plan, even though the Committee had voted not to do so.

---

[9] Paragraph 8.7 of the *Due Process Handbook* states: 'Before an agenda decision is published, the Board is asked—at its first public meeting at which it is practicable to present the agenda decision—whether it objects to the agenda decision. Specifically, Board members are asked whether they object to (a) the Interpretations Committee's decision that a standard-setting project should not be added to the work plan, and (b) the Interpretations Committee's conclusion that the agenda decision does not add or change requirements in IFRS Standards. If four or more Board members object, the agenda decision is not published and the Board decides how to proceed.'

Should the IASB explore standard-setting?

49. Our analysis in paragraphs 31–48 of this paper acknowledges many of the concerns raised about the outcomes of finalising the agenda decision, while also highlighting the benefits of applying the requirements in IFRS 9. Considering that analysis, in our view the IASB should explore whether it is possible to develop a narrow-scope standard-setting solution that would help entities in applying IFRS 9 and—at the same time—would not significantly reduce the usefulness of information provided to investors. The following paragraphs discuss two ways that the IASB could explore standard-setting which were suggested by respondents, and what each might involve.

How the IASB could explore standard-setting and what that might involve?

Post-implementation review of IFRS 9

50. Some respondents suggested that the IASB consider the matter as part of the post-implementation review of the classification and measurement requirements in IFRS 9. A few respondents to the Request for Information *Post-implementation Review of IFRS 9—Classification and Measurement* also suggested that the IASB consider the matter as part of that project. If the IASB decides to explore narrow-scope standard-setting, in our view it could do so as part of that project.

51. We would propose that any such narrow-scope standard-setting aim to:

    (a) reduce the costs of applying the general recognition and derecognition requirements in IFRS 9—including costs for entities that would have to change their current practices to comply with these requirements—in accounting for payments an entity makes or receives as settlement for financial assets or financial liabilities; but, in doing so

    (b) not significantly reduce the usefulness of the information that would result from the consistent application of these requirements.

52. In other words, we think the IASB should not explore standard-setting that would simply allow entities to retain current accounting practices that are not compliant with the requirements in IFRS 9. Such an approach would allow entities to deviate from requirements that, in our view, provide the most useful information to investors in

accounting for the recognition and derecognition of financial assets and financial liabilities (see paragraph 34 of this paper).

53. If the IASB decides to explore whether it is possible to develop a narrow-scope standard-setting solution, it could for example consider whether it would be possible to:

    (a) help entities determine when the contractual rights and obligations to receive or deliver cash expire (or are extinguished); or

    (b) allow entities to retain current accounting practices in specified situations, thus reducing the costs they would incur to be compliant with the applicable requirements.

54. In order to not significantly reduce the usefulness of the information that would result from the consistent application of the requirements in IFRS 9, in our view:

    (a) any standard-setting would have to be narrow in scope (rather than amend the general recognition and derecognition requirements in IFRS 9);

    (b) any exemption from the general recognition and derecognition requirements in IFRS 9 should be allowed only if it does not significantly reduce the usefulness of the information that would otherwise result from applying these requirements—that may require setting strict scoping criteria; and

    (c) entities whose accounting practices are already compliant with the requirements in IFRS 9 should not be required to change these practices.

55. Further, given the wide variety of payment systems across jurisdictions, any standard-setting might need to specify the required characteristics of payment systems to which it would apply. This would ensure entities could apply any new requirements to different payments systems, regardless of the specific legal environment.

56. If the IASB were to decide to undertake standard-setting, it would set an effective date for any new requirements. This would also have the benefit of providing:

    (a) a common date by which entities would be required to comply with the requirements in IFRS 9 (including any new requirements); and

(b) time for entities to make any changes needed to their systems, processes and controls.

Project on the statement of cash flows and related matters

57. Some respondents also suggested that the IASB consider the matter as part of a future project on the statement of cash flows. For example, some respondents said the IASB could change the definition of 'cash equivalents' in IAS 7 to include 'cash-in-transit'.[10]

58. In April 2022, the IASB added a project on the statement of cash flows and related matters to its research pipeline. As part of that future project, the IASB could decide to review the definition of 'cash equivalents' and the criteria for when an item qualifies as cash equivalents.

59. Nonetheless, considering whether 'cash-in-transit' items would qualify as cash equivalents would not address respondents' comments on the potential outcomes of finalising the agenda decision—entities would still be required to apply the general recognition and derecognition requirements in IFRS 9 in accounting for payments they make or receive as settlement for financial assets or financial liabilities.

60. We also note that the IASB's project on the statement of cash flows is not yet active and, therefore, would be unlikely to address the matter for quite some time even if the IASB were to review the definition of cash equivalents as part of that project. Therefore, we have not explored this alternative further.

Staff conclusion

61. Based on our analysis in paragraphs 31–60 of this paper, we recommend that the IASB explore narrow-scope standard-setting in response to respondents' comments as part of its post-implementation review of IFRS 9. On balance, we think it is possible that the benefits of narrow-scope standard-setting could outweigh the costs.

[10] The agenda decision notes that if an entity were to derecognise a trade receivable before it receives cash, it would recognise any financial asset received as settlement for the trade receivable. Some respondents referred to that financial asset as 'cash-in-transit'.

62. If the IASB agrees with our recommendation, we will bring to a future meeting a paper including analysis of possible narrow-scope standard-setting. In particular, we will provide analysis on:

(a) the form that any narrow-scope standard-setting would take (for example, whether it might be an exemption from specific requirements or a practical expedient to facilitate the application of existing requirements); and

(b) the scope of transactions to which it would apply (for example, whether it would apply to payments an entity makes, receives, or both).

Questions for the IASB

Questions for the IASB
1. Does the IASB agree with our recommendation to explore narrow-scope standard-setting in response to respondents' comments as part of its post-implementation review of IFRS 9?
2. Does the IASB have any comments on our analysis in paragraphs 49–60 of what possible narrow-scope standard-setting might involve?
3. If the answer to question 1 is 'no', do IASB members object to the Committee's:
(a) decision not to add a standard-setting project to the work plan; or
(b) conclusion that the agenda decision (set out in Appendix A) does not add or change requirements in IFRS Accounting Standards?

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its meeting in June 2022.

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 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.

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 would depend on the specific facts and circumstances including the applicable laws and regulations. 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 when it has the contractual right to obtain cash from the bank for amounts deposited with that bank. In the fact pattern described in the request, it is therefore only when cash is deposited with the bank 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(a) 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.