IFRS 9: Amendments to the Derecognition of Financial Liabilities

Extract, IFRS® Accounting Standards Discussion Group Report on the Meeting – September 18, 2025

Background

In May 2024, the IASB published "Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and 7," which includes amendments to address how an entity determines the date of derecognition of financial assets and financial liabilities.

Paragraph B3.1.2A of IFRS 9 the amendments clarify that "a financial asset is derecognized on the date on which the contractual rights to the cash flows expire or the asset is transferred." Similarly, this paragraph states that "a financial liability is derecognized on the settlement date, which is the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires" *unless* an entity is eligible for, and elects to apply, the exception added to paragraph B3.3.8 of IFRS 9 as part of the amendments.

The exception in paragraph B3.3.8 of IFRS 9 only applies to financial liabilities that are settled in cash using an electronic payment system. In such cases, entities may deem the financial liability discharged before the settlement date (i.e., before cash is received by the counterparty) only if the entity has started a payment instruction that has resulted in:

a. the entity having no practical ability to withdraw, stop or cancel the payment instruction;

b. the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

c. the settlement risk associated with the electronic payment system being insignificant.

The amendments to IFRS 9 are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. They are expected to change practice for many Canadian entities that currently derecognize financial liabilities before the settlement date.

The amendments to IFRS 9 were also previously discussed at the Group's September 2024 meeting. The focus of that discussion was to understand the implications of the amendments for the derecognition of financial liabilities settled using electronic payment systems versus those settled through other means, and the challenges in applying the exception.

The below agenda item focuses on the following questions:

- Once the amendments to IFRS 9 are effective, when should financial liabilities within the scope of IFRS 9 be derecognized?

- When an electronic payment is initiated before the balance sheet date, but the settlement is not completed until after the balance sheet date, what are the presentation and disclosure implications for the unsettled cash payment?
- How should a reporting entity account for an intercompany transaction in its consolidated financial statements when one entity within the reporting group uses the exception to derecognize financial liabilities before the settlement date?
- Do the amendments to IFRS 9 impact the timing for the derecognition of cash-settled liabilities that are outside of the scope of IFRS 9?

Issue 1: Once the amendments to IFRS 9 are effective, when should financial liabilities within the scope of IFRS 9 be derecognized?

Fact Pattern 1: Financial liabilities settled by cheque

- Entity A's year-end is December 31.
- Entity A has a trade payable to Entity B of currency units (CU) 100.
- On December 29, Entity A issues a cheque to Entity B to settle the trade payable of CU100. On January 2, the cheque is cleared in Entity B's bank account – meaning that cash is deposited into Entity B's bank account and has been withdrawn from the bank account of Entity A.

When should Entity A derecognize its trade payable?

Analysis

In this case, the exception does not apply because the trade payable is not being settled by an electronic payment system. As a result, in accordance with paragraph B3.1.2A of IFRS 9, the trade payable should be derecognized on the settlement date, which is the date the liability is extinguished because the obligation specified in the contract is discharged, cancelled or expires. On January 2, the obligation specified in the contract is discharged when the cheque is cleared in the payee's (Entity B's) bank account (i.e., the payee receives the cash in its bank account from the payer as consideration for the amount owed and the cash has been withdrawn from the payer's bank account). Therefore, on January 2, Entity A derecognizes the trade payable and the corresponding cash.

Fact Pattern 2: Financial liabilities settled by an electronic payment system (exception is not applied)

- Entity A's year-end is December 31.
- Entity A has a trade payable to Entity B of CU100.
- On December 29, Entity A instructs its bank to make a payment of CU100 to Entity B via an electronic payment system. As the electronic payment system does not settle on the date of the instruction (i.e., it is not an intraday system but rather settles at T+3 days), Entity B

receives the cash from Entity A in its bank account on January 2.Entity A does not apply the exception in paragraph B3.3.8 of IFRS 9 because it elects not to or the specified criteria are not met.

When should Entity A derecognize its trade payable?

Analysis

In accordance with paragraph B3.1.2A of IFRS 9, because the exception in paragraph B3.3.8 is not being applied, Entity A is required to derecognize its financial liability (i.e., trade payable) on the settlement date. This is the date the liability is extinguished because the obligation specified in the contract is discharged, cancelled or expires. On January 2, the obligation specified in the contract is discharged upon receipt of cash by Entity B as consideration for giving up its rights to the cash flows from Entity A. As a result, on that date, Entity A derecognizes its trade payable because the settlement period is complete.

Fact Pattern 3: Financial liabilities settled by an electronic payment system (exception is applied)

Same facts as Fact Pattern 2 above, except Entity A elects to apply the exception and, on December 29, meets the three criteria specified in paragraph B3.3.8 of IFRS 9.

When should Entity A derecognize its trade payable?

Analysis

Entity A has elected to apply the exception and has met the three criteria in paragraph B3.3.8 of IFRS 9. Therefore, in accordance with paragraph B3.3.8, the entity can deem the financial liability to be discharged before the settlement date when the electronic payment is initiated and the criteria to apply the exception are met**.** Accordingly, on December 29, when the criteria to apply the exception are met, Entity A would derecognize its trade payable and the corresponding cash.

With respect to the derecognition of cash, paragraph BC3.61 of the Basis for Conclusions to IFRS 9 explains that "by deeming the liability to be discharged, an entity also deems its right to the cash used to discharge the liability to be expired once it loses the practical ability to access that cash." As a result, the cash would be derecognized on the same date as the liability.

The Group's Discussion

The Group agreed with the analysis presented and raised several other considerations.

Some Group members acknowledged that there may be a time lag between when cash sent by cheque or electronic payment leaves an entity's bank account and is subsequently deposited into the account of its counterparty. As a result, it will be important for entities not applying the exception in paragraph B3.3.8 of IFRS 9 to establish processes and controls around the derecognition of their financial liabilities. This is particularly relevant for material payments which occur around period end.

Two Group members reminded entities that the amendments to paragraph B3.1.2A of IFRS 9 also apply to the derecognition of financial assets. They encouraged entities to ensure that their practice for derecognizing trade receivables is consistent with the requirements in IFRS 9.

Other Group members noted that it may be challenging for entities to determine whether they meet the criteria to apply the exemption in paragraph B3.3.8 of IFRS 9 for each of their electronic payment systems. Entities will need to apply careful consideration in making this assessment by ensuring that they obtain an understanding of the terms and conditions of the major electronic payment systems they use.

Issue 2: When an electronic payment is initiated before the balance sheet date, but the settlement is not complete until after the balance sheet date, what are the presentation and disclosure implications for the unsettled cash payment?

Analysis

In some cases, an entity will initiate an electronic transfer payment before a reporting period end to settle a financial liability, but completion of the electronic payment processing is not complete until after the reporting period end (i.e., it crosses a balance sheet date).

In such cases, if the entity elects not to apply the exception in paragraph B3.3.8 of IFRS 9, or does not meet the criteria, the financial liability is not derecognized until the settlement date, as discussed above.

This raises the question of whether there are any implications for the unsettled cash payment at the reporting period end. Two different scenarios could arise depending on the nature of the electronic payment system:

- the cash is withdrawn from the payer’s account on the initiation date/prior to the settlement date; or
- the cash is withdrawn from the payer’s account on the settlement date.

We consider the following example where the cash is not withdrawn from the payer’s (Entity A’s) bank account until the settlement date.

Fact Pattern

- Entity A’s year-end is December 31.
- Entity A instructs Bank B to make a payment to Entity C for its trade payable of CU2,000.
- Entity A can cancel the instruction for payment without penalty until December 30. After December 30, the payment instruction is non-cancellable. Assume this means the payment is cancellable up to 11:59PM on December 29.

- In Entity A's legal jurisdiction, if Bank B collapses mid-payment cycle (before January 2), the payment would not be completed, and the cash balance Entity A holds in Bank B would be CU2,000.
- Entity A's banking services agreement provides that when an electronic transfer is initiated, the cash is withdrawn from Entity A's bank account and deposited into the recipient's bank account three business days after the transfer is initiated (on January 2).
- The CU2,000 appears in Entity A's bank statement as cash held subject to a pending transaction until January 2.
- Entity A earns interest on CU2,000 until January 2.
- Entity A elects not to, or does not meet the criteria, to apply the exception in paragraph B3.3.8 of IFRS 9.

How should the CU2,000 unsettled cash payment be presented at December 31?

View 2A(i) – Present as cash

Proponents of this view think that even if the cash is required for future settlement, or access to the cash is somehow limited, the nature of the unsettled cash payment is still "cash" as defined in IAS 7 *Statement of Cash Flows* until derecognition.

Paragraph 6 of IAS 7 states that cash comprises "cash on hand and demand deposits." Proponents of this view think the CU2,000 represents cash of Entity A until the settlement date when it becomes cash of Entity C. This interpretation is supported by the fact that, while the CU2,000 can no longer be cancelled as of December 30, it remains visible on Entity A's bank statement and continues to accrue interest until the settlement date.

They think that the nature of the cash has not changed – it has merely been committed by Entity A for payment. Proponents of this view think that the cash and the financial liability should be derecognized at the same time on the settlement date (January 2).

View 2A(ii) – Present as cash, with consideration of additional disclosure in the notes and/or disaggregation on the face of the statement of financial position

Proponents of this view think the balance should be presented as cash as in View 2A(i).

However, they think that when an entity has initiated an electronic transfer payment that has not been settled at the balance sheet date, the related cash has notionally been "set aside" for a specific use. As a result, the entity would consider providing disclosure to this effect. This is consistent with paragraphs BC 3.62-BC 3.63 in the Basis for Conclusions to IFRS 9:

Disclosure requirements for an entity that does not apply paragraph B3.3.8

d. BC3.62 A few respondents to the 2023 Exposure Draft were concerned that users of financial statements could be misled about the amount of cash held
by an entity at the reporting date if an entity initiated payment instructions before the

reporting date but did not elect to apply the requirements in paragraph B3.3.8 of IFRS 9. In such a case, the entity could show a large cash balance at the reporting date that could be depleted shortly after the reporting date, when the payment instructions were completed.

e. BC3.63 The IASB noted that paragraph 48 of IAS 7 requires disclosure of significant cash balances held by an entity that are not available for use by the group to help users of financial statements to understand the status of cash balances at that date. Other requirements in IFRS 7 and IFRS 18 *Presentation and Disclosure in Financial Statements* also require an entity to disclose information necessary for users of financial statements to understand the nature, amount and timing of future cash flows. Therefore, the IASB decided not to add disclosure requirements.

Considering the above, relevant disclosure requirements for an entity to consider include:

- paragraph 48 of IAS 7, which requires an entity to disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group; and
- paragraph 112(c) of IAS 1, which requires an entity to disclose information that is not presented elsewhere in the financial statements but is relevant to their understanding.

The entity should also consider whether to disaggregate the components of cash on the face of the statement of financial position, or in the notes, by applying paragraphs 55 and 77 of IAS 1.

View 2B – Present as cash equivalent

Proponents of this view think that once the payment becomes non-cancellable (on December 30), it can no longer be cash as defined in paragraph 6 of IAS 7.

However, they think that it can be presented as a cash equivalent if:

- the definition of cash equivalents in paragraph 6 of IAS 7 is met. Paragraph 6 defines cash equivalents as “short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”; and
- the “purpose test” in paragraph 7 of IAS 7 is met. Paragraph 7 notes that “cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.”

Proponents of this view think that the “purpose test” in paragraph 7 is met because settling trade payable financial liabilities is part of meeting short-term cash commitments.

View 2C - Present as another financial asset (not part of cash and cash equivalents)

Proponents of this view think that once the payment becomes non-cancellable it cannot be cash as defined in paragraph 6 of IAS 7.

They also think that it cannot be presented as cash equivalents because an amount that can only be used for a single purpose (in this case, the specific obligation to pay Entity C by January 2) cannot be considered as being held to meet the entity's short-term cash commitments. In other words, the "purpose test" is failed. Certain other aspects of the cash equivalents definition may also not be met at December 31.

The Group discussed this issue and considered whether its views would change if, under some electronic payment systems, the cash leaves Entity A's bank account either at initiation of the electronic payment or prior to the settlement date.

The Group's Discussion

Several Group members agreed with View 2A(i) or View 2A(ii). They noted that, based on the fact pattern presented, cash related to the initiation of the electronic payment system remains in Entity A's bank account at year-end and continues to earn interest, which indicates that the entity retains control over this amount. They also thought that additional disclosure or disaggregation (as outlined in View 2A(ii)) should be considered by Entity A if cash related to the initiation of the electronic payment system was material.

Alternatively, one Group member noted that View 2C may be appropriate depending on the nature of the cancellation option. For example, if Entity A does not have the ability to cancel the payment after December 30 with a penalty, it may not meet the definition of cash or cash equivalents in IAS 7 as the cash set aside for payment may not be immediately accessible on demand to Entity A. In these cases, it may be more appropriate to present this amount as another financial asset in its financial statements.

Group members also discussed whether their views would change if the cash left Entity A's bank account at an earlier date (e.g., on December 30) but had not yet been received by Entity C at year-end (December 31). In these cases, some Group members thought that the accounting conclusion outlined in View 2C would be the most supportable, noting that the cash which had not yet been received by Entity C could be considered a type of receivable by Entity A prior to its settlement.

Some Group members also encouraged entities to obtain an understanding of the major electronic payment systems they use to determine whether there could be any significant time lags between when cash leaves their bank account and is subsequently delivered to their counterparties. This will help entities to determine the extent they need to consider the accounting impacts of this fact pattern in practice when the amendments to IFRS 9 become effective.

Issue 3: How should a reporting entity account for an intercompany transaction in its consolidated financial statements when one entity within the reporting group uses the exception to derecognize financial liabilities before the settlement date?

Analysis

The exception in paragraph B3.3.8 of IFRS 9 is only applicable to the derecognition of financial liabilities. It does not apply to the derecognition of financial assets. This can present a challenge when an entity undertakes an intercompany transaction and the exception is only applied to derecognize the intercompany payable before the settlement date, and not the intercompany receivable.

Fact Pattern

- Entity A applies the exception in paragraph B3.3.8 of IFRS 9 to a particular electronic payment system which Entity A uses to settle liabilities due to third parties as well as liabilities due to its subsidiaries.
- In accordance with paragraph B3.3.10 of IFRS 9, if an entity elects to apply the exception for the derecognition of financial liabilities settled through an electronic payment system, it applies the exception to all settlements made through the same electronic system. Therefore, Entity A must apply the exception consistently to all intercompany and external payments processed through the system.
- On December 30, Entity A initiates an electronic payment to its subsidiary to settle an intercompany payable. Because the electronic payment system does not settle transactions intraday, the subsidiary does not receive the cash until January 2. Entity A's year-end is December 31.
- In accordance with paragraph B3.3.8 of IFRS 9, Entity A applies the exception and derecognizes the intercompany payable and cash before the settlement date. This is done when the electronic payment instruction is initiated and the criteria are met on December 30.
- In contrast, the subsidiary cannot apply the exception to its intercompany receivable as the exception does not apply to financial assets. In accordance with paragraph B3.1.2A of IFRS 9, a financial asset is derecognized when the rights to the cash flows expire or the asset is transferred.[5]
- As a result, at the consolidated level, the intercompany payable has been derecognized, but not the intercompany receivable, leading to a "mismatch" on December 31.

How should Entity A account for the intercompany transaction in its consolidated financial statements at December 31?

Analysis

For purposes of Entity A's consolidated financial statements, Entity A should record a journal entry on consolidation to unwind the application of the exception. This results in a reinstatement of the intercompany payable and cash. The intercompany payable is then eliminated against the intercompany receivable at December 31 in accordance with paragraph B86(c) of IFRS 10 *Consolidated Financial Statements.* The cash used to settle the intercompany transaction is reported in the consolidated balance sheet at December 31.

The Group's Discussion

The Group agreed with the analysis presented.

Issue 4: Do the amendments to IFRS 9 impact the timing for the derecognition of cash-settled liabilities that are outside of the scope of IFRS 9?

Analysis

The amendments made to IFRS 9 did not include consequential amendments to other IFRS Accounting Standards. As a result, entities might question whether the amendments to IFRS 9 relating to the derecognition of financial liabilities impact the timing of derecognition of cash-settled liabilities that are outside the scope of IFRS 9. For example, this includes insurance contract liabilities in scope of IFRS 17 *Insurance Contracts*, employers' obligation under employee benefit plans in scope of IAS 19 *Employee Benefits* and cash-settled share-based payment liabilities in scope of IFRS 2 *Share-based Payment*.

Issue 4 raises awareness about whether the amendments to IFRS 9 relating to the derecognition of financial liabilities might impact financial liabilities outside the scope of IFRS 9 and how an entity might approach this assessment.

In assessing whether the amendments to IFRS 9 impact the derecognition of financial liabilities that are not in the scope of IFRS 9, an entity might start by asking the following questions:

1. Does the financial liability arise from an IFRS Accounting Standard other than IFRS 9 that has specific or distinct derecognition requirements relating to the liability?

An entity would need to consider the specific requirements of each IFRS Accounting Standard for which it has recognized material liabilities. The requirements may differ from one IFRS Accounting Standard to the other as to whether it explicitly deals with derecognition of liabilities within their scope and/or the specificity of any such derecognition requirements.

2. Does that IFRS Accounting Standard cross-reference to, or use language, that indicates that the IFRS 9 derecognition requirements should be applied?

For example, IFRS 17 applies to the accounting for insurance contracts. Paragraph 2.1(e) of IFRS 9 scopes out rights and obligations arising under an insurance contract as defined in IFRS 17. However, IFRS 17 contains guidance which indicates that the requirements for derecognizing an insurance contract liability are consistent with the derecognition requirements for financial liabilities in IFRS 9. Specifically, paragraph B3.1.2A of IFRS 9 states:

…Unless an entity elects to apply paragraph B3.3.8, a financial liability is derecognized on the settlement date, which is the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires (see paragraph 3.3.1) or the liability otherwise qualifies
for derecognition (see paragraph 3.3.2).

Paragraph 74 of IFRS 17 states:

An entity shall derecognize an insurance contract when, and only when:

> (a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or
>
> (b) any of the conditions in paragraph 72 are met.

In addition, paragraph BC321 in the Basis for Conclusions to IFRS 17 states:

IFRS 17 requires an entity to derecognize an insurance contract liability from its statement of financial position only when it is extinguished or modified in the way discussed in paragraph BC317. An insurance contract is extinguished when the obligation specified in the insurance contract expires or is discharged or cancelled. This requirement is consistent with the requirements in other IFRS Standards, including the derecognition requirements for financial liabilities in IFRS 9. This requirement also provides symmetrical treatment for the recognition and derecognition of insurance contracts.

As a result, while IFRS 9 scopes out insurance contract liabilities, IFRS 17 contains specific language, which indicates that the requirement for derecognizing an insurance contract liability in IFRS 17 is consistent with the derecognition requirements for financial liabilities in IFRS 9.

In contrast, IFRS 2 does not cross-reference nor provide specific language that the derecognition requirements in IFRS 9 should be applied to the derecognition of liabilities within the scope of IFRS 2. For example, paragraph 30 of IFRS 2 states:

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability, subject to the requirements of paragraphs 31-33D. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value *recognised* in profit or loss for the period.

IFRS 2 does not provide guidance on what is meant by “settled” (i.e., whether it arises on issuing a cheque or initiating an electronic payment instruction, or whether it is based on the timing of receipt of the share-based payment by the employee) nor what is the “date of settlement.”

IAS 19 also does not cross-reference nor provide specific language about whether the derecognition requirements in IFRS 9 should be applied to liabilities within its scope. IAS 19 acknowledges that an entity may enter a transaction that results in the settlement of a defined benefit plan, which would result in derecognition of both the plan assets and liabilities.

In accordance with paragraph 111 of IAS 19, settlement occurs when the entity has eliminated all further legal or constructive obligations for part or all benefits under the plan. However, settlement excludes the payment of benefits to employees in accordance with the terms of the plan.

Paragraph 111 of IAS 19 explains that:

A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

Therefore, IAS 19 does not have explicit derecognition requirements for employee benefit obligations that reference IFRS 9 or use language similar to that in IFRS 9.

A related question is whether an entity is permitted to apply the exception in paragraph B3.3.8 of IFRS 9 to financial liabilities outside of the scope of IFRS 9. Some view the exception as providing relief from the requirement to derecognize financial liabilities on the settlement date for certain financial liabilities settled by an electronic payment system.

If an entity can apply the exception by analogy to financial liabilities outside of the scope of IFRS 9, a question may also arise as to whether it must apply the derecognition requirements in paragraph B3.1.2A of IFRS 9 to other financial liabilities not in the scope of IFRS 9.

3. Is it sufficiently clear from the IFRS Accounting Standard that an accounting policy different to that indicated by IFRS 9 would be supportable?

An entity might consider the following factors in its assessment:

- The specificity of the derecognition requirements provided for in the IFRS Accounting Standard.
- The nature of the liability and whether it may be different to financial liabilities that are in scope of IFRS 9. For example, as explained in paragraph AG12 of IAS 32 *Financial Instruments: Presentation*, liabilities arising from income taxes that are created because of statutory requirements imposed by governments, and constructive obligations as defined in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, do not arise from contracts and therefore are not financial liabilities. As such, these liabilities are explicitly excluded from the scope of IFRS 9.
- The absence of any consequential amendments made to other IFRS Accounting Standards for the derecognition of liabilities because of the amendments to IFRS 9.
- Whether the entity's accounting policy for the derecognition of liabilities outside of the scope of IFRS 9 was developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and was acceptable before the amendments to IFRS 9, and whether it continues to be acceptable.

Entities are encouraged to discuss the potential implications of the amendments to IFRS 9 with their accounting advisors and auditors, including any areas of judgment or interpretation that may arise in assessing the derecognition requirements in other IFRS Accounting Standards.

Entities are also encouraged to continue to monitor for any developments and/or interpretive guidance that may be issued on this matter.

The Group's Discussion

The Group agreed with the analysis presented. Some Group members noted that significant judgment may need to be applied in determining whether the amendments to IFRS 9 could impact the derecognition of insurance contract liabilities in IFRS 17. Group members also highlighted varying perspectives on this matter. For example, some Group members noted that the derecognition requirements for insurance contract liabilities in IFRS 17 contain similar wording to the derecognition requirements for financial liabilities in IFRS 9, which may support using the requirements in IFRS 9 by analogy. However, other Group members acknowledged that standard setting was required to clarify the date of derecognition of financial liabilities in scope of IFRS 9, that IFRS 17 was not amended by the International Accounting Standards Board and that the nature and measurement models of insurance contract liabilities can vary significantly from financial liabilities in scope of IFRS 9.

Considering this discussion, the Group recommended that the AcSB be made aware of this issue and engage in ongoing monitoring to determine:

- whether there is diversity in practice in how insurance contract liabilities are derecognized and how that might change once the amendments to IFRS 9 become effective; and
- whether any further actions (e.g., discussions with IASB staff) are required.

Overall, the Group's discussion raised awareness of the amendments made to IFRS 9 relating to the derecognition of financial liabilities.