STAFF PAPER

November 2014

IASB Meeting

Project	**Conceptual Framework**
Paper topic	Measurement – Transaction costs

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Purpose

1. The IASB frequently discusses the treatment of transaction costs when it discusses measurement requirements for new or revised Standards. Consequently, the staff believe it would be useful to include some guidance on the treatment of transaction costs in the *Conceptual Framework*. This paper proposes such guidance.

2. For this paper, transaction costs should be considered to be those incremental costs (other than the transaction price) that would not be incurred if the particular asset (or liability) being measured had not been acquired (incurred) or realised (transferred or settled). Transaction costs could include, for example, transportation costs, import duties, irrecoverable purchase taxes, professional fees, brokers fees, commissions etc).

Staff recommendations

3. The staff recommend that the Exposure Draft should state that:

   (a) if the objective of a measurement is to depict the current value of an asset or liability then that measurement should not reflect the transaction costs of acquiring the asset or incurring the liability.

(b) if the objective of a measurement is to depict the value in use of an asset, the transaction costs that would be incurred on ultimate disposal of that asset should be deducted in producing the measurement.

(c) if the objective of a measurement is to depict the fulfilment value of a liability, the transaction costs (if any) that would be incurred in fulfilling that liability should be added in producing the measurement.

(d) the fair value of an asset (liability) is not reduced (increased) by the costs of selling (transferring) the asset (liability). However, this does not preclude the IASB from deciding to measure an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer), if doing so would provide more relevant information to users of financial statements than a fair value measurement.

(e) if the objective of a measurement is to depict the cost of an asset or liability (rather than its transaction price), that measurement:

   (i) should reflect (among other things) the transaction costs of acquiring the asset or incurring the liability;

   (ii) should not be decreased (increased) to reflect the transaction costs of realising the asset (or settling or transferring the liability).

Background

4. Transaction costs fall into two main types:

   (a) costs of acquiring an asset or incurring a liability;

   (b) costs of realising an asset (through collection or sale) or settling or transferring a liability.[1]

5. The different types of transaction costs affect the carrying amount of assets and liabilities in different ways as illustrated in the following table:

[1] Liabilities are fulfilled, settled or transferred. A liability is: fulfilled when it is satisfied in accordance with its contractual terms; settled when the entity negotiates a release from its obligations; and transferred when it is transferred to a third party. Transaction costs of fulfilling a liability are unlikely to be significant.

	Effect of transaction costs, if reflected in the carrying amount	
	Cost of acquiring the asset or incurring the liability	**Cost of realising the asset, or of settling or transferring the liability**
Asset	Increases carrying amount (ie included in the cost of the asset)	Decreases carrying amount (ie carrying amount is reduced by estimated costs of realisation)
Liability	Decreases carrying amount (ie proceeds are reduced by the costs of incurring the liability)	Increases carrying amount (ie estimated costs of settlement or transfer are included in carrying amount of the liability)

6. Different Standards treat transaction costs differently. For example:

   (a) The transaction costs of acquiring an asset (or incurring a liability) are treated differently in different Standards:

      (i) IFRS 3 *Business Combinations* requires costs incurred by an acquirer in a business combination to be treated as an expense when the costs are incurred.[2]

      (ii) IAS 16 *Property, Plant and Equipment* includes within the cost of an item of property, plant and equipment any costs directly attributable to bringing the asset into its intended location and condition.

      (iii) The treatment in IFRS 9 *Financial Instruments* of costs associated with acquiring a financial asset, or incurring a financial liability, depends on the classification of the asset or liability. If the asset or liability is measured at fair value through profit or loss, transaction costs are recognised as an expense at initial recognition; otherwise the transaction

[2] The Basis for Conclusions on IFRS 3 explains why these costs are treated as an expense – see appendix.

costs are added (or subtracted) in determining the initial carrying amount of the asset (or liability).

(iv) IFRS 15 *Revenue from Contracts with Customers* requires an entity to recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.[3]

(v) In the Insurance Contracts project, it is proposed that the eligible costs of acquiring an insurance contract should be treated as part of the expected cash flows included in the measurement of the insurance contract. Subsequently, those acquisition costs are recognised as an expense in profit or loss over the coverage period in a systematic way that best reflects the transfer of services provided under the insurance contract.

(vi) In the Leases project, it is proposed that initial direct costs should be included in the initial measurement of the right-of-use asset by a lessee. The treatment by lessors depends on the type of lease and whether selling profit is recognised at lease commencement.

(b) IFRS 13 *Fair value measurement* defines fair value as excluding the cost to sell an asset or transfer a liability.[4] Consequently, financial assets and liabilities measured at fair value do not reflect the costs that would be incurred in selling the asset or transferring the liability.

(c) Some Standards require assets and liabilities to be measured at an amount that equals fair value adjusted to reflect the costs that would be incurred in selling the asset or transferring the liability. For example, IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires non-current assets classified as held for sale to be measured at the lower of its carrying amount and fair value less costs to sell. Similarly, IAS 41 requires biological assets to be measured at fair value less costs to sell.

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[3] The Basis for Conclusions on IFRS 15 explains the decision to treat these costs as an asset – see appendix.

[4] The Basis for Conclusions on IFRS 13 explains the decision not to adjust the price of an asset or liability for transaction costs – see appendix.

7. The *Conceptual Framework* Discussion Paper did not discuss transaction costs, except to note that:

   (a) some existing Standards require items to be measured at fair value less costs to sell (paragraph 6.50);

   (b) the cost of an asset, or the proceeds from a liability, may differ from its fair value because of transaction costs (paragraph 6.64); and

   (c) the most relevant measure for a liability that will be settled by transfer would be a current market price, or a current market price plus transaction costs (paragraph 6.107).

8. Very few respondents to the Discussion Paper commented on the treatment of transaction costs. However, a few respondents stated that the *Conceptual Framework* should discuss when transaction costs should be included in the carrying amount of an asset or a liability.

Staff analysis

9. The following paragraphs consider separately:

   (a) costs of acquiring an asset or incurring a liability (paragraphs 10—17);

   (b) costs of realising an asset (through use, collection or sale) or settling or transferring a liability (paragraphs 18—23).

Costs of acquiring an asset or incurring a liability

Assets and liabilities measured at current value

10. The *Conceptual Framework* Exposure Draft will refer to three current values: fair value, value in use and fulfilment value:

   (a) the objective of fair value is to depict the current market exit price of an item. The current market exit price of an asset is not increased by the (sunk) transaction costs of acquiring the asset. Similarly, the current market exit price of a liability is not decreased by the (sunk) transaction costs of incurring the liability;

(b) the objective of value in use is to depict the present value of the cash flows estimated to arise from continued use of the asset and from its disposal at the end of its useful life. The present value of those cash flows is not increased by the (sunk) transaction costs of acquiring the asset; and

(c) the objective of fulfilment value is to depict the present value of the cash flows estimated to arise from fulfilling a liability. The present value of the cash flows estimated to arise from fulfilling a liability is not reduced by the (sunk) transaction costs of incurring the liability.

11. In general, the staff believe that transaction costs of acquiring an asset or incurring a liability are a feature of the original transaction in which an asset was acquired or a liability incurred, rather than a feature of the current value of that item. Hence, if the objective of a measurement is to depict the current value of an asset or liability then the measurement of that asset or liability is independent of the (sunk) transaction costs of acquiring the asset or incurring the liability.

12. However, when an entity originates an asset or liability, the consideration charged for the asset or liability will include an amount intended to recover the transaction costs the entity has incurred originating that asset or liability. That amount would not be part of the fair value, fulfilment value or value in use of the asset or liability. Consequently, measuring that item at its fair value, fulfilment value or value in use may result in the recognition of a day one gain. For example, at initial recognition, the fair value of an entity's performance obligation to provide goods or services to a customer is likely to be less than the fair value of the consideration received or receivable from the customer. This is because the consideration from the customer is intended to cover (in addition to a reasonable profit margin) both the entity's costs of obtaining the contract and the costs of providing the goods or services to the customer. The fair value of the performance obligation, however, would reflect only the consideration that market participants would demand for assuming the obligation to provide the goods and services. That consideration would reflect the costs that would be incurred in providing the goods or services; but would not reflect the additional consideration the entity charged for originating the obligation. The fair value would also exclude the consideration that the originator of a new, but otherwise identical, performance obligation would

typically include in the pricing in order to recover the transaction costs that it would incur in originating that obligation.[5] The same analysis would also apply to an asset measured using value in use or a liability measured at fulfilment value.

Question 1
The staff recommend that the Exposure Draft should state that if the objective of a measurement is to depict the current value of an asset or liability then that measurement should not reflect the transaction costs of acquiring the asset or incurring the liability. Do you agree?

Assets and liabilities measured at cost

13. If the objective of a measurement is to depict the cost of an asset or liability, then the treatment of the transaction costs of acquiring an asset or incurring a liability is not as clear-cut. The key question is whether initial measurement at cost should reflect the transaction price only, or whether a cost based measurement should include all costs necessary to acquire the asset or incur the liability. For example, suppose an entity acquires a property for CU500,000 (the transaction price) and incurs transaction costs of CU25,000. Is the cost of the property CU500,000 or CU525,000?

14. There are a number of arguments why the initial measurement of an asset (liability) at cost should not be increased (decreased) by the costs of acquiring (incurring) the asset (liability):

    (a) Transaction costs do not form part of the asset or liability that is being measured. They are not part of the transaction price agreed with the counter-party. Instead, they reflect amounts paid to third parties for separate services (for example legal fees or commissions). The cost of these services should be recognised as an expense when the services are received (usually when the asset is acquired or the liability is incurred).

[5] For example, if the fair value (or fulfilment value) of the performance obligation is CU100 and the costs of obtaining the contract are CU5, the entity will seek to charge the customer CU105. If the performance obligation is measured at its fair value or fulfilment value (CU100), then a gain of CU5 will be recognised (which would offset the acquisition costs incurred). The customer is willing to pay CU105 for the goods or services because (presumably) that reflects the fair value of those goods and services in the retail market.

This reasoning was adopted in IFRS 3 when the decision was taken to expense acquisition related costs.

(b) If all assets and liabilities are initially measured at the transaction price (and if the transaction price is independent of the transaction costs), then identical assets and liabilities will initially be measured at the same amount (regardless of whether they are subsequently measured at cost or a current value). If, however, the measurement includes transaction costs, identical assets and liabilities with identical transaction prices could be measured differently.

(c) The transaction costs of acquiring an asset (or incurring a liability) may vary from entity to entity. For example, one entity may use expensive external lawyers to carry-out a transaction while another may use cheaper in-house legal advice. If transaction costs are included in the measurement of the asset then the cost of the two assets will be different – arguably reducing comparability.

(d) Adding (deducting) transaction costs to the measurement of an asset (from the measurement of a liability) risks overstating (understating) the value of the asset (liability) to the entity. For example, it would not be possible to sell immediately the property referred to in paragraph 13 at CU525,000. In fact the market price of the property would need to increase by at least CU25,000 before it would be possible to make a positive return by selling the property.

(e) Significant judgement may be required to determine which costs should be included in the definition of transaction costs and which should be expensed as incurred.

15. However, there are also arguments why the initial measurement of an asset (liability) at cost should be determined after including (deducting) the costs of acquiring (incurring) the asset (liability):

(a) Expensing transaction costs arguably understates the total cost of the asset to the entity and overstates the net proceeds from a liability. The asset could not have been acquired (or the liability incurred) without incurring transaction costs. Put another way, the cost of replacing the property in our example would be CU525,000 not CU500,000.

(b) Including (deducting) transaction costs in measuring an asset (a liability) would not typically overstate (understate) the value of the asset (liability) to the entity. Although an entity that has acquired an asset is unlikely to be able to immediately sell that asset in the same market and recover both the transaction price and the transaction costs, the value to the entity of the asset is presumably greater than the sum of the transaction price and transaction costs (in our example, the value of the property to the entity is presumably at least equal to CU525,000). If this were not the case then the entity should not have acquired the asset in the first place.[6]

(c) If transaction costs are not included in the cost of an asset, then an expense is recognised when an asset is acquired. Recognising an expense on the acquisition of an asset that is (presumably) expected to generate at least what it cost the entity to acquire (including transaction costs), may not provide useful information to users of financial statements.

(d) If transaction costs are expensed, they are only included in the financial statements of a single reporting period. If they are added to (deducted from) the measurement of the asset or liability, they affect the financial statements of every period in which the asset (liability) is held. Hence, some would argue that adding (deducting) transaction costs to (from) the measurement of an asset (a liability) better enables users of financial statements to hold management to account for the costs management has incurred.

(e) Although transaction costs vary from entity to entity, this does not necessarily undermine the usefulness of the information provided. In some situations, an entity specific measurement that reflects actual costs

[6] Clearly, there may be situations in which the entity has misjudged the value of the asset and has overpaid. When this is the case, an impairment loss would need to be recognised. Excluding transaction costs from the measurement of the asset may reduce the risk that an impairment loss would need to be recognised but it does not eliminate the risk altogether.

incurred may be more useful to users of financial statements than a market price.

(f) Significant judgment may be required to determine what represents a transaction cost and what represents a part of the transaction price. For example, should a transaction price include costs of transportation; is an irrecoverable sales tax part of a transaction price or a transaction cost? In addition, the transaction price for an asset or liability will, in part, depend on the size of the transaction costs. The greater the transaction costs, the less an entity will be prepared to pay to acquire the asset.

16. The staff believe that most of the arguments outlined in paragraph 14 are arguments in favour of initially measuring assets and liabilities at their transaction price (ie fair value). The staff believe that if the objective of measurement is to depict the transaction price then that measurement should be described as fair value not cost.

17. However, for the reasons outlined in paragraph 15, the staff believe that if the objective of a measurement is to depict the cost of an asset or liability (rather than its transaction price), that measurement should reflect the costs of acquiring the asset or incurring the liability.

Question 2
The staff recommend that the Exposure Draft should state that if the objective of a measurement is to depict the cost of an asset or liability (rather than its transaction price), that measurement should reflect (among other things) the transaction costs of acquiring the asset or incurring the liability. Do you agree?

Costs of realising an asset or settling or transferring a liability

Assets and liabilities measured at current value

18. As noted above, the objective of value in use is to depict the present value of the cash flows estimated to arise from continued use of the asset and from its disposal at the end of its useful life. If the transaction costs of the ultimate disposal of an

asset are not deducted in determining the value in use of an asset then those cash flows will be overstated.

19. Similarly, because the objective of fulfilment value is to depict the present value of the cash flows needed to fulfil a liability, the transaction costs of fulfilment (if any) should be included in the fulfilment cash flows.

20. Fair value is defined in IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. On the grounds that the costs to sell an asset (or transfer a liability) do not form part of the asset (or liability) that is being sold or transferred, IFRS 13 states that those costs should be excluded from a fair value measurement.

21. However, this requirement of IFRS 13 does not preclude the IASB from deciding to measure an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer). Measuring an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer) provides information about the likely net cash inflows (outflows) to (from) the entity. Information about the likely net cash inflows (outflows) to (from) the entity may in some circumstances provide more relevant information than fair value measurement. For example, this may be the case if an asset (liability) is likely to be realised through sale (transferred) and the transaction costs for the sale (transfer) are significant.

Question 3

The staff recommend that the Exposure Draft should state that:

(a) if the objective of a measurement is to depict the value in use of an asset, the transaction costs that would be incurred on ultimate disposal of that asset should be deducted in producing the measurement;

(b) if the objective of a measurement is to depict the fulfilment value of a liability, the transaction costs (if any) that would be incurred in fulfilling that liability should be added in producing the measurement;

(c) the fair value of an asset (liability) is not reduced (increased) by the costs of selling (transferring) the asset (liability). However, this does not preclude the IASB from deciding to measure an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer), if doing so would provide more relevant information to users of financial statements than a fair value measurement.

Do you agree?

Assets and liabilities measured at cost

22. Historical cost uses information about past transactions to provide useful information to users of financial statements. Hence, reducing (increasing) the cost-based measurement of an asset (liability) to reflect transaction costs that will arise only if a future transaction occurs is inconsistent with historical cost measurement.

23. However, the staff note that the transaction costs of realising an asset (or settling, fulfilling or transferring the liability) may become relevant if the asset being measured is impaired (a liability has become onerous) or in determining the residual value of an asset for depreciation purposes.

Question 4

The staff recommend that the Exposure Draft should state that if the objective of a measurement is to depict the cost of an asset or liability, that measurement should not be decreased (increased) to reflect the transaction costs of realising the asset (or settling or transferring the liability).

Do you agree?

Appendix – Extracts from Basis for Conclusions

IFRS 3 – Business Combinations

A1. The Basis for Conclusions on IFRS 3 provides the following explanation for the decision to expense acquisition related costs:

> *Acquisition-related costs*
>
> BC365 The boards considered whether acquisition-related costs are part of the consideration transferred in exchange for the acquiree. Those costs include an acquirer's costs incurred in connection with a business combination (a) for the services of lawyers, investment bankers, accountants and other third parties and (b) for issuing debt or equity instruments used to effect the business combination (issue costs). Generally, acquisition-related costs are charged to expense as incurred, but the costs to issue debt or equity securities are an exception. Currently, the accounting for issue costs is mixed and conflicting practices have developed in the absence of clear accounting guidance. The FASB is addressing issue costs in its project on liabilities and equity and has tentatively decided that those costs should be recognised as expenses as incurred[7]. Some FASB members would have preferred to require issue costs to effect a business combination to be recognised as expenses, but they did not think that the business combinations project was the place to make that decision. Therefore, the FASB decided to allow mixed practices for accounting for issue costs to continue until the project on liabilities and equity resolves the issue broadly.
>
> BC366 The boards concluded that acquisition-related costs are not part of the fair value exchange between the buyer and seller for the business. Rather, they are separate transactions in which the buyer pays for the fair value of

[7] Note: under IAS 32 *Financial Instruments: Presentation* the costs of issuing an equity instrument are treated as a deduction from equity. As discussed in paragraph 6(a)(iii) of this paper the treatment of the costs of issuing a liability under IFRS 9 depends on the classification of that liability.

services received. The boards also observed that those costs, whether for services performed by external parties or internal staff of the acquirer, do not generally represent assets of the acquirer at the acquisition date because the benefits obtained are consumed as the services are received.

BC367 Thus, the 2005 Exposure Draft proposed, and the revised standards require, the acquirer to exclude acquisition-related costs from the measurement of the fair value of both the consideration transferred and the assets acquired or liabilities assumed as part of the business combination. Those costs are to be accounted for separately from the business combination, and generally recognised as expenses when incurred. The revised standards therefore resolve inconsistencies in accounting for acquisition-related costs in accordance with the cost-accumulation approach in IFRS 3 and SFAS 141, which provided that the cost of an acquiree included *direct* costs incurred for an acquisition of a business but excluded *indirect* costs. Direct costs included out-of-pocket or incremental costs, for example, finder's fees and fees paid to outside consultants for accounting, legal or valuation services for a successful acquisition, but direct costs incurred in unsuccessful negotiations were recognised as expenses as incurred. Indirect costs included recurring internal costs, such as maintaining an acquisition department. Although those costs also could be directly related to a successful acquisition, they were recognised as expenses as incurred.

BC368 Some respondents to the 2005 Exposure Draft said that acquisition-related costs, including costs of due diligence, are unavoidable costs of the investment in a business. They suggested that, because the acquirer intends to recover its due diligence cost through the post-acquisition operations of the business, that transaction cost should be capitalised as part of the total investment in the business. Some also argued that the buyer specifically considers those costs in determining the amount that it is willing to pay for the acquiree. The boards rejected those arguments. They found no persuasive evidence indicating that the seller of a particular business is willing to accept less than fair value as consideration for its business merely because a particular buyer may incur more (or less) acquisition-related costs than other potential buyers for that business. Furthermore, the boards concluded that the intentions of a particular buyer, including its plans to recover such costs, are a separate matter that is distinct from the fair value measurement objective in the revised standards.

BC369 The boards acknowledge that the cost-accumulation models in IFRS 3 and SFAS 141 included some acquisition-related costs as part of the carrying amount of the assets acquired. The boards also acknowledge that all asset acquisitions are similar transactions that, in concept, should be accounted for similarly, regardless of whether assets are acquired separately or as part of a group of assets that may meet the definition of a business. However, as noted in paragraph BC20, the boards decided not to extend the scope of the revised standards to all acquisitions of groups of assets. Therefore, the boards accept that, at this time, accounting for most acquisition-related costs separately from the business combination, generally as an expense as incurred for services received in connection with a combination, differs from some standards or accepted practices that require or permit particular acquisition-related costs to be included in the cost of an asset acquisition. The boards concluded, however, that the revised standards improve financial reporting by eliminating inconsistencies in accounting for acquisition-related costs in connection with a business combination and by applying the fair value measurement principle to all business combinations. The boards also observed that in practice under IFRS 3 and SFAS 141, most acquisition-related costs were subsumed in goodwill, which was also not consistent with accounting for asset acquisitions.

IFRS 13 – Fair Value Measurement

A2. The Basis for Conclusions on IFRS 13 provides the following explanation for the decision not to adjust the price of an asset or liability for transaction costs:

> *The price*
>
> BC60 IFRS 13 states that the price used to measure fair value should not be reduced (for an asset) or increased (for a liability) by the costs an entity would incur when selling the asset or transferring the liability (ie transaction costs).
>
> BC61 Some respondents stated that transaction costs are unavoidable when entering into a transaction for an asset or a liability. However, the IASB noted that the costs may differ depending on how a particular entity enters into a transaction. Therefore, the IASB concluded that transaction costs are not a characteristic of an asset or a liability, but a characteristic of the transaction. That decision is consistent with the requirements for measuring fair value already in IFRSs. An entity accounts for those costs in accordance with relevant IFRSs.
>
> BC62 Transaction costs are different from transport costs, which are the costs that would be incurred to transport the asset from its current location to its principal (or most advantageous) market. Unlike transaction costs, which arise from a transaction and do not change the characteristics of the asset or liability, transport costs arise from an event (transport) that does change a characteristic of an asset (its location). IFRS 13 states that if location is a characteristic of an asset, the price in the principal (or most

advantageous) market should be adjusted for the costs that would be incurred to transport the asset from its current location to that market. That is consistent with the fair value measurement guidance already in IFRSs. For example, IAS 41 required an entity to deduct transport costs when measuring the fair value of a biological asset or agricultural produce.

IFRS 15 – Revenue from Contracts with Customers

A3. The Basis for Conclusions on IFRS 15 provides the following explanation for the decision to treat the incremental costs of obtaining a contract as an asset:

> *Incremental costs of obtaining a contract*
>
> BC297 The boards decided that an entity should recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The boards defined the incremental costs of obtaining a contract as the costs that an entity incurs in its efforts to obtain a contract that would not have been incurred if the contract had not been obtained. The boards acknowledged that, in some cases, an entity's efforts to recognise an asset from incremental acquisition costs might exceed the financial reporting benefits. Consequently, as a practical expedient, the boards decided to allow an entity to recognise those costs as expenses when incurred for contracts in which the amortisation period for the asset that the entity otherwise would have recognised is one year or less.
>
> BC298 The boards considered requiring an entity to recognise all of the costs of obtaining a contract as expenses when those costs are incurred. The boards observed that, conceptually, an entity may obtain a contract asset as a result of its efforts to obtain a contract (because the measure of the remaining rights might exceed the measure of the remaining obligations). However, because the principle in IFRS 15 requires an

entity to recognise a contract asset and revenue only as a result of satisfying a performance obligation in the contract, the boards observed that on the basis of that reasoning, the contract asset would be measured at zero at contract inception and any costs of obtaining a contract would therefore be recognised as expenses when incurred.

BC299 Many respondents disagreed with recognising all costs to obtain a contract as expenses when incurred because those costs meet the definition of an asset in some cases. In addition, they noted the following:

(a) other Standards require some of the costs of obtaining a contract to be included in the carrying amount of an asset on initial recognition; and

(b) the recognition of the costs of obtaining a contract as expenses would be inconsistent with the tentative decisions in the boards' projects on leases and insurance contracts.

BC300 During the redeliberations, the boards decided that, in some cases, it might be misleading for an entity to recognise all the costs of obtaining a contract as expenses, when incurred. For example, the boards observed that recognising the full amount of a sales commission as an expense at inception of a long-term service contract (when that sales commission is reflected in the pricing of that contract and is expected to be recovered) would fail to acknowledge the existence of an asset.

BC301 Consequently, the boards decided that an entity would recognise an asset from the costs of obtaining a contract and would present the asset separately from the contract asset or the contract liability. To limit the acquisition costs to those that can be clearly identified as relating specifically to a contract, the boards decided that only the incremental costs of obtaining a contract should be included in the measurement of the asset, if the entity expects to recover those costs. The boards decided that determining whether other costs relate to a contract is too subjective.

BC302 The boards noted that it might be difficult for some entities to determine whether a commission payment is incremental to obtaining a new contract (for example, payment of a commission might depend on the entity successfully acquiring several contracts). The boards considered whether to allow an accounting policy election for contract costs, under which an entity would have been able to choose to recognise an asset from the acquisition costs or recognise those costs as an expense (with disclosure of the accounting policy election). The boards noted that this would have been consistent with previous revenue recognition requirements in US GAAP for public entities. However, the boards noted that introducing accounting policy elections into IFRS 15 would have reduced comparability and therefore would not have met one of the key objectives of the Revenue Recognition project to improve comparability in accounting among entities and industries. Consequently, the boards decided not to allow entities an accounting policy election with respect to contract acquisition costs.