

23 November 2015

Mr. Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comment on the tentative agenda decision on the IAS 32 *Financial Instruments: Presentation-Classification of the liability of a prepaid card in the issuer's financial statements*

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the IFRS Interpretations Committee’s (“the Committee”) tentative agenda decision on the IAS 32 *Financial Instruments: Presentation-Classification of the liability of a prepaid card in the issuer’s financial statements* in the IFRIC Update in September 2015.
2. We generally agree with the Committee’s view that this issue should be addressed by issuing an agenda decision (rather than suggesting the IASB to undertake a project of limited scope amendments to the Standard) as well as its conclusion that a liability for prepaid cards with features explained in the tentative agenda decision meets the definition of a financial liability. However, we believe that the scope of transactions covered by the agenda decision should be clarified further.
3. Against the recent developments of the increased prevalence of e-commerce transactions, a conventional prepaid card transaction now takes various forms, and features of a customer loyalty programme are sometimes embedded in prepaid cards. As an example, a balance of some prepaid cards (as recorded in a digital format) includes not just a prepaid cash balance but also a balance of award credits granted by an entity to customers, and the award credits are given according to various factors (for example, the use of the card for purchasing goods or services or

just visiting stores without purchasing anything). Considering the emergence of such hybrid schemes, we are afraid that wordings in the draft decision may call into questions as to how such types of hybrid schemes should be accounted for in connection with IFRIC Interpretation 13 *Customer Loyalty Programme*, even when they are not *issued* as part of a customer loyalty programme.

4. In addition, many entities are in the process of implementing IFRS 15 *Revenue from Contracts with Customers*, and the Transition Resource Group established jointly by the IASB and the FASB have discussed a number of implementation questions (including issues relating to a customer loyalty programme). Amid the situation, we think it important to clarify the applicability of the draft decision to the requirements of IFRS 15, such that an issuance of the agenda decision would not leave ambiguity as to whether it would have effects on the implementation of IFRS 15 relating to accounting requirements of customer loyalty programme.
5. Without making necessary clarification to the scope of the agenda decision, we worry that there remains ambiguity as to whether an entity could (or should) refer to the agenda decision when determining the accounting treatment of its obligation that has characteristics of both ‘prepaid card’ and ‘customer loyalty programme’.
6. It might be possible for the Committee to try to cover a wide range of schemes comprehensively. However, if the Committee decides to do so, it would need to consider various related issues, including whether the accounting consequences would differ depending on if an entity’s obligation relating to a prepaid card balance can be settled only by a cash payment to selected merchants or it can be settled either by the cash payment or by transferring goods or services to card holders directly. In our view, this would require the Committee to devote substantial amount of time and resources, while the prospect of whether it would be able to reach a conclusion is not sufficiently clear. Taking into the resource constraint, we do not think it a right course of action for the Committee to do so.
7. Accordingly, we recommend that the Committee to finalise the issue by narrowing down the applicability of the agenda decision. Specifically, we suggest the following wording changes (our proposed additions are underlined and deletions are struck-out).

[Excerpt from the draft agenda decision]

A prepaid card only with all of the following features:

- a. no expiry date.

- b. cannot be refunded, redeemed or exchanged for cash.
- c. redeemable only for goods or services.
- d. ~~can be used~~ redeemable only at selected merchants (which ~~may~~ does not include the entity itself, however, is not redeemable only with the entity), and depending upon the card programme, ranges from a single merchant to all merchants that accept a specific card network. Upon redemption by the cardholder at a merchant(s) to purchase goods or services, the entity has a contractual obligation to pay cash to the merchant(s).
- e. no back-end fees, which means that the balance on the prepaid card does not reduce unless spent by the cardholder.
- f. is not issued as part of a customer loyalty programme (regardless if it is provided in the context of sales transactions) nor embed features of a customer loyalty programme therein such that award credits granted under the programme are added to the prepaid card balance.

8. We hope that our comments will be helpful for the Committee's future consideration. If you have any questions, please feel free to contact us.

Yours sincerely



Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation of the ASBJ