STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Annual improvements 2010–2012 Cycle Comment letter analysis**
Paper topic	IFRS 13 *Fair Value Measurement* — Short-term receivables and payables

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Introduction

1. The Exposure Draft of the proposed *Annual Improvements to IFRSs* published in May 2012 (hereafter, the ED) includes a proposal for an amendment to the Basis for Conclusions of IFRS 13 *Fair Value Measurement* to clarify the IASB's rationale for an amendment to IFRS 9 *Financial Instruments* and to IAS 39 *Financial Instruments: Recognition and Measurement* that resulted in the deletion of paragraphs B5.4.12 and AG79, respectively.

Objective of this paper

2. The objective of this paper is:

   (a) to provide background information on the issue,

   (b) to analyse the comment letters received, and

(c) to make a recommendation to the IFRS Interpretations Committee (the 'Interpretations Committee') on how to proceed with this matter.

Background

3. In May 2011, the IASB published IFRS 13. IFRS 13 deleted paragraph B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39. An interested party asked what the intention of the IASB was when it deleted the above mentioned paragraphs through the amendments in paragraphs D38 and paragraph D109 of IFRS 13. Paragraph B5.4.12 stated [emphasis added]: [1]

> In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. **Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.**

4. This paragraph contains a practical expedient to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.

5. The question that has been raised with us is whether, by deleting paragraph B5.4.12 in IFRS 9, the IASB intentionally decided to remove the practical expedient in the last sentence.

The IASB's proposal to address the concerns raised

6. The IASB proposed to clarify the rationale for the amendments to IFRS 9 and IAS 39 by amending the Basis for Conclusions of IFRS 13. The proposed amendment to the Basis for Conclusions of IFRS 13 aims to clarify that, when

[1] Paragraph B5.4.12 of IFRS 9 is identical to paragraph AG79 of IAS 39. References to paragraph B5.4.12 of IFRS 9 in this paper should be read as being also applicable to paragraph AG79 of IAS 39.

making those amendments to IFRS 9 and IAS 39, the IASB did not intend to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. Instead, the IASB deleted those paragraphs in IFRS 9 and IAS 39 because IFRS 13 contains guidance for using present value techniques to measure fair value and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies.

Comment letter analysis

7. The IASB received 84 comment letters on the ED *Annual Improvements to IFRSs* of which 68 commented on the subject of this paper. Only one question (Question 1) of the invitation to comment was applicable to the proposed amendment to the Basis for Conclusions of IFRS 13:

> Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

8. A majority of the respondents agree with the proposed amendment to the Basis for Conclusions of IFRS 13 to clarify the IASB's intention in deleting paragraph B5.4.12 in IFRS 9 and paragraph AG79 in IAS 39.

9. The respondents who disagreed with the proposal could be classified into two main groups:

   (a) Some respondents think that the deleted paragraphs in IFRS 9 and IAS 39 should be reinstated. These respondents, most of which are accounting firms, argue that:

      (i) the Basis for Conclusions is non-authoritative and is not endorsed in many countries around the world;

      (ii) the deletion of an unambiguous practical expedient creates uncertainty as to whether non-discounting would be regarded as an 'error' in audit terms. Such an error would need to be quantified, tracked and included in summaries of unadjusted differences to support a conclusion under IAS 8 that the effects are not material (ie if the amendment is only added to the Basis for Conclusions, it can be interpreted as requiring an entity to go through detailed calculations of differences between invoice amounts and discounted values to prove that the effect of not discounting is immaterial);

(iii) it is not appropriate to introduce either requirements or exceptions to requirements only in the Basis for Conclusions to a Standard; and

(iv) reinstating the paragraphs would be the best approach to achieve the IASB's intention of not changing current practice.

(b) Some respondents do not believe that there is a need for any clarification. These respondents are mainly standard-setters and preparers of financial statements. Most of them argue that IAS 8 already addresses materiality in applying accounting policies, so there is no need to address it further in other Standards.

10. A few other respondents who do not agree with the IASB's proposal think that the clarification should be introduced through an amendment to IFRS 13 itself, instead of merely through the Basis for Conclusions.

Additional matter raised in the comment letters

11. A few respondents raised the need to ensure that the proposed amendment is consistent with a practical expedient proposed by the Exposure Draft *Revenue from Contracts with Customers*. The practical expedient is stated in paragraph 60 of the Exposure Draft as follows:

> As a practical expedient, an entity need not adjust the promised amount of consideration to reflect the time value of money if the entity expects at contract inception that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less.

12. The concern raised by these respondents is that the practical expedient might result in different accounting treatments for economically similar situations, because it is not limited to the cases in which the effect of the time value of money is immaterial. See the interaction of this concern with the staff's recommendation in paragraph 18.

Staff analysis and recommendation

13. The majority of the respondents support the deletion of paragraph B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39 and the IASB's proposal to add a new paragraph to the Basis for Conclusions on IFRS 13. They agree that IAS 8 is the Standard that addresses materiality in applying accounting policies and that, together with the guidance for using present value techniques in IFRS 13, this forms an adequate framework for an entity to conclude on the appropriateness of measuring short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. However, in our analysis we are also factoring in the views of those that think that reinstatement of these paragraphs is the preferable option.

14. The IASB deleted paragraph B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39 because it believed that they were no longer needed, on the grounds stated in paragraph 6. However, as mentioned in paragraph 9, some respondents have stated that the proposed clarification through the amendment to the Basis for Conclusions on IFRS 13 would still not be enough to fully achieve the IASB's intention of not changing current practice.

15. We believe that IAS 8 provides an adequate basis to draw the same conclusion as the conclusion that would be drawn by using the deleted paragraphs in IFRS 9 and IAS 39 (ie the use of original invoice amounts is allowed if the effect of discounting is immaterial). IFRSs are principle-based Standards and the consideration of materiality in the preparation and presentation of financial statements in accordance with IFRSs is a principle applicable to all of the Standards.

16. The staff think that the benefits of not reinstating the deleted paragraphs in IFRS 9 and IAS 39 (ie the confirmation of the materiality principles in IAS 8) outweigh the possible costs cited by some respondents, as described in paragraph 9(a)(ii). On the contrary, we think that a potential cost of reinstating those paragraphs might be receiving further requests to address materiality in the application of accounting policies relating to other Standards, when materiality is already addressed in IAS 8.

17. Our recommendation to the Interpretations Committee is to retain the proposals as exposed in the Exposure Draft, ie to amend the Basis for Conclusions on IFRS 13. Moreover, we recommend amending a footnote to the Basis for Conclusions on IFRS 9 and IAS 39, in order to link them with the explanation for deleting paragraphs B5.4.12 and AG79 provided in the Basis for Conclusions on IFRS 13. Please see Appendices A and B for the wording of these recommendations.

18. With reference to paragraph 12 above, some respondents highlighted that there could be a potential tension between the IASB's intention not to change current requirements (ie to allow the use of original invoice amounts to measure short-term receivables and payables with no stated interest rate if the effect of discounting is immaterial) and the practical expedient proposed in the Exposure Draft *Revenue from Contracts with Customers.* We have pointed out this possible tension to the staff who are working on the Revenue Recognition project and they will be considering this matter during the development of the Revenue Recognition Standard.

Transition and effective date

19. The proposed amendment requires only changes to the Basis for Conclusions on IFRS 13, IFRS 9 and IAS 39. As a result, consideration of transition provisions or of an effective date is not deemed to be necessary.

Question to the Interpretations Committee

Question
Does the Interpretations Committee agree with the staff recommendation to retain the proposals as exposed in the Exposure Draft and to amend the footnote to the Basis for Conclusions on IFRS 9 and IAS 39 (see Appendices A and B)?

Appendix A—Changes for finalising the amendment

Amendment to Basis for Conclusions on IFRS 13 *Fair Value Measurement*

Paragraph BC138A with the heading above it are added (new text is underlined).

Short-term receivables and payables

BC138A After issuing IFRS 13, the IASB was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of paragraphs B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The IASB did not intend to change the measurement requirements for those short-term receivables and payables. In determining whether to retain paragraph B5.4.12 in IFRS 9 and paragraph AG79 in IAS 39, the IASB concluded that the paragraphs were no longer needed for two reasons:

(a) IFRS 13 contains guidance for using present value techniques to measure fair value; and

(b) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies, in effect allowing an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting when the effect of not discounting is immaterial.

Consequential amendment to the Basis for Conclusions on IFRS 9 *Financial Instruments*[2]

This Basis for Conclusions accompanies, but is not part of, the amendment.

The footnote to the heading above paragraph BCZ5.1 is amended (new text is underlined).

Fair value measurement considerations[12]

12 IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence paragraphs 5.4.1–5.4.3 and B5.4.1–B5.4.13 of IFRS 9 have been deleted. *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] 2013 added paragraph BC138A to the Basis for Conclusions on IFRS 13 *Fair Value Measurement* to clarify the IASB's intention in deleting paragraph B5.4.12.

[2] An identical amendment is recommended in the case of the footnote to the first sentence of paragraph BC95 in IAS 39.

Appendix B—Changes from the Exposure Draft published in May 2012 following our recommendations in this paper

B1. The amendment to the Basis for Conclusions on IFRS 13 Fair Value Measurement and the consequential amendment to the Basis for Conclusions on IFRS 9 *Financial Instruments* are presented below. New text that is proposed to be added on the basis of the comment letter analysis, arising from the proposed amendment included in the ED (May 2012), is shown with a double-underline). Text that is proposed to be deleted with respect to the proposed amendment included in the ED (May 2012), is shown with a ~~double-strike-through~~.

Amendment to the Basis for Conclusions on IFRS 13 *Fair Value Measurement*

Paragraph BC138A with the heading above it are added (new text is underlined).

Short-term receivables and payables

BC138A After issuing IFRS 13, the ~~Board~~ IASB was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of paragraphs B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The ~~Board~~ IASB did not intend to change ~~practice in~~ the measurement requirements for ~~of~~ those short-term receivables and payables. In determining whether to retain paragraph B5.4.12 in IFRS 9 and paragraph AG79 in IAS 39, the ~~Board~~ IASB concluded that the paragraphs were no longer needed for two reasons:

(a) IFRS 13 contains guidance for using present value techniques to measure fair value; and

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