

Financial Instruments: Presentation—Classification of liability for a prepaid card in the issuer’s financial statements

The Interpretations Committee received a request to clarify how an entity classifies the liability that arises when it issues a prepaid card in exchange for cash and how the entity accounts for any unspent balance on such a card. Specifically, the Interpretations Committee discussed a prepaid card with the following features:

- a. no expiry date and no back-end fees, which means that any balance on the prepaid card does not reduce unless it is spent by the cardholder;
- b. non-refundable, non-redeemable and nonexchangeable for cash;
- c. redeemable only for goods or services to a specified monetary amount;
- d. redeemable only at specified third-party merchants that, depending upon the card programme, range from a single merchant to all merchants that accept a specific card network. Upon redemption by the cardholder at a merchant(s) for goods or services, the entity delivers cash to the merchant(s).

The Interpretations Committee was asked to consider whether the liability for the prepaid card is a nonfinancial liability on the basis that the entity does not have an obligation to deliver cash to the cardholder.

The Interpretations Committee observed that the entity’s liability for the prepaid card meets the definition of a financial liability. This is because the entity:

- a. has a contractual obligation to deliver cash to the merchants on behalf of the cardholder, which is conditional upon the cardholder using the prepaid card to purchase goods or services; and
- b. does not have an unconditional right to avoid delivering cash to settle this contractual obligation.

Consequently, an entity that issues such a card applies the requirements in IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*) to account for the financial liability for the prepaid card.

The Interpretations Committee noted that customer loyalty programmes were outside the scope of its discussion on this issue.

In the light of the existing requirements in IAS 32 *Financial Instruments: Presentation* and IFRS 9 (IAS 39), the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.