
IFRS[®] Interpretations Committee meeting

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Project	Potential annual improvements—IFRS 9 terminology update
Topic	Initial consideration
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Introduction

1. We have been informed about potential confusion arising from a reference in Appendix A of IFRS 9 *Financial Instruments* to the definition of 'transaction price' in IFRS 15 *Revenue from Contracts with Customers*. The potential for confusion arises because the term 'transaction price' is used in particular paragraphs of IFRS 9 with a meaning that is not necessarily consistent with the definition of that term in IFRS 15.
2. This paper:
 - (a) provides the Interpretations Committee (Committee) with a summary of the matter;
 - (b) presents our research and analysis; and
 - (c) asks the Committee whether it agrees with our preliminary views to include a proposed amendment to Appendix A of IFRS 9 in the next *Annual Improvements to IFRS Accounting Standards Cycle* (annual improvements).

Structure of this paper

3. This paper includes:
 - (a) background information (paragraphs 4–10);
 - (b) staff analysis and preliminary views (paragraphs 11–23);
 - (c) question for the Committee; and
 - (d) Appendix A—recommended proposed amendment to Appendix A of IFRS 9.

Background information

4. Paragraph 5.1.1 of IFRS 9 states [emphasis omitted]:

Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5. Several paragraphs in IFRS 9 use the term 'transaction price':

- (a) Paragraph 5.1.1A states:

However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.

- (b) Paragraph 5.1.3 states:

Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15).

- (c) Paragraph B5.1.1 states:

The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and IFRS 13). ...

- (d) Paragraph B5.1.2A states:

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

- (a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the

difference between the fair value at initial recognition and the transaction price as a gain or loss.

- (b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

6. Appendix A of IFRS 9 states (footnote omitted):

The following terms are defined in paragraph 11 of IAS 32, Appendix A of IFRS 7, Appendix A of IFRS 13 or Appendix A of IFRS 15 and are used in this Standard with the meanings specified in IAS 32, IFRS 7, IFRS 13 or IFRS 15:

- (a) credit risk;
- (b) equity instrument;
- (c) fair value;
- (d) financial asset;
- (e) financial instrument;
- (f) financial liability;
- (g) transaction price.

7. Paragraphs 57–60 and B4 of IFRS 13 set out requirements for measuring fair value at initial recognition. Paragraph 57 of IFRS 13 states:

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (*an entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (*an exit price*). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

8. Paragraph 58 of IFRS 13 states that ‘in many cases the transaction price will equal the fair value’. Paragraph B4 of IFRS 13 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition. Paragraph 60 of IFRS 13 states that ‘if another IFRS

[Accounting Standard] requires or permits an entity to measure an asset or liability initially at fair value and the transaction price differs from fair value, the entity shall recognise the resulting gain or loss in profit or loss unless that IFRS [Accounting Standard] specifies otherwise’.

9. Appendix A of IFRS 15 defines ‘transaction price (for a contract with a customer)’ as [emphasis omitted]:

The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Question raised

10. The question raised is whether the reference to the definition of ‘transaction price’ in Appendix A of IFRS 9 should be removed to avoid potential confusion. Confusion may arise because the term ‘transaction price’ is used in particular paragraphs of IFRS 9 with a meaning that is not necessarily consistent with the definition of that term in IFRS 15.

Staff analysis and preliminary views

11. There are two ways in which IFRS 9 uses the term ‘transaction price’:
- (a) as defined in IFRS 15—in paragraph 5.1.3 of IFRS 9 in the context of trade receivables; and
 - (b) as the fair value of the consideration given or received—in paragraphs 5.1.1A, B5.1.1 and B5.1.2A of IFRS 9.

Transaction price as defined in IFRS 15

12. When IFRS 15 was issued in May 2014, it amended other IFRS Accounting Standards (Accounting Standards), including adding paragraph 5.1.3 of IFRS 9.
13. In July 2014 the IASB issued IFRS 9, which added to Appendix A of IFRS 9 a reference to the term ‘transaction price’, as defined in Appendix A of IFRS 15, and clarified that this term is used in IFRS 9 with the meaning specified in IFRS 15.
14. An entity applying paragraph 5.1.3 of IFRS 9 measures trade receivables at initial recognition at their ‘transaction price (as defined in IFRS 15)’ if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies a permitted practical expedient). The definition of transaction price in IFRS 15 is ‘the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties’.

Transaction price as the fair value of the consideration given or received

15. Paragraph 5.1.1 of IFRS 9 states that an entity measures, at initial recognition, a financial asset or financial liability at its fair value plus or minus transaction costs (when applicable)—but makes an exception for trade receivables in the scope of paragraph 5.1.3 of IFRS 9. Paragraph B5.1.1 of IFRS 9 states that the fair value of a financial instrument at initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) and references paragraph B5.1.2A [of IFRS 9] and IFRS 13. Paragraph B5.1.2A also references IFRS 13 and provides requirements for when an entity determines that the fair value at initial recognition differs from the transaction price.

Are the two uses of transaction price in IFRS 9 the same?

16. In determining the transaction price applying paragraph 47 of IFRS 15, an entity considers the terms of the contract and its customary business practices. The transaction price is the amount of consideration to which an entity *expects* to be entitled in exchange for transferring promised goods or services to a customer (excluding amounts collected on behalf of third parties). As set forth in paragraph 48 of IFRS 15, the nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price and includes the effects of, for example, variable consideration, non-cash consideration and consideration payable to a customer. Therefore, transaction price as defined in IFRS 15 is an *entity-specific* measurement.
17. In contrast, as set forth in paragraph 2 of IFRS 13, the fair value (of the consideration received or paid) is a *market-based* measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, the exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
18. In our view, therefore, it is evident based on the wording in each respective Accounting Standard that ‘transaction price’ as defined in IFRS 15 is not intended to be, and is not necessarily, the same as ‘fair value of the consideration given or received’. We think it is also evident in the requirements of IFRS 9 when ‘transaction price’ refers to IFRS 15 and when it does not. In particular, paragraph 5.1.3 of IFRS 9 states that ‘an entity shall measure trade receivables at their transaction price (as defined in IFRS 15)’; paragraph 5.1.1 of IFRS 9 states that paragraph 5.1.3 provides an exception from the requirement for an entity to measure, at initial recognition, a financial asset or financial liability at its fair value plus or minus transaction costs (when applicable).

19. Therefore, it is unnecessary—and potentially confusing—to retain a reference to ‘transaction price’ (as defined in IFRS 15) in Appendix A of IFRS 9 and our preliminary view is to recommend deleting it (see Appendix A to this agenda paper).
20. We think that deleting ‘transaction price’ from Appendix A of IFRS 9 would be a minor correction. It would eliminate potential confusion and allow existing use of ‘transaction price’ terminology in IFRS 9 to stand on its own and reflect intended interactions between the requirements in IFRS 9, IFRS 13 and IFRS 15. It would also improve the understandability of Accounting Standards.

Does this matter meet the annual improvements criteria?

21. Paragraphs 6.10–6.13 of the *Due Process Handbook* include the criteria for annual improvements. To meet these criteria, the proposed solution would need to be limited to:
 - (a) clarifying the wording in an Accounting Standard, which involves either replacing unclear wording in existing Accounting Standards or providing requirements where an absence of requirements is causing concern; or
 - (b) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements.
22. We think our proposed solution regarding Appendix A of IFRS 9 (see Appendix A to this agenda paper) meets the first of these criteria. As explained earlier, we think that deleting the reference to ‘transaction price’ (as defined in IFRS 15) would improve the understandability of IFRS 9. Such an amendment would maintain consistency with the principles and requirements in IFRS 9 and would not propose a new (or change an existing) principle or requirement.

Summary of staff preliminary views

23. Based on our analysis in paragraphs 11–22, our preliminary views are to:
 - (a) propose that the IASB delete the reference to ‘transaction price’ and the associated references to IFRS 15 from Appendix A of IFRS 9 (see Appendix A to this agenda paper); and
 - (b) include this proposed amendment in the next annual improvements cycle.

Question for the Committee

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Do Committee members agree with our preliminary views as summarised in paragraph 23 of this paper? If ‘no’, do you have any other suggestions?

Appendix A— recommended proposed amendment to Appendix A of IFRS 9

- A1. Our proposed amendment would delete the reference to ‘transaction price’—and the associated references to IFRS 15—from Appendix A of IFRS 9. New text is underlined and deleted text is struck through.

The following terms are defined in paragraph 11 of IAS 32, Appendix A of IFRS 7, or Appendix A of IFRS 13 ~~or Appendix A of IFRS 15~~ and are used in this Standard with the meanings specified in IAS 32, IFRS 7, or IFRS 13 ~~or IFRS 15~~:

- (c) credit risk;³
- (d) equity instrument;
- (e) fair value;
- (f) financial asset;
- (g) financial instrument;
- (h) financial liability;
- (i) ~~transaction price.~~

³ This term (as defined in IFRS 7) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through profit or loss (see paragraph 5.7.7).