KPMG

Settlement by electronic payments

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Global IFRS Institute | Financial instruments

Mahesh Narayanasami
Partner
KPMG US, DPP New York

IFRS 9 amendments could change when financial assets or liabilities are recognised and derecognised

Highlights

- What's the issue?
- What are the amendments?
- Effective from 1 January 2026
- Next steps

The question of when to recognise or derecognise a trade receivable or payable seems relatively simple on the surface. However, it has generated a significant amount of debate because there is diversity in practice for both the receivable and payable sides of the transaction.

Companies that recognise or derecognise financial assets or financial liabilities on the payment initiation date could see a change to their accounting following **amendments** to IFRS 9 *Financial Instruments* issued by the International Accounting Standards Board (IASB).

However, companies may be permitted to derecognise financial liabilities settled by an electronic payment system earlier than their settlement date, subject to certain criteria being met.

"The amendments that clarify when to recognise or derecognise a financial asset or a financial liability could have a significant impact for many companies. However, the IASB's amendments on when to derecognise financial liabilities settled using electronic payment systems may help companies to maintain their current practice."

Mahesh Narayanasami
KPMG global IFRS financial instruments leader

What's the issue?

There has been diversity in practice over the timing of the recognition and derecognition of financial assets and financial liabilities, particularly when they are settled using electronic payment systems.

The IASB has amended IFRS 9 to clarify when a financial asset or a financial liability is recognised and derecognised and to provide an exception for certain financial liabilities settled using an electronic payment system.

Companies can choose to apply the exception for electronic payments on a system-by-system basis. Given the widespread use of electronic payment systems, determining whether the exception criteria would be met for each one may require significant time and effort.

If the derecognition exception criteria are not met, determining the settlement date may also present challenges and companies may be required to change their existing systems and processes.

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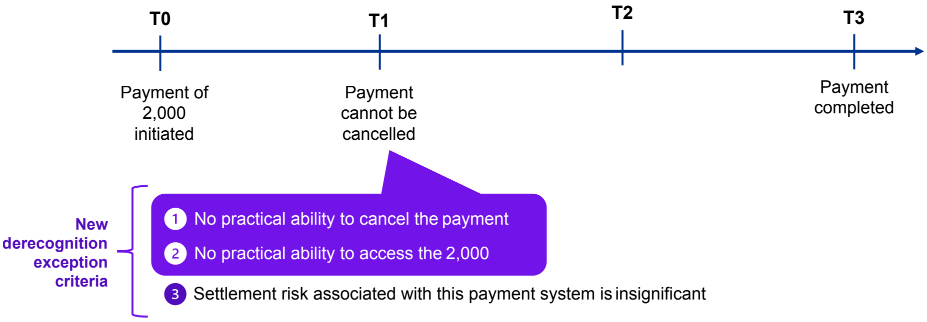
What are the amendments?

Consider a company that settles its trade payable by using an electronic payment system. A typical timeline is shown in the diagram below.



Under the amendments, the company generally derecognises its trade payable on the settlement date (i.e. on T3 in the diagram above).

However, the amendments provide an exception for the derecognition of financial liabilities. The exception allows the company to derecognise its trade payable before the settlement date, potentially on T1 in the diagram above, when it uses an electronic payment system that meets all of the following criteria:

- no practical ability to withdraw, stop or cancel the payment instruction;
- no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- the settlement risk associated with the electronic payment system is insignificant.

Other amendments

The amendments address other matters raised from the post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* – including the classification of financial assets with an ESG-linked feature. Read our **article** for more detail.

Effective from 1 January 2026

The amendments apply for reporting periods beginning on or after 1 January 2026.

Earlier application is permitted.

Next steps

- Consider how the new requirements impact financial reporting systems and processes, such as bank reconciliations.
- Review the terms and conditions of electronic payment systems to assess whether the specific criteria for the exception will be met – the accounting policy choice can be made on an electronic payment system-by-system basis.
- Assess the impacts on your financial statements.

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