STAFF PAPER

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IFRS® Interpretations Committee meeting

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

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the recognition of cash received via an electronic transfer (payment) system as settlement for a financial asset.

2. This paper:

   (a) provides the Committee with a summary of the matter;

   (b) presents our research and analysis; and

   (c) asks the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of the paper

3. This paper includes the following:

   (a) background information (paragraph 5–9);

   (b) summary of outreach (paragraph 10–19);

   (c) staff analysis (paragraph 20–42);

(d) staff conclusion (paragraph 43); and

(e) staff recommendation (paragraph 44–46).

4. There are three appendices to the paper:

(a) Appendix A—proposed wording of the tentative agenda decision;

(b) Appendix B—submission; and

(c) Appendix C—trade date and settlement date accounting.

Background information

5. Many payment systems around the world have formal automated settlement processes that take at least one day to settle a cash transfer. The submission considers one example of such a payment system, the Bacs payment system in the UK.[1] The submitter says Bacs follows a strict three working-day cycle to settle a cash transfer, which it describes as follows:

(a) Day 0—*submission*: a payment instruction is submitted to Bacs and distributed to the relevant parties overnight.

(b) Day 1—*processing*: after receiving the instruction, the paying and receiving banks prepare to debit and credit the payer and receiver's accounts, respectively.

(c) Day 2—*action*: all parties take the action required—thus, the paying bank debits the payer's account and the receiving bank simultaneously credits the receiver's account.

6. The submitter notes that, because of the three working-day cycle described above, if an entity receives a payment via Bacs after the reporting date but within two days of it, the payer will necessarily have initiated the payment before the reporting date.

[1] Further information can be found on the Bacs website.

7. The submitter then describes the following fact pattern:

   (a) on 30 November 20X0, an entity sells goods to a customer and recognises a trade receivable of CU100.

   (b) on 31 December 20X0 (the entity's reporting date), the customer notifies the entity that it has initiated a payment of CU100 via Bacs to settle the trade receivable.

   (c) on 2 January 20X1, the entity receives CU100 into its bank account.

8. The submitter asks whether it is acceptable for the entity to derecognise the trade receivable and recognise cash of CU100 on the date the cash transfer is initiated (31 December 20X0), rather than the date the cash transfer is settled (2 January 20X1). The submitter outlines two views, summarised below:

   (a) View 1—*yes, it is acceptable*: there are no requirements in IFRS Standards that specifically apply to the timing of recognition of cash in an entity's financial statements. The entity therefore applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and uses its judgement in developing and applying an accounting policy. In doing so, the entity refers to the requirements in IFRS Standards dealing with similar and related issues. Paragraph 3.1.2 of IFRS 9 *Financial Instruments* states that a 'regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting'. Applying these requirements and considering the established time frame for cash settlement in the Bacs payment system, an entity receiving cash via Bacs is permitted to adopt an accounting policy under which it derecognises its trade receivable and recognise cash upon initiation of the transfer by the payer. Such an accounting policy would be similar to applying 'trade date accounting'.

   (b) View 2—*no, it is not acceptable*: an entity recognises cash based on an assessment of control of the cash. This approach to the recognition of cash received is consistent with the definition of an asset in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), which an entity considers in developing and applying an accounting policy in accordance with paragraphs 10–11 of IAS 8.[2] The entity obtains control of the cash only on 2 January 20X1 when it receives the cash, and therefore recognises the cash only on that date. It would be inappropriate to refer to the requirements in paragraph 3.1.2 of IFRS 9 because the receipt of cash is not a regular way purchase of a financial asset.

9. Appendix B to this paper reproduces the submission, which provides further details about the alternative views identified by the submitter.

Summary of outreach

10. We sent information requests to members of the International Forum of Accounting Standard-Setters, securities regulators, and large accounting firms. The submission was also made available on our website.

11. The request asked those participating to provide information about:

(a) whether fact patterns such as the one described in the submission are common—situations in which an entity receives cash via a payment system that does not settle a cash transfer on the same day the transfer is initiated.

(b) if fact patterns are common, whether the amount of cash transfers initiated before the end of a reporting period—but settled only after that period—is typically material for receiving entities.

(c) if amounts are typically material:

(i) in which jurisdictions, and for which payment systems, are fact pattern common; and

(ii) do entities recognise cash received at the date the transfer is initiated (the date on which the counterparty submits a payment instruction to the payment system) or the date the transfer is settled (the date on which transferred cash is received in the receiving entity's bank account)?

[2] The *Conceptual Framework* defines an asset as 'a present economic resource controlled by the entity as a result of past events.'

12. We received 14 responses—six from national standard-setters, six from large accounting firms and two from organisations representing a group of securities regulators. The views received represent informal opinions and do not reflect the official views of those respondents or their organisations.

Findings from outreach

Are fact patterns common?

13. Most respondents said fact patterns such as the one described in the submission are common. Respondents said they observed similar fact patterns in many jurisdictions, including Australia, Austria, Canada, China, France, Greece, Japan, Malaysia, New Zealand, Norway, Poland, Portugal, Singapore, Spain and the UK. A few respondents said such fact patterns are not common in some jurisdictions, including Germany, Hong Kong, Netherlands, South Africa, and South Korea.

14. A few respondents said fact patterns often involve international, rather than domestic, cash transfers. These respondents said, in many jurisdictions, domestic cash transfers via electronic transfer systems are settled on the same day the transfer is initiated.

Is the amount of cash transferred typically material?

15. Responses were mixed regarding the materiality of cash transfers initiated before the end of the reporting period but settled only after that period. Many respondents said the amount of cash transferred generally is, or can be, material for entities, while others said the amount generally is immaterial for entities.

What is the accounting applied?

16. Many respondents who commented on the accounting said they have observed diversity in the way entities account for cash received via electronic transfer—some entities recognise cash received on the transfer initiation date while some recognise cash received on the transfer settlement date. Other respondents observed no diversity in reporting—they had observed entities recognising cash received on either the transfer initiation date or the transfer settlement date.

17. Some respondents said they observed a prevalence of entities in the UK recognising cash on the transfer initiation date, but said the accounting varies in other

jurisdictions. One of these respondents said in other jurisdictions entities typically recognise cash received on the transfer settlement date. Some of these respondents said it is unclear whether different accounting results from different payment systems in each jurisdiction or different views on the accounting.

18. Some respondents either explained the basis for the accounting applied by entities or expressed support for one of the views set out in the submission (see paragraph 8 of this paper). These respondents identified arguments for each view that were generally consistent with those included in the submission.

19. In addition:

    (a) a few respondents said some entities that recognise cash received on the transfer initiation date apply an accounting policy that is consistent with the accounting they apply for cheques in transit and credit card receivables.

    (b) one respondent said some entities recognise cash received on the transfer settlement date because they often do not know when a counterparty initiates a cash transfer. For practical purposes, entities therefore derecognise the trade receivable and recognise cash only when they receive the cash.

    (c) one respondent said some payment systems might allow the paying entity to cancel a payment instruction before settlement occurs.

Staff analysis

Are there specific requirements that apply to the fact pattern?

20. Paragraph 11 of IAS 32 *Financial Instruments: Presentation* defines a financial instrument as 'any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'. That same paragraph defines:

    (a) a financial asset as any asset that is, among other items, 'cash' or a 'contractual right to receive cash or another financial asset from another entity'; and

(b) a financial liability as any liability that is, among other items, a 'contractual obligation to deliver cash or another financial asset to another entity'.

21. Paragraph AG3 of IAS 32 states that '…a deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability'.

22. The fact pattern described in the submission involves a transaction in which an entity receives cash into its bank account from a customer as settlement for a trade receivable. Both the trade receivable settled and the cash received:

(a) meet the definition of a financial asset—the trade receivable represents the entity's contractual right to receive cash from the customer, and cash itself is a financial asset; and

(b) arise from financial instruments in the scope of IFRS 9—paragraph 2.1 of IFRS 9 requires entities to apply the Standard to 'all types of financial instruments' with a few exceptions.[3] The trade receivable arises from a contract that gives rise to a financial asset for the entity (the trade receivable) and a financial liability for the customer (trade payable). Equally, the cash arises from a contract that creates a financial asset for the entity and a financial liability for a bank (amounts deposited by the entity in a bank account).

23. In our view, both the trade receivable settled and the cash received are therefore financial assets in the scope of IFRS 9. The entity applies the derecognition requirements in IFRS 9 in determining when to derecognise the trade receivable and the initial recognition requirements in that Standard in determining when to recognise cash as a financial asset. This is different from the assumption underlying both views set out in the submission that no IFRS Standard specifically applies to the transaction, and consequently that the entity would develop an accounting policy applying paragraphs 10–11 of IAS 8.

[3] None of the exceptions in paragraph 2.1 of IFRS 9 apply to the transaction described in the submission.

24. Furthermore, both views in the submission analyse the recognition of the cash received in isolation. Our analysis in the following paragraphs analyse the accounting for the cash received in the context of the transaction to which it relates—the settlement of the trade receivable. Because cash is received as settlement for a trade receivable, in our view the entity cannot recognise cash before it derecognises the trade receivable. We therefore consider both the initial recognition and the derecognition requirements in IFRS 9.

The initial recognition and derecognition requirements in IFRS 9

The general recognition and derecognition requirements

25. Paragraph 3.1.1 of IFRS 9 sets out the general initial recognition requirements for financial assets and liabilities, stating:

> An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs B3.1.1 and B3.1.2)…

26. Paragraph 3.2.3 of IFRS 9 sets out the general principle for derecognition of financial assets, stating:

> An entity shall derecognise a financial asset when, and only when:
>
> (a) the contractual rights to the cash flows from the financial asset expire, or
>
> (b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.[4]

[4] In the fact pattern described in the submission, the entity is not transferring a financial asset to a third party. Therefore, we have not analysed further the requirements applicable to transfers of financial assets.

Regular way purchase or sale of financial assets

27. Paragraph 3.1.2 of IFRS 9 includes requirements that specifically apply to the initial recognition and derecognition of a regular way purchase or sale of financial assets. That paragraph states:

> A *regular way purchase or sale* of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting (see paragraphs B3.1.3–B3.1.6).[5]

28. The requirements in paragraph 3.1.2 of IFRS 9 provide an exception from the general requirements reproduced above for transactions that meet the definition of a regular way purchase or sale of a financial asset.

Is the settlement of a trade receivable a regular way purchase or sale of a financial asset?

29. Appendix A to IFRS 9 defines a regular way purchase or sale as:

> A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

30. In the fact pattern described in the submission, the entity is neither purchasing nor selling a financial asset. The requirements in paragraph 3.1.2 of IFRS 9 are therefore not applicable to that fact pattern. Instead, the entity receives cash as settlement for an existing financial asset—the trade receivable from the customer. The entity therefore determines when to:

    (a) derecognise the trade receivable by applying the derecognition requirements in paragraph 3.2.3 of IFRS 9; and

    (b) recognise the cash by applying the recognition requirements in paragraph 3.1.1 of IFRS 9.

[5] Appendix C to this paper reproduces the paragraphs in IFRS 9 that describe trade date and settlement date accounting.

Applying the general recognition and derecognition requirements for financial assets in IFRS 9

Derecognition of the trade receivable

31. As discussed in paragraph 26 of this paper, 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'. Therefore, in the fact pattern described in the submission, the entity derecognises the trade receivable on the date that its contractual rights to the cash flows from the trade receivable expire. The entity therefore considers whether its contractual rights to those cash flows expire only upon receipt of cash on the transfer settlement date, or earlier on the transfer initiation date (or a date in between).

32. IFRS 9 does not provide specific requirements for assessing when contractual rights to the cash flows from a financial asset expire. The Standard however includes specific requirements an entity considers in determining when a financial liability is extinguished. Although the requirements on derecognition of financial liabilities do not apply in the fact pattern described in the submission—because the entity is receiving payment as settlement for a trade receivable and not making a payment to discharge a financial liability—it may be helpful to consider such requirements because an entity's contractual right to cash flows from a financial asset would expire only when the counterparty's contractual obligation to deliver cash is extinguished.

33. Paragraph B3.3.1 of IFRS 9 states:

> A financial liability (or part of it) is extinguished when the debtor either:
>
> (a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or
>
> (b) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)

34. Applying the requirements in paragraph B3.3.1 of IFRS 9, the customer's trade payable would be extinguished—and the entity's right to the cash flows from the trade receivable would expire—only when the customer:

(a) discharges its liability by paying the entity; or

(b) is legally released from primary responsibility for the liability before paying the entity (for example, upon initiating the payment to the entity).

35. Therefore, unless the customer is legally released from primary responsibility for the trade payable before paying the entity, the entity's contractual rights to the cash flows from the trade receivable would expire only by payment.

36. Ultimately, determining the date on which the entity's contractual rights to the cash flows expire is a legal matter, and would therefore depend on the specific facts and circumstances, including the applicable laws and regulations and the characteristics of the electronic transfer system. In determining when the rights to the cash flows from a trade receivable expire, it might be helpful to consider the rights of the parties between the transfer initiation date and the transfer settlement date. For example:

(a) does the customer have the right to cancel the transfer after initiating it but before it is settled? If the customer can cancel a transfer after it is initiated, that indicates that the entity's contractual rights to cash flows have not expired.

(b) what happens in the event of default by the customer's bank—if the entity does not receive payment on the date expected, does the entity have the right to demand payment from the customer? If the entity has such right, that also indicates that the entity's contractual rights to the cash flows from the trade receivable have not expired.

37. With all of that said, in the fact pattern described in the submission we would expect an entity to typically derecognise the trade receivable on the transfer settlement date (when the electronic transfer is settled and the amounts are deposited in the entity's bank account). In our view, although it cannot be ruled out, it would seem uncommon for the entity's contractual rights to the cash flows from the trade receivable (ie its right to receive cash from the customer) to expire before the entity receives that cash on the transfer settlement date.

Recognition of cash as a financial asset

38. 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'. As mentioned earlier in the paper, paragraph AG3 of IAS 32 states that '…a deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution…'.

39. In the fact pattern described in the submission, the entity is party to the contractual provisions of an instrument—its bank account—under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank. It is therefore only when cash is deposited in its bank account that the entity would have a right to obtain cash from the bank. Put another way, the bank has no obligation to deliver cash to the entity for amounts that have not yet been received and deposited with the bank in the entity's bank account. Consequently, in the fact pattern described in the submission, it is only on the transfer settlement date—and not before—that the entity would recognise cash as a financial asset.

40. In circumstances in which an entity concludes that its contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise any financial asset it has received as settlement for the trade receivable (for example, a right to receive cash from the customer's bank) on that same date, and thus before it recognises cash as described in paragraph 39.

41. Therefore, in our view, applying paragraph 3.2.3 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 the trade receivable on that same date.

42. The recognition of cash (or another financial asset) is linked to the derecognition of the trade receivable—the entity cannot recognise, at any one time, both the trade receivable and the cash (or another financial asset) it receives as settlement for that trade receivable.

Staff conclusion

43. Based on our analysis in paragraphs 20–42 of this paper, we conclude that, in the fact pattern described in the submission:

   (a) the entity applies paragraphs 3.2.3 and 3.1.1 of IFRS 9 to determine when to derecognise the trade receivable and recognise cash as a financial asset, respectively. The requirements in paragraph 3.1.2 of IFRS 9 related to a regular way purchase or sale of a financial asset are not applicable because, in the transaction described in the submission, the entity is neither purchasing nor selling a financial asset.

   (b) applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire and recognises the cash (or another financial asset) received as settlement for that trade receivable on that same date.

   (c) the entity would consider its particular facts and circumstances—including the applicable laws and regulations and the characteristics of the electronic transfer system—in determining whether its contractual rights to the cash flows from the trade receivable expire on receipt of cash on the transfer settlement date, or earlier upon initiation of the cash transfer by the customer (or any date in between).

Questions 1 for the Committee
1. Does the Committee agree with our analysis in paragraphs 20–43 of this paper regarding the application of the requirements in IFRS Standards to the fact pattern described in the submission?

Should the Committee add a standard setting project to the work plan?

Is it necessary to add to or change IFRS Standards to improve financial reporting?

44. Based on our analysis in paragraphs 20–43 of this paper, we conclude that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received to settle that receivable via an electronic transfer system.

Staff recommendation

45. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook* (discussed in paragraph 44 of this paper), we recommend that the Committee does not add a standard-setting project to the work plan. Instead, we recommend publishing a tentative agenda decision that outlines, in the fact pattern described in the submission, when an entity derecognises the trade receivable and recognises the cash received as a financial asset.

46. Appendix A to this paper sets out the proposed wording of the tentative agenda decision. In our view, the proposed tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Standards.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add a standard setting project to the work plan?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision in Appendix A to this paper?

Appendix A—proposed wording of the tentative agenda decision

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)

The IFRS Interpretations Committee (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 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.

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.

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 is a legal matter, which would depend on the specific facts and circumstances including the applicable laws and regulations and the characteristics of the electronic transfer system. The Committee however expects that an entity would typically derecognise the trade receivable on the transfer settlement date (the date it receives the cash in its bank account) because, in the fact pattern described in the request, it would expect the entity’s contractual right to receive cash from the customer to expire when the entity receives that cash, and not before.

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—its bank account—under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank. It is therefore only when cash is deposited in its bank account that the entity would have a right to obtain cash from the bank. Consequently, in the fact pattern described in the request, 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 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 Standards provide an adequate basis for an entity to determine when to derecognise a financial asset and recognise cash received via an electronic transfer system as settlement for that financial asset. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—submission

Background

Many payment systems around the world have formal automated settlement processes that take more than one day to complete. One such example is the BACS payment system in the UK. The technical issue in this submission is considered in the context of the UK BACS payment system, which is explained in more detail below. However, the issue equally applies to similar payment systems in other jurisdictions.

The UK's BACS payment system follows a strict three working day cycle, which is as follows:

(a) working day 0 (submission): A message is submitted to BACS between 7:00am and 10:30pm to instruct a payment to be made. BACS then distribute this request to the relevant parties overnight.

(b) working day 1 (processing): Having received the message at 6:00am, the relevant parties prepare to respond. The paying bank prepares to debit the payer's account and the receiving bank prepares to credit the receiver's account.

(c) working day 2 (action): All parties take the action required. Thus, the payer's bank debits the payer's account and the receiving bank simultaneously credits the receiver's account.

Thus, as a result of the strict three working day cycle of a BACS payment, if a payment is received on the first or second working day after the reporting date, the instruction by the payer to make the transfer must necessarily have been made on or before the reporting date; it cannot have been made later (i.e. it cannot have been made after the reporting date).

Fact pattern

Entity A's year-end is 31 December 20X0. In November 20X0, Entity A sells goods to Entity B and recognises a trade receivable of CU100. On 31 December 20X0, Entity B notifies Entity A that it has initiated the payment of CU100 by the UK BACS payment system to settle the amount due. On 2 January 20X1, Entity A receives CU100 into its bank account as cleared funds.

Question: Is it acceptable for Entity A to recognise cash of CU100 (and derecognise the trade receivable) on 31 December 20X0?

View A – Yes

There is no accounting standard specific to the timing of recognition of cash in the financial statements. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (paragraphs 10 and 11), if there is no IFRS Standard that specifically applies to a transaction, judgement is required by management in developing and applying an appropriate accounting policy, considering the applicability of the requirements in IFRS Standards dealing with similar and related issues. Applying IAS 8:11, priority is given to the requirements in IFRS Standards dealing with similar and related issues. The Conceptual Framework is of secondary consideration.

The requirements of IFRS 9 Financial Instruments applicable to financial assets are relevant in this matter. IFRS 9:3.1.1-3.1.2 acknowledge that, for the recognition and derecognition of financial assets (e.g. trade receivable), an entity may adopt either a trade date or settlement date policy for regular way transactions. The method used is required to be applied consistently for all purchases and sales of financial assets that belong to the same category.

Applying the above requirements of IAS 8 and IFRS 9, and considering the established strict timeframe for the UK BACS payment system, an entity is permitted to adopt an accounting policy under IFRS Standards to derecognise the trade receivable and recognise cash upon instigation of the UK BACS payment system by the payer (31 December 20X0).

This treatment is consistent with the generally accepted practice of recognising as cash cheques deposited prior to the year-end but not yet cleared at the year-end. There are also other situations in practice where cash may be recognised before the cash has been cleared in the bank account, for example, cash received from credit card sale transactions.

In the fact pattern presented, Entity A has received notification that the cash is forthcoming. Whilst cash not yet cleared in its bank account, Entity A is able to instigate cash payments if it wished (e.g. to issue its own cheques to settle creditors).

View A does not preclude that other accounting policies may be acceptable, such as recognising cash receipts via electronic transfers when the amounts have been credited to the recipient's bank balance.

View B – No

The recognition of cash should be based on an assessment of control over the cash. This is consistent with the definition of an asset in the Conceptual Framework, which must be considered in developing an accounting policy applying IAS 8.11(b).

Entity A does not have control over the cash transmitted via the UK BACS payment system until the cash has been received into its bank account. In the fact pattern presented, Entity A obtains control over the CU100 cash on 2 January 20X1 and recognises cash on that date (and not before).

It is not appropriate to analogise to the requirements of IFRS 9 regarding trade date/settlement date accounting because receipt of cash is not a regular way purchase of a financial asset. Instead, the recognition of cash should be based on whether the entity controls the cash.

Furthermore, it is inappropriate to compare the accounting for cheques received but not cleared and transfers effected through the UK BACS payment system. This is because a cheque is a legally enforceable promise to the payee that a payment will be made. Once received, the cheque is controlled by the recipient and represents a new asset and the extinguishment of the related receivable.

Reasons for the Committee to address the issue

We believe that cash transfers via formal electronic payment systems that take more than one day to settle are common and often involve material amounts. We are aware of divergent views on this matter in several different jurisdictions. The issue is not related to a Board project that is expected to be completed in the near future.

Appendix C—trade date and settlement date accounting

C1. Paragraph B3.1.5 of IFRS 9 describes trade date accounting as:

> The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date…

C2. Paragraph B3.1.6 of IFRS 9 describes settlement date accounting as:

> The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity…