IFRS 9: Cash Received via Electronic Transfer as Settlement for a Financial Asset[1]

Extract, IFRS® Discussion Group Report on the Meeting – September 21, 2022

At its December 2021 meeting, the Group discussed a tentative agenda decision published by the IFRS® Interpretations Committee (the Interpretations Committee) related to the recognition of cash received via an electronic transfer system as settlement for a financial asset. At that meeting, the Group agreed with the Interpretations Committee's technical analysis of the fact pattern included in the tentative agenda decision. The Group then discussed practical implications of implementing the tentative agenda decision if the Interpretations Committee finalizes it. For a summary of the Group's discussion, see the Report on the Public Meeting on December 15, 2021.

At its June 2022 meeting, the Interpretations Committee reviewed comment letters on its tentative agenda decision, and ultimately voted to finalize the agenda decision, with some minor wording changes. The Interpretations Committee concluded that "the principles and requirements of IFRS Accounting Standards provide an adequate basis for an entity to determine when to derecognize a trade receivable and recognize cash received via an electronic transfer system as settlement for that receivable. Consequently, the Interpretations Committee decided not to add a standard-setting project to the work plan."[2]

Paragraph 8.7 of the IFRS Foundation's Due Process Handbook (Due Process Handbook) indicates that before an agenda decision is published, the IASB must vote on whether it objects to the agenda decision. This agenda decision is scheduled to be voted on by the IASB at its September 2022 meeting. In the IASB staff paper on this topic, the IASB staff summarized the Interpretations Committee's previous discussions, and reported a summary of respondents' comments on the potential outcomes of finalizing the agenda decision. The IASB staff recommended the IASB explore narrow-scope standard setting in response to the challenges raised by respondents to the tentative agenda decision. On balance, the IASB staff thought it is possible that the benefits of narrow-scope standard-setting could outweigh the costs.[3] The Group first discussed the challenges raised by respondents to the agenda decision.

[1] The IASB discussed this issue at its meeting on September 22, 2022, and decided to explore narrow-scope standard-setting as part of its post-implementation review of IFRS 9. The Group's discussion on this issue took place prior to the IASB's meeting and therefore included some speculation on whether the agenda decision would be finalized.

[2] IASB, "Agenda Paper 12A- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)," IFRS Foundation, appendix A, 20.

[3] Ibid., paragraph 61, 18.

Issue 1: Challenges raised by respondents to the agenda decision

Analysis

The IASB staff paper summarized the following four themes from the comment letters to the tentative agenda decision:

- Disruption to long-standing accounting practices;
- Unintended consequences for other fact patterns;
- The agenda decision will be costly and complex to apply; and
- The agenda decision should not be finalized.

The Group discussed some of the challenges at its December 2021 meeting, including the implication of the agenda decision for the settlement of financial liabilities, and payment systems and settlement forms other than the one described in the submission to the Interpretations Committee.

The Group's Discussion

The Group agreed with the analysis.

Some Group members pointed out that the agenda decision, if finalized, would not significantly impact most entities within the narrow fact pattern described in the submission. However, several Group members noted that the agenda decision might impact the accounting for many analogous fact patterns. Some of these fact patterns are accounted for using longstanding accounting practices, such as the derecognition of a trade payable upon the issuance of a cheque to a vendor. Some Group members questioned whether changing such longstanding accounting practices would result in information that is useful to financial statement users. The extent of analogous fact patterns, and the impact of the agenda decision on those fact patterns, were not analyzed by the Interpretations Committee as part of their agenda decision. As a result, some Group members indicated that it is unclear how entities might be required to apply this agenda decision to other fact patterns. A few Group members noted that this uncertainty might lead to inconsistent application of the requirements among entities, which may lead to other unintended consequences, including inconsistencies in the calculating certain debt covenants (e.g., net debt or working capital ratios).

One Group member thought that this agenda decision, if finalized, would have a pervasive impact across almost every entity if it is applied to all analogous fact patterns. This Group member noted that the work effort required for many entities to comply with the agenda decision would be significant. This work effort would be particularly significant for entities that operate in multiple jurisdictions since each jurisdiction might have different laws regarding legal settlement of financial assets and liabilities. Entities would therefore be required to undertake a detailed legal analysis in each jurisdiction where they operate, along with an analysis of the unique characteristics of their accounting and settlement systems.

One Group member highlighted some of the uncertainty regarding the potential application of this agenda decision to the derecognition of trade payables. Although the agenda decision does not directly discuss the derecognition of trade payables, this Group member noted that the principles in the agenda decision could be applied to trade payables by analogy. This Group member noted that there are theoretically three points in time when an entity might consider derecognizing a trade payable:

1. when the payment is initiated;
2. when the cash leaves the entity's bank account; or
3. when the counterparty receives the payment in their bank account.

They noted that the draft agenda decision implies that an entity should derecognize a trade payable when the counterparty receives the payment in their bank account. They noted that most entities do not normally contact their counterparties to confirm when they receive a payment, and that doing so would be impractical. They also questioned whether an entity would be required to recognize a receivable from their bank after the cash is removed from their account but before it is successfully delivered to the recipient/vendor. If this is the case, this Group member questioned whether the entity could then consider applying the offsetting guidance in paragraph 42 of IAS 32, *Financial instruments: Presentation*, to the offsetting payable and receivable balance on their balance sheet since these balances would be settled simultaneously.

One Group member suggested that the concerns stakeholders raised might be mitigated through narrow-scope standard setting. For example, the IASB could explore the possibility of including a settlement date/trade date accounting policy choice for payments in transit.

The Group then discussed the implications of the IASB staff's recommendation to be considered by the IASB at its September 2022 meeting.

Issue 2: Implications of adopting the agenda decision if the IASB accepts the staff paper recommendation to explore narrow-scope standard-setting

Analysis

If the IASB accepts the staff recommendation to explore narrow-scope standard-setting at its September 2022 meeting, the final agenda decision will not be published. Until the IASB either objects to the Interpretations Committee's agenda decision, does not object to the Interpretations Committee's agenda decision or finalizes any standard-setting, there remains a question whether entities should apply the guidance in the unpublished agenda decision in the meantime.

View 2A – As the steps to finalize the agenda decision have not been completed and further standard-setting is being considered, there is no requirement for entities to adopt the unpublished agenda decision and change accounting practices where inconsistent with the analysis and conclusions presented by the Interpretations Committee.

Proponents of this view point out that if the IASB accepts the IASB staff's recommendation in the agenda paper to explore narrow-scope standard setting, the IASB will not be asked whether they object to the Interpretations Committee's agenda decision and the original agenda decision will not be finalized or published. Without this final step in the due process, a finalized agenda decision will not exist. Thus, it is unclear whether the additional insights on the application of existing standards must be considered by entities.

In addition, proponents of this view note that the completion of a standard setting project (if any) might confirm that an entity's current accounting practices are permitted. In that case, an entity that changes accounting practice to adopt the guidance in the agenda decision, might then be required to revert to their original accounting treatment once the IASB completes its standard setting activities. Therefore, requiring entities to change their current accounting practices to reflect adoption of the unpublished agenda decision would introduce incremental costs that ultimately may be redundant.

View 2B – As the steps to finalize the agenda decision have not been completed and further standard-setting is being considered, there is no requirement for entities to adopt the unpublished agenda decision. However, entities could consider the unpublished agenda decision as providing additional insights, and change their accounting practices to provide more useful information to users.

Proponents of this view refer to paragraph 8.6 of the Due Process Handbook which states that "the explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision." Therefore, an entity could consider the unpublished agenda decision while assessing its existing accounting practices. If the entity's existing accounting practice is inconsistent with the analysis and conclusions presented in the unpublished agenda decision, the entity could change those accounting practices.

View 2C – Given the Interpretations Committee has concluded that existing IFRS Accounting Standards provide an adequate basis for determining the accounting treatment in the submitted fact pattern, entities should adopt the agenda decision and change accounting practices where inconsistent with the analysis and conclusions the Interpretations Committee presented.

Proponents of this view point out that agenda decisions do not add or change requirements in IFRS Accounting Standards – they simply explain how the applicable principles and requirements of the standards apply to a specific transaction or fact pattern. Almost all respondents to the tentative agenda decision agreed (or did not disagree) with the Interpretations Committee's technical analysis and conclusions, and the Interpretations Committee ultimately voted to finalize the tentative agenda decision. Therefore, the unpublished agenda decision should be adopted as part of an entity's understanding of the principles and requirements in existing standards.

Proponents of this view think the timeframe for entities to consider the need to change their accounting practices, and for implementing such changes should follow the same guidance in the Due Process Handbook as for published agenda decisions. Therefore, entities are entitled to "sufficient time" to implement an Interpretations Committee's agenda decision. Entities should refer to the IASB article, "Agenda decisions – time is of the essence" and the Due Process Handbook, Sections 8.2-8.7 for guidance on the timely implementation of agenda decisions.

The Group's Discussion

Most Group members agreed with View 2A. They noted that the Due Process Handbook was recently amended to promote consistent application of IFRS Accounting Standards, and that circumventing this process could result in less comparable information among entities. Furthermore, they noted that the IASB staff recommends the IASB explore a standard-setting solution to address stakeholders' concerns with the cost of applying the guidance to all analogous fact patterns and the decision-usefulness of the resulting information. Depending on the outcome of any potential standard-setting project, entities may ultimately be permitted to continue their current accounting practices.

Some Group members indicated that they agree with the technical analysis in the draft agenda decision as it applies to the narrow fact pattern in the submission. They questioned whether it is reasonable for entities to defer the application of the draft agenda decision when it provides a valid interpretation of existing standards. They also think that entities could consider applying the guidance to similar fact patterns to the one in the submission (i.e., an electronic transfer of cash for settlement of a trade receivable).

One Group member noted that entities should evaluate the changes they would need to make to their existing processes if the agenda decision is finalized. This could include an analysis of the transactions that would be in scope, and the system changes or manual processes that would need to be implemented to apply the guidance. This Group member indicated that the changes might not be as significant as anticipated for some entities.

The Group recommended the AcSB consider issuing additional communication of the decision the IASB makes at its September 2022 meeting, and the impact of that decision on Canadian entities.