STAFF PAPER

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Project	Revenue from Contracts with Customers		
Paper topic	Non-cash consideration—issues emerging from TRG discussions		
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Purpose of the paper

1. The purpose of this paper is to update the IASB on the following two specific issues relating to accounting for non-cash consideration when applying IFRS 15 *Revenue from Contracts with Customers* and Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (collectively referred to as the 'new revenue Standard'):
   - (a) At which date should the fair value of non-cash consideration be measured for inclusion in revenue?
   - (b) How does the constraint for variable consideration apply in respect of non-cash consideration that varies in value due to both the form of the non-cash consideration and for reasons other than the form of the consideration?
2. These issues have been highlighted during the discussions of the Revenue Transition Resource Group (TRG).
3. The FASB is also discussing these issues at the joint FASB-IASB meeting in March 2015. This paper accompanies FASB Memo No. 1: *Determining the Measurement Date for Noncash Consideration*—that memo has been distributed to IASB members and should be read in conjunction with this paper.

4. In this paper we are asking the IASB for direction about how to address these issues and what, if any, action it would like to take at this stage. We are recommending that the IASB does not amend IFRS 15 at this time, even if the FASB tentatively decides at this meeting to propose an amendment to its new revenue Standard (ie Topic 606).

5. This paper contains the following:

   (a) background;

   (b) issues raised with the TRG;

   (c) FASB considerations; and

   (d) considerations for the IASB.

Background

6. The new revenue Standard provides guidance on the measurement of non-cash consideration and the treatment of variable consideration, as summarised in paragraphs 6-15 of the FASB memo.

7. The general principles for the measurement of revenue are specified in paragraphs 46 and 47 of IFRS 15. These require that, when a performance obligation is satisfied, an entity recognises as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained) that is allocated to that performance obligation. 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.

8. The requirements for non-cash consideration are specified in paragraphs 66-69 of IFRS 15. Paragraph 66 of IFRS 15 requires that non-cash consideration is measured at fair value.[1] Example 31 in paragraphs IE156-IE158 of IFRS 15, and included as an Appendix to the FASB memo, illustrates these requirements.

[1] If an entity cannot reasonably estimate the fair value of non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration (paragraph 67 of IFRS 15).

9. Paragraph 68 of IFRS 15 requires that if the fair value of the non-cash consideration varies for reasons other than only the form of the consideration (for example, the fair value could vary because of the entity's performance), an entity should apply the requirements in paragraphs 56-58 of IFRS 15 that constrains estimates of variable consideration. That is, the entity shall include variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

10. See Appendix A for a summary of other relevant guidance in IFRS.

Issues raised with the TRG

11. Discussions at the TRG meeting in January 2015 highlighted two potential implementation issues in connection with applying IFRS 15 to contracts that involve non-cash consideration:

    (a) What is the measurement date for determining the fair value of the non-cash consideration received or receivable from a customer for inclusion in revenue (issue 1)?

    (b) How is the constraint on variable consideration applied to transactions in which the fair value of non-cash consideration might vary due to both the form of the consideration and for reasons other than the form of consideration (issue 2)?

12. TRG agenda paper 15 of the January 2015 meeting discusses the issues above.

Issue 1: Measurement date for determining the fair value of non-cash consideration

13. The measurement date refers to the date at which the fair value of the non-cash consideration is fixed for inclusion in revenue. The TRG considered the following three views:

(a) View A: non-cash consideration is measured at contract inception.

(b) View B: non-cash consideration is measured when the non-cash consideration is received or receivable. Consideration is receivable when an entity's right to consideration is unconditional (such that only the passage of time is required before payment of that consideration is due) (paragraph 108 of IFRS 15).

(c) View C: non-cash consideration is measured at the earlier of:

(i) the date that the non-cash consideration is received or receivable; and

(ii) the date that the related performance obligation is satisfied (or as the performance obligation is satisfied, if satisfied over time).

14. The difference between View B and C arises when, for example, an entity is satisfying a performance obligation (and recognising revenue), but the non-cash consideration is received or receivable at a later date (eg because of a performance condition). In such cases, the revenue recognised under View B would include the effects of changes in the fair value of the non-cash consideration until it is received or receivable. Under View C, the effects of those changes would not be included in revenue. An analysis of the three views is contained in paragraphs 34-58 of the FASB memo.

15. Feedback from IFRS stakeholders at the TRG and our subsequent limited and informal outreach indicates that the issue is likely to most commonly arise in practice in the media and entertainment industry, when typically some of the consideration for program rights is the right to future advertising time with the customer.

16. Discussion at the TRG meeting highlighted that the guidance in IFRS 15 is not clear in respect of this specific issue. Preferences expressed by the TRG members were split across all three views.

Issue 2: Applying the constraint to non-cash consideration

17. Issue 2 is about how the constraint on variable consideration applies to non-cash consideration that has a fair value that may vary because of both

    (a) the form of consideration (eg movements in the share price, for consideration in the form of equity shares), *and*

    (b) for reasons other than the form of the consideration (eg if the contract stipulates that the customer pays a varying number of shares dependent on the entity's performance or on the volume of orders placed by the customer).

18. In such circumstances it is possible that the entity's assessment about the probability of a significant reversal in the amount of cumulative revenue may differ depending upon whether the variability due to changes in the form of consideration are taken into account. Hence the TRG considered the following two views:

    (a) View A: the constraint applies to variability resulting from both the form of the consideration and for reasons other than the form of consideration; and

    (b) View B: the constraint applies only to variability resulting from other than the form of consideration.

19. Whatever the outcome (ie whether the recognition of part or all of the variable non-cash consideration is deferred or not due to the application of the constraint), the measurement date for determining the fair value of the non-cash consideration for inclusion in revenue is as addressed in issue 1.

20. An analysis of issue 2 is contained in paragraphs 60-65 of the FASB memo.

21. Some TRG members thought that conceptually the constraint should apply only to variability in fair value for reasons other than the form of consideration (ie View B). They observed that this appeared to be consistent with paragraph BC252 of IFRS 15 which states that:

> ...the boards decided to constrain variability in the estimate of the fair value of the non-cash consideration if that variability relates to changes in the fair value for reasons other than the form of the consideration (ie for reasons other than changes in the price of the non-cash consideration). For example, if an entity is entitled to a performance bonus that is payable in the form of non-cash consideration, the entity would apply the requirements for constraining estimates of variable consideration *to the uncertainty of whether the entity will receive the bonus*, because that uncertainty is related to something other than the form of the consideration (ie the entity's performance). [emphasis added]

22. However, the TRG members also noted that in practice it might be difficult to distinguish between variability in the fair value due to the form of the consideration and other reasons, in which case View A might be more practical.

FASB considerations

23. The FASB staff are asking the FASB to make a decision to add the project to its agenda and, if so, to make technical decisions about issue 1 and issue 2. The FASB staff's technical analysis of the views summarised above is given in FASB memo. In paragraphs 59 and 66 of the FASB memo, the FASB staff are recommending to the FASB that:

    (a) non-cash consideration is measured at fair value at the date of contract inception (View A of issue 1); and

    (b) the constraint on variable consideration applies only to variability resulting from other than the form of consideration (View B of issue 2).

24. The FASB staff's intention is that, if the FASB decides to take the issues onto its agenda, the FASB will proceed to issuing an Exposure Draft of a proposed Accounting Standards Update for vote by written ballot.

Considerations for the IASB

25. The IASB could take the following different courses of action in respect of these issues:

    (a) address the issue by amending the requirements of IFRS 15;

    (b) include some clarifications to the drafting of Example 31 to IFRS 15;

    (c) not fully address the issue now, and either:

        (i) monitor the FASB's work and carry out some more outreach in the near term; or

        (ii) defer the issue in the short-term and reconsider it as part of the post-implementation review.

26. These options are discussed below.

Should the IASB amend IFRS 15?

27. We note that IFRS has a different starting point compared with US GAAP in respect of this issue.

28. As noted in paragraphs 16-31 of the FASB memo, there is some specific guidance in US GAAP that will be superseded by the new revenue Standard. This includes:

    (a) guidance on determining the measurement date when an entity enters into a transaction to provide goods or services in exchange for equity instruments; and

    (b) guidance about accounting for exchanges in the media and entertainment industry in which the entity will receive advertising time.

29. Therefore US GAAP preparers that apply such guidance may be faced with less clarity in this specific area under the new revenue Standard than at present.

30. Existing IFRS contains the principle that revenue should be measured at the fair value of the consideration received or receivable (paragraph 9 of IAS 18). This will be superseded by IFRS 15. However, unlike US GAAP, existing IFRS does not contain any specific guidance about the measurement date for non-cash

consideration for revenue transactions than is included in the new revenue Standard (see Appendix A for more detail). Therefore we do not expect that transitioning to IFRS 15 would create more diversity than presently exists in respect of this issue.

31. Discussions at the TRG and subsequent limited informal outreach have suggested that this is an issue only in fairly limited circumstances and thus it may not be as significant for IFRS stakeholders as it is in the US.

32. Importantly, we do not think that lack of guidance in this specific area prevents the successful implementation of IFRS 15 as a whole.

33. Consequently we do not think that resolving the issue in a reasonably comprehensive manner at this stage is necessary. Furthermore, we also heard concerns that this issue has some important interactions with other areas and therefore expediting a solution in respect of this issue runs the risk of unintended consequences elsewhere (for example, the scope of financial instruments). In addition, see Appendix A for a summary of other relevant guidance in IFRS, which highlights whether the Views outlined in this paper might be compatible with other IFRS (including IFRS 2 *Share-based Payment* from the perspective of the issuer (ie the *purchaser* of goods or services) and treatment of foreign currency consideration in respect of revenue and other transactions).

Propose a clarification to Example 31

34. Instead of addressing the issues at this stage through an amendment to IFRS 15, potentially the IASB could consider partially addressing issue 1 by clarifying the wording in Example 31 to IFRS 15 (see paragraphs IE156-IE158 of IFRS 15). Example 31 is included in Appendix A of the FASB memo.

35. In Example 31, the entity performs a weekly service over a year and receives non-cash consideration (shares of the customer's common stock) on the successful completion of each week of service. The entity therefore essentially receives the non-cash consideration as it satisfies its performance obligation and recognises revenue. The case facts in this Example avoid some of the more complex issues

discussed in this paper. Consequently under both View B and View C of issue 1 the shares would be measured at fair value at the date of completion of each week's service in this Example.

36. Paragraph IE158 of the Example states that 'to determine the transaction price (and the amount of revenue to be recognised), the entity measures the fair value of the 100 shares that are received upon completion of each weekly service'. It has been suggested that this could be read as implying that the shares are measured at fair value, without any indication as to the date of measurement (because the 'received upon completion of each weekly service' just indicates which 100 shares are being fair valued). On that basis, as currently drafted, the Example could be read as implying that any of View A, View B or View C could apply.

37. It would be possible to clarify the wording in the Example to indicate that the shares are measured at fair value as at the date of completion of each weekly service. This implies that the fair value of non-cash consideration should not be measured at the date of contract inception (ie View A is not applicable).

38. The IASB staff think this could be justified because it could be argued that View A does not reflect the non-cash consideration that the entity receives for providing goods or services. On entering into the contract, an entity expects to receive or have the right to receive non-cash consideration in the future based on its performance and/or other conditions within the contract. Thus at contract inception the entity expects to receive consideration with a fair value at a date in the future rather than at contract inception. Furthermore such a clarification would maintain greater consistency with the accounting for a purchaser of goods and services that pays for them in its own equity instruments in accordance with IFRS 2 *Share-based Payment* and the treatment of foreign currency consideration in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (see Appendix A for more detail).

39. Whilst not a complete solution (it does not fully address issue 1 or address issue 2 for example), such a clarification could narrow the potential diversity that might arise. Therefore such an approach would be attractive if the IASB were to conclude it would be appropriate to eliminate View A of issue 1 at this stage.

Furthermore, as mentioned in paragraph 21 above, paragraph BC252 of IFRS 15 may provide sufficient guidance in respect of issue 2.

40. However this approach depends in part on what the FASB decides to do. If the FASB agrees to propose an amendment in line with View A (ie non-cash consideration is measured at contract inception) as recommended by the FASB staff, the IASB might not want to restrict Example 31 to imply a different approach at this stage.

Consequences of not amending IFRS 15 at this stage

41. Even if the IASB decides to propose some clarifying amendments to Example 31, the IASB may decide not to do anything further at this stage, as suggested above. Such an approach would enable the issue to be considered more comprehensively in conjunction with other issues arising from the new Standard based on emerging practice and after more extensive outreach to confirm the significance of the issue.

42. Not proposing an amendment to IFRS 15 could mean divergence with US GAAP in accounting for non-cash consideration, should the FASB decide to address the issue now. However, if such a divergence should occur, IFRS 15 would be less specific than Topic 606 in its guidance about applying the fair value measurement principle for non-cash consideration, and so it might be possible for entities to comply with both US GAAP and IFRS.

43. On balance, our recommendation is not to address these issues at this time. The question is then whether to monitor the FASB's work in this area and carry out some more outreach, particularly in the media and entertainment industry, to better understand the pervasiveness and likely effect of any diversity. Alternatively, given that we would be unlikely to make any clarifications before the effective date of IFRS 15, we could defer doing any further work in this area (other than to monitor the FASB's work) until, for example, the post-implementation review of the new revenue Standard (which typically would occur 2-3 years after the effective date of 1 January 2017).

Questions for the IASB

1. Does the IASB agree that amendments to IFRS 15 are not required to address the issues in this paper at this time?

2. Would the IASB like to clarify Example 31 of IFRS 15 to eliminate View A of issue 1?

3. If the IASB agrees not to amend IFRS 15 at this time, would the IASB like to:

    a. direct staff to carry out some more outreach in the near-term; or

    b. defer any further substantive work until a later date (for example, as part of the post-implementation review)?

Appendix A

Current accounting guidance for non-cash consideration in IFRS

A1. Paragraph 9 of IAS 18 specifies that revenue should be measured at the fair value of the consideration received or receivable. This will be superseded by IFRS 15.

A2. Paragraphs 12 and 20(a) of IAS 18 state that an entity recognises revenue from an exchange of goods or services only when (amongst other criteria) the services or goods exchanged are dissimilar and the amount of revenue can be measured reliably by reference to the fair value of the goods or services received (or, if this cannot be measured reliably, by reference to the fair value of the goods or services given up). SIC 31 *Revenue—Barter Transactions Involving Advertising Services* further sets out the circumstances when a seller can reliably measure the fair value of advertising services received or provided in a barter transaction of dissimilar services.

A3. However, neither IAS 18 nor SIC 31 contain any specific guidance about the measurement date to use to fair value non-cash consideration in the context of revenue transactions, including revenue transactions involving advertising rights or shares as consideration.

Share-based payment for the issuer of shares

A4. IFRS 2 *Share-based Payment* contains guidance for the *purchaser* of goods and services in exchange for its own equity instruments. IFRS 2 requires that entities should measure the goods and services received at the fair value of the goods or services received for equity-settled share-based payment transactions, provided that the fair value can be estimated reliably. If the fair value of the goods or services received cannot be measured reliably the entity measures their value indirectly by reference to the fair value of the equity instruments granted.

A5. Paragraph 13 of IFRS 2 clarifies that for transactions with parties other than employees, the fair value is measured at the date the entity obtains the goods or the counterparty renders service. This is most consistent with View C of issue 1 in the paper for the seller of goods and services in exchange for equity instruments.

Consideration in a foreign currency

A6. Cash denominated in a foreign currency is not 'non-cash consideration'. Accordingly, the requirements of the new revenue standard for non-cash consideration do not apply. Instead, the requirements for translating foreign currency transactions are contained in IAS 21 *The Effects of Changes in Foreign Exchange Rates.* However, foreign currency cash has some features that are similar to non-cash consideration, in that its fair value may vary (from the perspective of an entity's functional currency) because of the form of the consideration – in this case due to movements in foreign exchange rates.

A7. Paragraphs 21 and 22 of IAS 21 require that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs.

A8. For revenue transactions with payment in arrears, this is closest to View C of issue 1, because if the constraint on variable consideration does not apply, revenue is recognised as the entity satisfies its performance obligations. However if the constraint does apply, the amount of the constrained revenue would be recognised in the income statement at a date after the measurement date under View C (ie the date of performance).

A9. The IFRS Interpretations Committee (Interpretations committee) is currently addressing a request about the date that should be used to determine the date of the exchange rate to measure foreign currency transactions in circumstances when the foreign currency consideration is received (or receivable) in *advance* of the recognition of revenue. The staff plan to discuss this issue in more detail with the IASB at a future meeting.

A10. The Interpretations Committee has tentatively concluded that the date of the transaction for determining the exchange rate to recognise the related revenue in accordance with IAS 21 should be the earlier of:

(a) the date of initial recognition of the non-monetary contract liability/deferred income liability; and

(b) the date that the revenue is recognised in the financial statements.

A11. In circumstances in which a non-monetary contract liability is recognised before the recognition of the related revenue, the Interpretations Committee's tentative conclusions are compatible with View B and View C of issue 1, but not View A.

A12. After initial recognition, paragraphs 23, 28 and 30 of IAS 21 require that:

(a) foreign currency monetary items are translated at the end of each reporting period and on settlement at that date and exchange differences are recognised in profit or loss in the period to which they arise;

(b) non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated; and

(c) non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured and exchange differences are recognised in profit or loss or other comprehensive income consistent with the gain or loss arising on the remeasurement to fair value.