
Contact **Barbara Jaworek** bjaworek@ifrs.org +44 (0)20 7246 6452

Project **Annual Improvements—2010–2012 Cycle**
Topic **IFRS 13 *Fair Value Measurement*—Short-term receivables and payables**

Introduction

1. In its October 2011 meeting, the IASB decided to include in the Exposure Draft ED/2012/1 of the proposed *Annual Improvements to IFRSs 2010-2012 Cycle* that was published in May 2012 (hereafter, the ED)¹ a proposal for an amendment to the Basis for Conclusions on IFRS 13 *Fair Value Measurement*.² This proposed amendment was to clarify the IASB's rationale for a consequential amendment of IFRS 13 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.
2. The IFRS Interpretations Committee (hereafter, the Interpretations Committee) discussed the issue at its meeting in November 2012.³ In the light of the comment letters received on this ED, the Interpretations Committee recommended that the IASB should finalise, subject to some wording changes, the proposals to amend the Basis for Conclusions on IFRS 13.

Purpose of this paper

3. The purpose of this paper is to ask the IASB whether it approves an annual improvement to the Basis for Conclusions on IFRS 13 that would clarify the rationale for the amendments to IFRS 9 and IAS 39.

¹ The Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle* can be found at the following link: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/ED-May-2012/Documents/EDAnnualImprovementstoIFRSs20102012_WEBSITE.pdf

² Agenda Paper 6B, which was discussed by the IASB in October 2011, can be found at the following link: <http://www.ifrs.org/Meetings/Pages/IASB-FASB-Meeting-October-2011.aspx>

³ Agenda Paper 10C, which was discussed by the Interpretations Committee in November 2012, can be found at the following link: <http://www.ifrs.org/Meetings/Pages/IFRSInterNov012.aspx>

4. This paper:
 - (a) provides background information and explains the issue;
 - (b) summarises the comment letters received;
 - (c) makes a recommendation for the amendment to the Basis for Conclusions on IFRS 13, and
 - (d) asks the IASB whether they agree with the recommendation.

Background information

5. 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 D109 of IFRS 13. Paragraph B5.4.12 stated [**emphasis added**]:⁴

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.**

6. This paragraph contains guidance 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.
7. The question that has been raised with us is whether, by deleting paragraph B5.4.12 in IFRS 9, the IASB intentionally decided to change current practice.

The IASB's proposal to address the concerns raised

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

⁴ 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 change current practice. The deletion of those paragraphs did not aim to change the measurement requirements for short-term receivables and payables. In other words, 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.

9. The wording of the amendment proposed in the ED has been reproduced below:

After issuing IFRS 13, the Board 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 did not intend to change practice in the measurement 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 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.

Comment letter analysis

10. The majority of the respondents supported the IASB's proposal to clarify the rationale for the deletion of paragraph B5.4.12 of IFRS 9 and of paragraph AG79 of IAS 39 by amending the Basis for Conclusions on IFRS 13. They agreed 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.

11. The respondents who disagreed with the proposal could be classified into two main groups:
 - (a) Some respondents think that reinstating the deleted paragraphs in IFRS 9 and IAS 39 would be the best approach to achieve the IASB's intention of not changing current practice. These respondents, most of which are accounting firms, argue that the Basis for Conclusions is non-authoritative and that the proposed clarification would still not preserve the current practice from change.
 - (b) Some other respondents do not believe that there is a need for any clarification. Most of them argue that IAS 8 already addresses materiality in applying accounting policies and that there is therefore no need to address it further in other Standards.
12. A few other respondents who did 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.

The Interpretations Committee's recommendation

13. The Interpretations Committee members had different views on whether the proposal, as exposed, fulfills its objective. Some members agreed with those respondents who thought that the deleted paragraphs in IFRS 9 and IAS 39 should be reinstated, because they argued that by deleting those paragraphs the measurement requirements for short-term receivables and payables had been changed.
14. The majority of the members, however, supported the staff's recommendation to explain the rationale for deleting those paragraphs in IFRS 9 and IAS 39 in the Basis for Conclusions on IFRS 13. In their view, the intention of the IASB was not to change the measurement requirements for short-term receivables and payables. Consequently, in the light of the comments received, the Interpretations Committee recommended that the IASB should finalise the

proposals to explain in the Basis for Conclusions on IFRS 13 why it had removed certain guidance in IFRS 9 and IAS 39.

15. Without changing the main purpose of the proposed amendment, the Interpretations Committee recommended, however, modifying the wording. The changes in the wording seek to clarify that the IASB's rationale for the deletion of the paragraphs in IFRS 9 and IAS 39 was to reinforce that IAS 8 already permits entities not to apply accounting policies when the effect of applying them is immaterial. The recommended new wording of the proposed amendment is presented in Appendices A and B.

Transition and effective date

16. The proposed amendment requires only changes to the Basis for Conclusions on IFRS 13. A footnote to the Basis for Conclusions on IFRS 9 and IAS 39 has also been amended to cross-reference the deleted paragraphs to the amended paragraph in the Basis for Conclusions on IFRS 13, where an explanation for the deletion is provided. As a result, consideration of transition provisions or of an effective date is not necessary.

Questions to the IASB

Questions to the IASB

1. Does the IASB agree with the Interpretations Committee's recommendation to amend the Basis for Conclusions on IFRS 13?
2. Does the IASB have any comments on the Interpretations Committee's proposed wording for this amendment in Appendices A and B?

Appendix A—Changes for finalising the amendment

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

Paragraph BC138A and the heading above it are added.

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 disagrees with that perception noting that paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.

Consequential amendment to the Basis for Conclusions on IFRS 9 *Financial Instruments*⁵

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 considerations¹²

- 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.

⁵ 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 underlined. Text that is proposed to be deleted in response to the proposed amendment included in the ED (May 2012) is struck through.

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

Paragraph BC138A and the heading above it are added (new text is underlined and deleted text is struck through).

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 disagrees with that perception, noting that paragraph 8 of ~~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~~
 - ~~(b) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* already permits entities not to apply accounting policies set out in accordance with IFRSs—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 applying them not discounting is immaterial.~~

Consequential amendment to the Basis for Conclusions on IFRS 9 *Financial Instruments*⁶

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 considerations¹²

- 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.

⁶ An identical amendment is recommended in the case of the footnote to the first sentence of paragraph BC95 in IAS 39.