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Project	Financial Instruments: Impairment		
Paper topic	Application of the ‘three-bucket’ model to trade receivables		
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Introduction

1. The purpose of this paper is to address the accounting for trade receivables within the context of the boards’ tentative decisions on the impairment model. As used in this paper, the term ‘trade receivables’ refers to receivables arising from customer transactions within the scope of the revised revenue exposure draft (revised revenue ED)¹ in which the customer has contracted with the entity to obtain goods or services that are an output of the entity’s ordinary activities.
2. Specifically, this paper seeks the boards’ decisions on whether the impairment allowance for trade receivables should be determined based on an ‘expected’ loss approach or an ‘incurred’ loss approach. If the boards decide that the impairment allowance for trade receivables should be based on an ‘expected’ loss approach, the staff also seek the boards’ decisions on whether entities should apply the full three-bucket model (as is currently being developed) or whether a simplified approach should be required (or allowed). Such a simplified approach might include (a) not requiring the entities to track credit deterioration for trade receivables and (b) not requiring entities to disaggregate the expected loss amount into a 12-month and lifetime portion.
3. In relation to trade receivables that do not have a significant financing component, this paper includes a question for the FASB only, while the equivalent IASB

¹ *Revenue from contracts with customers* (November 2011)

question on this issue is covered in a separate paper (see Agenda Paper 4C). This issue is being handled separately because of differences in the initial measurement of trade receivables under IFRS and US GAAP.

Issue 1—Whether the credit impairment approach for trade receivables should be based on an ‘incurred loss’ model or an ‘expected loss’ model.

4. Under current GAAP (both US GAAP and IFRS), the impairment guidance for trade receivables relies on an ‘incurred loss’ approach. Specifically:
 - (a) US GAAP, Subtopic 450-20 and Section 310-10-35 (formerly FAS 5) requires the recognition of impairment losses for all receivables (including trade receivables), when available information indicates that it is probable that an asset has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated. Under this approach, it is “probable that an asset has been impaired” if, based on current information and events, it is probable that the entity will be unable to collect all contractual amounts due.
 - (b) Under IFRS (IAS 39 paragraphs 58-59), impairment losses are incurred for financial assets when there is objective evidence of impairment as a result of a loss event or events that affect the estimated future cash flows of the asset in a manner that can be reliably estimated. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying value and the present value of estimated future cash flows. Cash flows relating to short-term receivables are not required to be discounted if the effect of discounting is immaterial.
5. At the boards’ direction, the staff are continuing to develop an ‘expected loss’ credit impairment approach for financial assets. The model currently being developed is based on two primary notions:

- (a) the notion of ‘credit deterioration’—that a larger portion of expected losses should be recognised for those financial assets that have experienced credit deterioration; and
 - (b) the notion of ‘expected losses’—that the measurement of a credit impairment allowance should consider not only historical and current information, but also reasonable and supportable forecasts of what may happen in the future.
6. From a measurement perspective, the model being developed uses two measurement objectives:
- (a) 12 months’ expected loss (for financial assets in Bucket 1) and
 - (b) lifetime expected loss (for financial assets in Bucket 2 and Bucket 3).
7. The ‘incurred loss’ approach under current GAAP differs from an ‘expected loss’ approach for two primary reasons:
- (a) Under the ‘incurred loss’ approach, a triggering event has to have occurred in order to recognise an incurred credit loss resulting from that triggering event. The ‘incurred loss’ approach relies on historical and current information to estimate the impairment allowance. Conversely, under the ‘expected loss’ approach, it is not necessary for a triggering event to have occurred in order to recognise an expected credit loss. The ‘expected loss’ approach requires entities to consider forecast information (in addition to the historical and current information) to estimate the impairment allowance.
 - (b) Under the ‘incurred loss’ approach, there is a threshold that must be met in order to record a loss. In US GAAP, that threshold is the concept of ‘probable’. Under IFRS, that threshold is the concept of ‘objective evidence of impairment’. Under an ‘expected loss’ approach, these thresholds do not exist.

Issue and alternatives

8. The basic question in this issue is whether the credit impairment guidance for trade receivables should be based on an ‘incurred loss’ model or an ‘expected loss’ model. The two alternatives are as follows:
 - (a) **Alternative A**—Use the existing ‘incurred loss’ credit impairment model for trade receivables
 - (b) **Alternative B**—Use an ‘expected loss’ credit impairment model for trade receivables.
9. Alternative A would make no change to existing GAAP, but would instead merely exclude trade receivables from the scope of the general three-bucket impairment model that is currently being developed.²
10. Alternative B would include trade receivables within the scope of the expected loss model currently being developed. If this approach is favoured by the boards, it raises questions that are explored in Issue 2 (see page 7) and Issue 3 (see page 10) regarding how expected losses for trade receivables should function in the impairment model (including whether a 12-month expected loss or lifetime expected loss should be recognised at initial recognition).

Staff analysis

11. Appendix A to this paper contains the comment letter summary, which discusses the feedback received on impairment accounting for trade receivables (paragraphs 31-34 of Agenda Paper 9A from the July 2010 IASB meeting).
12. Proponents of Alternative A (the ‘incurred loss’ approach) suggest that the current model is not broken for trade receivables. They believe that the genesis of this project is related to impairment of other assets such as loans and debt securities, and see no reason to include trade receivables within its scope. Furthermore,

² For purposes of this discussion, the staff have not considered potential modifications if the boards believe that an incurred loss model should be followed but improved or made to converge. If the boards want a converged (or modified) incurred loss approach for impairment, the staff would consider those types of approaches for discussion at a later time.

these individuals believe that the benefits of moving from an ‘incurred’ approach to an ‘expected’ approach do not outweigh the cost of doing so.

13. In addition, as noted in the comment letter feedback in the Appendix, respondents to the original IASB ED believed that applying an expected loss model to non-interest-bearing (eg, short-term) trade receivables would not provide more useful information than an incurred loss model would do, because of their short maturity. They also noted that there would be operational burdens for smaller financial institutions and/or non-financial institutions of applying an expected loss approach.
14. Opponents of Alternative A note that for at least some short-term trade receivables, the time lag between an expected and an incurred loss event may not be significant and so an operational simplification would not, in those cases, result in an improvement in the usefulness of the information reported. (Of course, the question would remain as to whether this effect would be significant and/or material.)
15. In addition, although some constituents do not see the cost/benefit attraction of an expected loss model for short-term receivables, because incurred losses would be recognised quickly anyway, there is no reason in economic terms why the impairment approach for trade receivables with no significant financing component should be different from other financial assets with the same maturity that are subject to impairment.
16. Proponents of Alternative B note that trade receivables meet the definition of ‘financial assets’ in IFRS and US GAAP, and as such should use an ‘expected loss’ approach. They see no reason to use a different conceptual model for trade receivables.
17. Proponents of Alternative B believe that an expected loss model is superior to an incurred loss model, because it takes future expectations into consideration. They also believe that it would reduce complexity by having all financial assets use a single impairment model.

18. Furthermore, proponents of Alternative B believe that the boards have the flexibility to mitigate the costs of applying an ‘expected loss’ approach (see Issues 2 and 3 for some of the simplifications that could be permitted for trade receivables if using an expected loss model, thereby reducing the cost to preparers). Some also believe that many corporates have experience in considering forward-looking information in assessing anticipated losses—for example, many national GAAPs recognise a general loan loss provision even for the ‘not past due’ subset of the trade receivables and consideration is already given to future expectations in assessing whether losses are incurred today. This knowledge would help in a move to an expected loss approach.

Staff recommendation

19. The staff recommend Alternative B (ie, an ‘expected loss’ approach) for the reasons articulated above. However, the recommendation by some staff for an ‘expected loss’ approach instead would ultimately change if the modifications to the three-bucket model to simplify its application to trade receivables that are discussed in Issues 2 and 3 were not made. If such modifications are not made, these staff believe the benefits of changing from the existing incurred loss model would not outweigh the costs of doing so.

Question 1 to the boards

Do the boards agree with the staff recommendation that the credit impairment model for trade receivables should be based on an ‘expected loss’ model?

If ‘yes’, the boards will be asked how the expected loss model should function for trade receivables. See Issue 2 (FASB only) and Agenda Paper 4C (IASB only), and Issue 3 (FASB and IASB).

If ‘no’, trade receivables will follow an ‘incurred loss’ model that could be, for example, the ones that exist in current GAAP (US and IFRS), or a different incurred loss model. If the boards decide that an incurred loss model should

be used, do the boards want the staff to develop a single converged incurred loss model?

Issue 2 (FASB Only Issue)—Application of the ‘expected loss’ impairment model to trade receivables that do not have a significant financing component

20. Because of the differences between US GAAP and IFRS in initially measuring trade receivables that do not have a significant financing component, the question in this paper is only for the FASB. The IASB will be considering this issue in Agenda Paper 4C relating to initial measurement of trade receivables that do not have a significant financing component.
21. From a measurement perspective, the three-bucket impairment model being developed uses two measurement objectives:
 - (a) 12 months’ expected loss (for financial assets in Bucket 1); and
 - (b) lifetime expected loss (for financial assets in Bucket 2 and Bucket 3).
22. Interestingly, the staff believe that the overwhelming majority of trade receivables have terms shorter than 12 months (and therefore may be deemed to not have a significant financing component under the revenue proposal). For these receivables, because 12 months’ expected losses captures the entire lifetime of expected loss, the measured amount of an impairment allowance for these assets will always equal the ‘lifetime expected loss’ regardless of whether they are classified in Bucket 1, Bucket 2 or Bucket 3.
23. However, there may be trade receivables with terms longer than 12 months that are deemed not to have a significant financing component under the revenue proposal. For those receivables, there could be a difference between the 12-month expected loss and the lifetime expected loss. The staff believe that such receivables will be a small minority in the population of receivables that are deemed to not have a significant financing component under the revenue proposal.

Issue and alternatives

24. The basic question in this issue is whether entities should be required to track credit deterioration on trade receivables that do not have a significant financing component, given that:
- (a) Deterioration would not change the credit impairment measurement outcome for receivables with terms shorter than 12 months.
 - (b) Deterioration could change the credit impairment measurement outcome for receivables with terms longer than 12 months that are deemed to not have a significant financing component under the revenue proposal.
25. The alternatives are as follows:
- (a) **Alternative A**—Yes. Entities should be required to track deterioration so that the categorisation into buckets of the impairment model can be appropriately disclosed in the financial statements.
 - (b) **Alternative B**—No. Entities should not be required to track deterioration as described in Alternative A. Instead, the credit impairment measurement objective for all trade receivables that do not have a significant financing component should be lifetime expected loss throughout their life.

FASB Staff analysis

26. The distinction between Alternative A and Alternative B primarily relates to disclosure about deterioration in credit quality. Proponents of Alternative A believe that the disclosure requirements for trade receivables should be consistent with disclosures under the model for other financial assets, and therefore believe the tracking is important and relevant. Proponents of Alternative B believe that the disclosure information obtained by tracking such deterioration is not relevant for receivables without a significant financing component and that therefore the cost and complexity of such tracking does not outweigh the benefits.

27. The revenue proposal would distinguish between receivables with (and without) a significant financing component and would permit an entity to practically conclude that there is no significant financing component if the term is shorter than 12 months. The boards used the 12-month practical expedient as a ‘safe harbour’ to simplify compliance by not requiring entities to go through the effort of determining whether a contract shorter than 12 months had a significant financing component. The three-bucket impairment model instead makes a distinction based on 12 months or lifetime expected loss. There could be situations in which a contract does not have a significant financing component but has a term longer than 12 months. However, the staff believe that the majority of contracts deemed to not have a significant financing component will be contracts with terms shorter than 12 months. Proponents of Alternative A may believe that there is useful information in the distinction between 12 months’ expected loss and lifetime expected loss, whereas proponents of Alternative B believe that such information is either (a) not useful or (b) does not pass the cost/benefit hurdle for reporting such information.

FASB Staff recommendation

28. The staff recommend Alternative B for the reasons articulated in the paragraphs above. This recommendation is consistent with the recommendation by the IASB staff in the IASB-only memorandum (Agenda Paper 4C) that addresses this issue for these assets. The staff also note that the lifetime expected loss measurement objective would apply to the unusual circumstances where there is a trade receivable that does not have a significant financing component, but has a term longer than 12 months.

Question 2 to the FASB

For trade receivables that do not have a significant financing component, does the FASB agree with the staff recommendation that an entity should not be required to track deterioration for disclosure purposes?

Issue 3—Application of the ‘expected loss’ model to trade receivables that have a significant financing component

29. For trade receivables that have a significant financing component, pure application of the three-bucket impairment model would require the following:
- (a) entities to track credit deterioration to determine whether the ‘transfer criteria’³ have been met to warrant recognition of lifetime expected losses (instead of 12 months’ expected loss);
 - (b) entities to calculate 12-month expected allowances for receivables that are still in Bucket 1; and
 - (c) entities to calculate a lifetime expected loss allowance for receivables that have deteriorated to Bucket 2 or Bucket 3.

Issue and alternatives

30. The staff recognise that, today, entities do not disaggregate losses into 12-month and lifetime portions, and nor do they track credit deterioration relative to the ‘transfer criteria’. While the model would require this for financial assets such as loans and debt securities, the staff recognise that application of the model to trade receivables increases the population of entities that would be expected to perform those tasks, and that many of those entities would not be financial institutions.
31. The basic question in this issue is whether the boards wish to simplify the application of the three-bucket expected loss model when it is applied to trade receivables that have a significant financing component. The alternatives are as follows:
- (a) **Alternative A**—No. Entities should treat these trade receivables like all other financial assets within the scope of the model by tracking

³ The ‘transfer criterion’ specifies when financial assets are required to use an impairment allowance equal to lifetime expected losses. Specifically, the threshold is when there has been a more than insignificant deterioration in credit and it is at least reasonably possible that all or some of the contractual cash flows may not be collected. Once a financial asset meets the transfer criterion, it is to be categorised in Bucket 2 or Bucket 3.

credit deterioration and differentiating between 12 months' expected loss and lifetime expected loss.

- (b) **Alternative B**—Yes. Entities should be *required* to apply a simplified approach. When applying the model to these trade receivables, entities should be required to use an allowance measurement objective of 'lifetime expected losses' throughout an asset's life. Furthermore, such entities should not be required to track credit deterioration for disclosure purposes in the way that the three-bucket model requires.
- (c) **Alternative C**—Yes. Entities are provided with a practical expedient such that they may choose to apply a simplified approach. When applying the model to trade receivables, entities would be permitted a policy election to either (1) fully apply the three-bucket model or (2) follow the simplified approach (as described in Alternative B). The policy election would need to be applied consistently across the entire reporting entity.

Staff analysis

32. Those staff who favour Alternative A believe that, consistently with what is proposed in the revised revenue proposal, the accounting for these trade receivables should be comparable to the accounting for a loan with the same features, including the impairment approach and presentation in the financial statements. They see no conceptual reason to grant relief when such relief is not granted for other types of financial assets within the scope of the impairment model.
33. In addition, those that support Alternative A believe that recognising an allowance and related impairment expense based on lifetime expected credit losses is inconsistent with the boards' tentative decision that lifetime expected credit losses should not be recognised *at initial recognition* for instruments that are priced at market.

34. Proponents of Alternative B are concerned with the costs and complexity of (a) disaggregating expected losses into 12-month and lifetime portions and (b) tracking credit deterioration to determine whether the ‘transfer criteria’ have been met, such that the measurement objective should change from 12 months’ expected loss to lifetime expected loss. This cost consideration also relates to the fact that the use of the impairment model for trade receivables considerably increases the population and range of entities to which the model applies. They favour a simplified approach whereby tracking is not required and ‘lifetime expected losses’ is used as the credit impairment allowance measurement objective for all trade receivables. Additionally, they believe that users of financial statements would more readily understand allowance balances when the credit impairment measurement objective is the same for all trade receivables (because the measurement objective also relates to short-term trade receivables).
35. Proponents of Alternative C generally agree with proponents of Alternative B. However, they believe there may be entities who would rather apply the full three-bucket model without simplification (eg, companies who regularly engage in longer-term receivables resulting from large-ticket custom products or services). As a result, proponents of Alternative C would prefer to permit an entity to use the ‘simplified approach’ on a policy-election basis, if they so choose. It is noted that, for all options, this alternative would reduce comparability between entities.

Staff recommendation

36. The staff are split in their recommendation. Some staff favour Alternative A (for the reasons articulated in paragraphs 32 and 33) while other staff favour Alternative C (for the reasons articulated in paragraph 35).

Question 3 to the boards

Which of the alternatives (if any) in paragraph 31 do the boards support?

Appendix A—Excerpt from Agenda Paper 9A from the July 2010 IASB meeting: Comment Letter Summary

Non-financial institutions, non-interest bearing financial instruments, and bond portfolios

31. Many respondents (especially those from non-financial institutions and those with a professional interest in non-financial institutions) comment on a need for a different approach for non-interest bearing financial instruments (eg short-term trade receivables) and non-financial institutions, in general. Reasons cited for a need for a separate, or further simplified approach, include:
- (a) The recent financial crisis was not caused by the application of the incurred loss impairment approach to such instruments, or by such non-financial institutions.
 - (b) Short-term trade receivables are not created for the purpose of collecting interest.
 - (c) Disclosure and presentation requirements in the ED are too onerous and do not provide useful information for these types of instruments.
 - (d) Non-financial institutions (and even some smaller financial institutions) do not have the resources or the systems infrastructure to implement the ECF approach as drafted. Moreover, respondents felt the ECF approach would not provide a better result than the current incurred loss impairment approach for such institutions.
32. Most of the respondents that commented on the treatment of short-term trade receivables in the ED also provided their concerns on the proposed treatment of related revenue. They state that allocating the expected losses against revenue when first recording the receivable is inconsistent with the treatment for the other financial assets in the ED which allocate the expected credit losses over the life of the asset. They also state that the losses incurred on trade receivables are a business expense and should be shown separately from revenue.
33. Whilst most respondents that commented on the treatment of non-interest bearing short-term financial assets agree that such instruments should not be treated the

same as financial assets created solely as a result of lending transactions, they provide different suggestions for how to resolve the treatment. Some suggestions received included:

- (a) provide more practical expedients (for example related to presentation and disclosure); or
 - (b) scope out such transactions, and maybe even non-financial institutions in general, from the final standard.
34. Some respondents discuss a situation where an entity holds investment-grade bond portfolios. Based on published reports, they state that these types of bond portfolios have a historically low default rate. They argue that requiring the approach in the ED with all the proposed disclosures does not provide useful information for what is likely to be an immaterial amount of EL.

Appendix B—Additional relevant project history

Initial measurement of trade receivables

1. In accordance with IFRSs, financial assets are initially recognised at fair value.⁴ In accordance with the tentative decisions of the FASB on the classification and measurement of financial assets, initial recognition would initially be at the transaction price, which, like a fair value measurement, would generally incorporate consideration of the risk of credit losses and the time value of money.⁵
2. However, notwithstanding the preceding paragraph, both IAS 39/IFRS 9 and the original IASB impairment ED do not require imputation of interest on trade receivables if they are without a stated interest rate and are so short-term that the effect of discounting is immaterial.⁶ Similarly, the original joint revenue ED would have required an entity to adjust the amount of promised consideration (and the related receivable) for the time value of money if the contract had a material financing component.⁷

Trade receivables that are not adjusted for the time value of money

Time value of money

Trade receivables with a maturity of 12 months or less

3. In contrast to what is currently required by IFRSs and was proposed in the original IASB impairment ED and ED 2010/6 *Revenue from Contracts with Customers* (the

⁴ As adjusted for transaction costs that are directly attributable to the acquisition of the financial asset—see paragraph 5.1.1 of IFRS 9

⁵ The staff note that, strictly speaking, there could be factors other than the risk of credit losses and the time value of money that could cause differences between the fair value and the transaction price; however, the staff note that these other factors would not be expected to be significant for most trade receivables that arise from a contract with a customer.

⁶ Paragraphs AG79 of IAS 39 and paragraphs B15-B16 of the original IASB impairment ED. Paragraph AG79 of IAS 39 was moved to B5.4.12 of IFRS 9, but was subsequently deleted by IFRS 13 *Fair Value Measurement*. When making those amendments to IFRS 9 and IAS 39, the Board 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 Board 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.

⁷ Paragraphs 44-45 of the original joint revenue ED.

original joint revenue ED) , the revised revenue ED proposes to not require entities to evaluate the effects of the time value of money in determining the revenue to which the trade receivables relate, if the entity expects at contract inception that their maturity will be one year or less, irrespective of whether the effect of discounting is material (eg in high-inflation and/or in high- interest-rate environments).⁸

4. This proposal—that entities may ignore the effect of the time value of money on trade receivables with a maturity of one year or less, irrespective of materiality—is consistent with current US GAAP and the original FASB financial instruments ED.⁹ The boards noted that this proposal could produce arbitrary outcomes in some cases, because the time value of money could be material for short-term contracts with high implicit interest rates. However, the boards included the proposal so that compliance with the final revenue standard would be simplified.¹⁰

Trade receivables without a significant financing component

5. The time value of money on initial recognition and measurement of a trade receivable may likewise be ignored in accordance with current IFRSs and US GAAP and the revised revenue ED, if the related contract with the customer does not have a significant financing component. Because immaterial items may be ignored under IFRSs and US GAAP,¹¹ this is in concept consistent with current requirements, though the terms ‘material’ and ‘significant’ have different applications.

Measurement of revenue

6. The revised revenue ED proposes to measure revenue at the transaction price, defined in that ED as the amount of consideration to which an entity expects to be entitled. For revenue related to trade receivables that are *not* adjusted for the time

⁸ Paragraphs 60 and BC148 of the revised revenue ED.

⁹ Paragraph 15-3(a) of Subtopic 835-30 *Imputation of interest* in the *FASB Accounting Standards Codification*[®] and paragraph 33 of the original FASB financial instruments ED.

¹⁰ Paragraph BC148 of the revised revenue ED.

¹¹ Paragraph 8 of IAS 8 and ASC 105-10-05-1.

value of money, the transaction price does not incorporate an adjustment for the effects of the customer's credit risk.¹²

Presentation in the statement of profit or loss

7. As proposed in the original joint revenue ED, the initial estimate of undiscounted expected credit losses (which would also be incorporated in the initial recognition amount of the related trade receivable in accordance with IFRS,) would have been treated as a reduction of the invoice amount in determining the related transaction price and revenue that would be accounted for in accordance with the revenue standard.¹³
8. In response to the feedback received, the revised revenue ED proposes that for trade receivables with either (a) a maturity of 12 months or less, and/or (b) an insignificant financing component, revenue would be presented at the amount of consideration that the entity is entitled to receive, eg (in many cases) at the invoice amount. Credit losses (both initial expectations and subsequent changes to expectations) related to these trade receivables would be presented in a separate line item adjacent to revenue in the period they occur—that is, there is not necessarily a connection between the revenue recognised in a particular reporting period and the credit loss recognised in the same period. However, the boards noted that presenting this amount adjacent to revenue would provide users with information about the amounts that the entity ultimately expects to receive from customers.¹⁴

Trade receivables that are adjusted for the time value of money

Time value of money and measurement of revenue

9. The revised revenue ED proposes to require entities to adjust the promised amount of consideration for the time value of money and the expected credit losses (see paragraph 19) if the contract has a significant financing component.¹⁵

¹² Paragraph 50 of the revised revenue ED.

¹³ Paragraph 43 of the 2009 IASB revenue ED.

¹⁴ Paragraphs 69 and BC172 of the revised revenue ED.

¹⁵ Paragraphs 58-59 of the revised revenue ED.

10. It states that an entity shall assess whether a financing component is significant to a contract based on:
- (a) the expected length of time between when the entity transfers the goods or services and when the customer pays for them;
 - (b) whether the amount of consideration would differ substantially from the cash price in accordance with typical credit terms; and
 - (c) the interest rate in the contract compared to market interest rates.
11. If the contract has a significant financing component, there would be a revenue/transaction price component (for the notional cash sales price) and a loan component (for the effect of the deferred payment terms).
12. There should be no difference between the initial measurement of the revenue and the trade receivable when there is a significant financing component. For a contract with a customer that has a significant financing component, the revised revenue ED would require an entity to discount the customer consideration using a customer-specific discount rate that reflects the credit characteristics of the customer and any collateral provided.¹⁶ The staff note that a fair value measurement of that receivable in accordance with IFRS 13 *Fair Value Measurement* or ASC 820 *Fair Value Measurement* would be expected to be based on unobservable inputs on the time value of money and on customer credit risk, which are likely the same inputs used by the entity in discounting the promised consideration at a customer-specific discount rate in accordance with the revised revenue ED. The staff expect that, in most if not all cases, the difference between the measurement of the revenue and the fair value of trade receivable with a significant financing component at initial recognition (ie its fair value or transaction price) would be immaterial.
13. Once they both were adjusted for the time value of money, the revenue component would be within the scope of the revenue standard and the loan component would be within the scope of the financial instruments standards. Consequently, bifurcating the contract means that the accounting for a trade receivable arising from a contract

¹⁶ Paragraph 61 of the revised revenue ED.

with a customer that has a significant financing component should be comparable with the accounting for a loan with the same features.¹⁷

Presentation in the statement of profit or loss

14. In accordance with the revised revenue ED, the effects of the financing for trade receivables accounted for like other financial assets would be presented separately from revenue in the statement of comprehensive income. In other words, adjustments to the initial recognition amount (eg eligible transaction costs and/or the Bucket 1 measure), and any subsequent impairment, would be presented consistently with IFRS 9 or ASC 310.¹⁸

¹⁷ Paragraphs BC174-BC175 of the revised revenue ED.

¹⁸ Paragraph 62 of the revised revenue ED.