# Interpretations Committee Update

## Talking points for episode 116

These talking points summarise the September 2021 discussion of the IFRS Interpretations Committee. The Committee finalised two tentative agenda decisions and discussed two issues for initial consideration.

The Committee finalised two tentative agenda decisions on the accounting for **warrants that are classified as financial liabilities on initial recognition** and **non-refundable value added tax on lease payments**. For further information on these issues, please refer to April IFRS Talks Episode 109 and, for subscribers, the PwC FAQ in the Manual for Accounting.

The Committee was asked to provide input on the project direction for a **lease liability in a sale and leaseback** and to provide their views on the possible ways forward in the light of the responses received to the IASB's Exposure Draft. The issue relates to how to subsequently measure the liability that arises from a sale and leaseback transaction (the leaseback liability), in particular when the leaseback payments include variable payments linked to future performance or use of the underlying asset which are excluded from the measurement of other lease liabilities. The Committee did not identify a clear way to proceed, evidencing mixed views regarding the four approaches described in the staff paper. Some even suggested an alternative principles-based approach. The input from the discussion will be reported to the IASB to supplement the input received from comment letters.

The Committee considered a submission about whether an entity includes **demand deposits with restrictions on use** as a component of cash and cash equivalents. The Committee concluded that restrictions on use of a demand deposit do not result in the deposit no longer being cash, unless such restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. As a result a demand deposit with restrictions on use is included as a component of cash and cash equivalents in the statement of cash flows and in the statement of financial position, unless presenting it separately in an additional line item is relevant to an understanding of the entity's financial position. The Committee decided not to add a standard-setting project to the workplan because it concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether to include demand deposits with restrictions on use as a component of cash and cash equivalents in its statements of cash flows and financial position.

The Committee considered a submission about **cash received via an electronic transfer (payment) system as settlement for a financial asset**. 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). In the fact pattern presented, 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 decided not to add a standard-setting project to the workplan because it concluded 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 via an electronic transfer system as settlement for that trade receivable.

The Committee will give stakeholders an opportunity to respond to the tentative agenda decisions for the issues on demand deposits and cash received via electronic transfer systems and is expected to consider the responses at a future meeting.



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