
IASB[®] meeting

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Project	Annual Improvements to IFRS Accounting Standards—Volume 11
Topic	Transaction Price (Amendments to IFRS 9 <i>Financial Instruments</i>): Analysis of feedback
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Introduction

1. As explained in Agenda Paper 12 *Maintenance and consistent application—Cover paper*, this paper analyses feedback on *Transaction Price (Amendments to IFRS 9 Financial Instruments)* included in the [Exposure Draft Annual Improvements to IFRS Accounting Standards—Volume 11](#). The International Accounting Standards Board (IASB) proposed to amend paragraph 5.1.3 and Appendix A of IFRS 9 to clarify the use of the term ‘transaction price’ in the Standard.

Summary of staff recommendations

2. We recommend that the IASB finalise with no changes the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9.

Structure of this paper

3. This paper includes:
 - (a) [Background information](#);
 - (b) [Summary of feedback](#);
 - (c) [Staff analysis](#);

- (d) [Staff recommendation and question for the IASB](#); and
- (e) [Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9 *Financial Instruments*](#).

Background information

4. Paragraphs BC4–BC8 of the Basis for Conclusions on the proposed amendments to IFRS 9 in the Exposure Draft explain the background and the IASB’s rationale for the proposed amendments. Paragraphs BC4–BC8 state:

BC4 Stakeholders informed the IASB about potential confusion arising from a reference in Appendix A of IFRS 9 to the definition of ‘transaction price’ in IFRS 15 *Revenue from Contracts with Customers*. The term ‘transaction price’ is used in some paragraphs of IFRS 9 with a meaning that is not necessarily consistent with the definition of that term in IFRS 15.

BC5 The IASB observed two ways in which IFRS 9 uses the term ‘transaction price’:

- (a) as defined in IFRS 15—in paragraph 5.1.3 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.

BC6 The two uses of ‘transaction price’ in IFRS 9 are not the same because:

- (a) as set forth in paragraph 47 of IFRS 15, an entity considers the terms of a contract and its customary business practices to determine the transaction price. 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. In other words, transaction price as defined in IFRS 15 is an *entity-specific* measurement.

- (b) as set forth in paragraph 2 of IFRS 13 *Fair Value Measurement*, the fair value (of the consideration received or paid) is a *market-based* measurement, not an entity-specific measurement.

BC7 The requirements in IFRS 9 state clearly when ‘transaction price’ is used as defined in IFRS 15 and when it is not. In the IASB’s view, retaining a reference to ‘transaction price’ (as defined in IFRS 15) in Appendix A of IFRS 9 is unnecessary and potentially confusing. As a result, the IASB proposes to delete the reference.

BC8 Additionally, stakeholders informed the IASB about a lack of consistency between paragraph 5.1.3 of IFRS 9 and the requirements in IFRS 15. An entity applying paragraph 105 of IFRS 15 presents any unconditional rights to consideration separately as a receivable, but the receivable might be measured, at initial recognition, at an amount that is not necessarily the same as the amount of the transaction price recognised as revenue (as illustrated in Examples 39 and 40 accompanying IFRS 15). The IASB therefore proposes to amend paragraph 5.1.3 of IFRS 9 to replace ‘their transaction price (as defined in IFRS 15)’ with ‘the amount determined by applying IFRS 15’.

5. The IASB did not propose any specific transition requirements. As discussed in [Agenda Paper 12E](#) for the February 2023 IASB meeting, the IASB does not expect any change in practice arising from the proposed amendments or a material effect on entities' financial statements, because the proposed amendments, if finalised, would not change or add requirements but help maintain consistency between existing requirements.
6. Appendix A to this paper reproduces the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9.

Summary of feedback

7. Thirty-eight respondents commented on the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9. Almost all respondents agreed with the proposed amendments for the reasons set out in the Exposure Draft.
8. A few respondents provided additional suggestions:
 - (a) a national standard-setter said the IASB should remove from paragraph 5.1.3 of IFRS 9 the clause '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)'. In this respondent's view, this clause suggests that an entity is required to apply paragraph 5.1.1 of IFRS 9 for trade receivables with a significant financing component and measure them at fair value plus or minus transaction costs. However, paragraphs 61–65 of IFRS 15 detail how an entity measures the promised amount of consideration with a significant financing component. While these measurements might result in an amount that is equal to fair value, fair value is not explicitly referred to in IFRS 15.
 - (b) an accounting firm suggested the IASB delete the parenthetical clarifying clause in paragraph 5.1.3 of IFRS 9 '(or when the entity applies the practical

- expedient in accordance with paragraph 63 of IFRS 15)’ because in this respondent’s view it is irrelevant.
- (c) another national standard-setter suggested clarifying in Appendix A of IFRS 9 that transaction price is defined in paragraph 57 of IFRS 13.
9. An accounting firm suggested an alternative to the IASB’s proposed amendment to paragraph 5.1.3 of IFRS 9 to link more clearly the term ‘trade receivable’ with how IFRS 15 defines it. This respondent’s drafting suggestion is for paragraph 5.1.3 of IFRS 9 to state (text added since the Exposure Draft is bolded and underlined): ‘an entity shall measure trade receivables at **the amount of the unconditional right to consideration determined by applying IFRS 15**’.
10. No respondents commented on the proposed transition requirements.

Staff analysis

Additional suggestions

11. We disagree with the suggestions in paragraph 8(a)–8(b) of this paper. In our view, the entire clause (including the parenthetical clarifying phrase) in paragraph 5.1.3 of IFRS 9 is needed, because it sets out conditions for when an entity applies this paragraph instead of the general requirement in paragraph 5.1.1 of IFRS 9. Trade receivables within the scope of paragraph 5.1.3 of IFRS 9 are only those that:
- (a) do not contain a significant financing component; or
- (b) contain a significant financing component *and* the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15.
12. In other words, the trade receivables that contain a significant financing component (and the entity does not apply the practical expedient in accordance with paragraph 63 of IFRS 15) are within the scope of paragraph 5.1.1 of IFRS 9.

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13. Paragraph 48 of IFRS 15 states that when determining the transaction price, an entity considers the effects of the existence of a significant financing component in the contract applying paragraphs 60–65 of IFRS 15. Paragraph 61 of IFRS 15 states that the objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price). We agree with the respondent’s view in paragraph 8(a) of this paper that the existence of a significant financing component might not necessarily result in the initial measurement of the trade receivable being equal to its fair value. In such cases, any difference between the (promised) amount of consideration adjusted for a significant financing component and the fair value at initial recognition of the trade receivable (within the scope of paragraph 5.1.1 of IFRS 9) would be accounted for in accordance with paragraph 5.1.1A of IFRS 9 (and paragraph B5.1.2A of IFRS 9).
14. We disagree with the suggestion in paragraph 8(c) of this paper. The IASB proposed to remove the reference to the definition of ‘transaction price’ in IFRS 15 from Appendix A of IFRS 9 to eliminate potential confusion arising from the fact that IFRS 9 uses the term ‘transaction price’ in two ways:
- (a) as defined in IFRS 15; or
 - (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.
15. If the proposed amendments were to be finalised with no changes, we think the requirements in IFRS 9 would be clear that any reference to ‘transaction price’ is in the context of IFRS 13. In addition, while ‘transaction price’ is a term widely used in IFRS 13, it is not a *defined* term, unlike other terms referred to in subparagraphs (a)–(f) of the last paragraph of Appendix A of IFRS 9.

Drafting suggestion

16. We considered the drafting suggestion in paragraph 9 of this paper to add the words ‘of the unconditional right to consideration’ to the phrase ‘the amount determined by applying IFRS 15’. We think it is unnecessary to repeat in paragraph 5.1.3 of IFRS 9 the detailed requirements in IFRS 15, and there could be unintended consequences of referencing some, but not all, of those detailed requirements. The proposed (and simpler) reference to IFRS 15 provides an adequate basis to determine the required accounting, is concise and might be easier to translate. In addition, if the IASB were to make the drafting suggestion in paragraph 9 of this paper, we think paragraph 5.1.3 of IFRS 9 could be viewed as inconsistent with other, more general cross-references included in the Standard—for example, paragraph B6.2.3 of IFRS 9 states that ‘for hedges of foreign currency risk, the foreign currency risk component of a non-derivative financial instrument is determined in accordance with IAS 21’.
17. In our view, considering that almost all respondents agreed with the proposed amendments and suggested no changes, the proposed amendments are well-understood and will be sufficient for an entity to determine the initial measurement of trade receivables within the scope of paragraph 5.1.3 of IFRS 9.

Staff recommendation and question for the IASB

18. Based on our analysis in this agenda paper, we recommend the IASB finalise with no changes the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9 (see Appendix A to this paper).

Question for the IASB

Does the IASB agree with our recommendation to finalise with no changes the proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9 (see Appendix A to this paper)?

Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph 5.1.3 and Appendix A of IFRS 9 *Financial Instruments*

Chapter 5 Measurement

Paragraph 5.1.3 is amended. Paragraphs 5.1.1–5.1.2 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

5.1 Initial measurement

- 5.1.1 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.
- 5.1.1A 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.
- 5.1.2 When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date (see paragraphs B3.1.3–B3.1.6).
- 5.1.3 Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at the amount determined by applying 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).

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Chapter 7 Effective date and transition

Paragraphs 7.1.12 and [...] are added. For ease of reading these paragraphs have not been underlined.

7.1 Effective date

...

- 7.1.12 *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraphs [...] and 5.1.3 and Appendix A. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

...

Appendix A Defined terms

The last paragraph of Appendix A is amended. New text is underlined and deleted text is struck through.

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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~~:

- (a) credit risk;³ [footnote omitted]
- (b) equity instrument;
- (c) fair value;
- (d) financial asset;
- (e) financial instrument;
- (f) financial liability;⁴
- (g) ~~transaction price.~~