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STAFF PAPER

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IFRS Interpretation Committee Meeting

Project	Foreign Currency Transactions and Advance Consideration
Paper topic	Analysis of matters raised in comment letters

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Introduction

1. In October 2015, the IFRS Interpretations Committee ('the Interpretations Committee') published a Draft Interpretation *Foreign Currency Transactions and Advance Consideration* ('draft Interpretation'). Agenda Paper 7A for this meeting summarises the comments received in response to the draft Interpretation. This paper sets out the staff's analysis of some of the more significant matters raised in comment letters on the draft Interpretation.

Overview of the comments on the draft Interpretation and structure of this paper

2. Respondents generally support all of the main aspects of the Interpretation. They support:

   (a) the scope of the Interpretation—ie the Interpretation would apply to circumstances in which advance consideration denominated in a foreign currency gives rise to a prepayment asset or deferred income liability that is non-monetary.

(b) the consensus of the Interpretation—ie for the purpose of determining the spot rate on initial recognition of the related asset, expense or income, the date of the transaction would be the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

(c) the transition requirements—ie an entity would be permitted to apply the Interpretation either retrospectively or prospectively.

3. In saying that, respondents did suggest some changes to the draft Interpretation, which are discussed in this paper. Those suggestions generally do not affect the consensus proposed in the draft Interpretation. Accordingly, the matters discussed are often about enhancing the clarity of the requirements in the draft Interpretation, the clarity of the explanations in the basis for conclusions and the illustrative examples.

4. On the basis of comments received (summarised in Agenda Paper 7A), the following matters have been selected for further analysis:

(a) Monetary and non-monetary items (paragraphs 6 to 15);

(b) Scope—meaning of paragraph 5(b) (paragraphs 16 to 23);

(c) Other issues on the scope (paragraphs 24 to 34);

(d) Transactions with a significant financing component (paragraphs 37 to 40);

(e) Other issues on the consensus (paragraph 41 to 47)

(f) Transition (paragraphs 48 to 59);

(g) First-time adoption (paragraphs 60 to 65); and

(h) Terminology (paragraphs 66 to 70);

5. In addition to the topics listed above, Appendix A of this paper sets out a summary of other matters raised in comment letters, and outlines the staff's proposed approach to address those matters.

Monetary and non-monetary items

Feedback received

6. As outlined in Agenda Paper 7A (paragraphs 18-20), a number of respondents raised concerns about determining whether a prepayment asset or deferred income liability arising from advance consideration is a non-monetary item. Some respondents (for

example, the Hong Kong Institute of Certified Public Accountants (CL4)) think that Illustrative Examples 2 and 4 of the draft Interpretation may imply that 'non-cancellable' and 'non-refundable' are distinguishing features of a non-monetary item.

7. Those respondents highlight that, in determining whether a transaction is within the scope of the Interpretation, it is necessary to determine whether a prepayment asset or deferred income liability is non-monetary. However, the draft Interpretation does not specify when such an asset or liability is a non-monetary item. For this reason, some respondents asked for clarity on the definitions of monetary and non-monetary items.

Was the matter discussed in developing the draft Interpretation?

8. The Interpretations Committee discussed the definitions of monetary and non-monetary items at its meeting in January 2015. Agenda Paper 5 for that meeting stated the following:

> … The determination of whether an advance payment or receipt gives rise to a monetary or non-monetary item depends upon the specific facts and circumstances, which can be a difficult judgement to make. However, this is a separate issue and we do not intend to include guidance on what is a monetary or non-monetary item as part of the proposed guidance.

What do IFRS Standards say?

9. In considering the request from respondents to provide clarity on the definitions of monetary and non-monetary items, we have identified the following references in IFRS Standards ('Standards') and the *Conceptual Framework* relating to monetary and non-monetary items:

   (a) IAS 21 *The Effects of Changes in Foreign Exchange Rates* paragraph 16 states:

   > The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of currency units. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash;

> lease liabilities; and cash dividends that are recognised as a liability. … Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; goodwill; intangible assets; inventories; property, plant and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

(b) IAS 32 *Financial Instruments: Presentation* paragraph AG11 states:

> Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

(c) Paragraph 4.17 of the *Conceptual Framework* states that:[1]

> … The settlement of a present obligation may occur in a number of ways, for example, by:
>
> (a) payment of cash
>
> (b) transfer of assets
>
> (c) provision of services
>
> (d) replacement of that obligation with another obligation; or
>
> (e) conversion of the obligation to equity.
>
> An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

[1] Paragraph 4.28 of ED/2015/3 *Conceptual Framework for Financial Reporting* includes a list of examples of obligations to transfer an economic resource, which include obligations to:
(a) pay cash;
(b) transfer other assets;
(c) exchange economic resources with another party on unfavourable terms;
(d) provide services; or
(e) issue another obligation that will oblige the entity to transfer an economic resource.

Staff analysis and recommendation

10. The staff understand why respondents have asked for clarity on the definition of monetary and non-monetary items. It can be difficult to determine whether an item is monetary or non-monetary, and that determination can require judgement. The requirements and explanations in Standards and the *Conceptual Framework* on monetary and non-monetary items are helpful in making this determination. However, those requirements do not remove the need to apply judgement when determining whether an asset or a liability is non-monetary.

11. We think that, in the circumstances in which the draft Interpretation would apply, the requirements and explanations in the *Conceptual Framework*, IAS 21 and IAS 32 are helpful.

12. Nonetheless, we agree with the Interpretations Committee's conclusions when developing the draft Interpretation that it should not add any further description or definition of non-monetary items to the Interpretation. Determining whether a foreign currency item is monetary or non-monetary is not a new requirement. An entity is already required to make this determination in applying IAS 21—the Interpretation does not change that requirement, nor make it more or less difficult. The Interpretation is intended to clarify the date of the transaction for an asset, expense or income that relates to advance consideration paid or received in a foreign currency; it is not intended to clarify how to determine whether an item is non-monetary.

Staff recommendation

13. Consequently, we recommend that the Interpretations Committee does not address the description or definition of non-monetary items within the Interpretation.

14. The staff note the suggestion made by EY (CL 13) that it would be helpful if the Interpretations Committee acknowledged in the Basis for Conclusions that an entity may need to apply judgement in determining which items are non-monetary. We recommend including this in the Basis for Conclusions to the final Interpretation.

15. In addition, the staff also note that Illustrative Examples 2 and 4 of the draft Interpretation include terminology that has caused confusion about the features of non-monetary items. The staff will consider the comments received in this respect when drafting the illustrative examples in the final Interpretation.

Scope—meaning of paragraph 5(b)

16. Paragraph 5 of the draft Interpretation proposes to exclude from the scope of the Interpretation circumstances in which the related asset, expense or income is required to be recognised initially at fair value, or at the fair value of the consideration given or received (if that consideration is measured at a date other than the date of initial recognition of the related prepayment asset or deferred income liability).

17. Paragraph 5 states:

> The [draft] Interpretation does not apply in circumstances in which the related asset, expense or income is required to be recognised initially at:
>
> (a) its fair value;
>
> (b) the fair value of the consideration given or received if that consideration is measured in the foreign currency at a date other than the date of initial recognition of the related prepayment asset or deferred income liability.

Feedback received

18. As note in paragraph 22 of Agenda Paper 7A, some of the accounting firms expressed concerns that paragraph 5(b) is not clear. They asked the Interpretations Committee to either include an example of such a transaction, or clarify the meaning of the phrase ‘that consideration is measured in the foreign currency’.

Was this discussed in developing the draft Interpretation?

19. The Interpretations Committee discussed this matter at its meeting in March 2015—paragraphs BC14 to BC19 of the draft Interpretation explain the Interpretations Committee’s discussions.

20. These paragraphs explain that paragraph 5 of the draft Interpretation was added to ensure that the requirements in the draft Interpretation would not override or contradict requirements in other Standards, which address specific circumstances that would otherwise be within the scope of the Interpretation. More specifically, the Interpretations Committee noted that paragraph 23(c) of IAS 21 requires an entity to

translate foreign currency non-monetary items that are measured at fair value using the spot exchange rate at each measurement date.

21. The Interpretations Committee inserted paragraph 5 to avoid proposing requirements that would contradict the requirements in paragraph 23(c) of IAS 21—ie without the scope exclusion in paragraph 5, the Interpretation would contradict the requirements in paragraph 23(c) of IAS 21 in circumstances in which the fair value measurement date of a non-monetary item (on initial recognition) is different from the date of the transaction proposed in the draft Interpretation.

Staff analysis and recommendation

22. The staff think that respondents who commented on paragraph 5 are not questioning the proposed scope of the Interpretation. They are, instead, suggesting that the Interpretations Committee clarify (i) the drafting of paragraph 5(b), and (ii) the explanation for the scope exclusion in the Basis for Conclusions.

23. The March 2015 agenda paper provided goodwill as an example of a transaction within the scope paragraph 5(b). This is because, applying IFRS 3 *Business Combinations*, an entity measures goodwill by reference to the acquisition-date fair value of the consideration. The staff think that it would be helpful to include this example within paragraph 5(b) of the draft Interpretation as a 'for example'. The staff will consider the comments received on paragraph 5(b) in drafting the final Interpretation.

Other issues on the scope

24. Respondents raised a number of other matters related to the proposed scope of the draft Interpretation. These matters are set out in paragraph 23 of Agenda Paper 7A. Of these matters, the staff wish to discuss one particular matter with the Interpretations Committee—the proposed optional application of the Interpretation to insurance contracts and income taxes.

Insurance contracts

25. Paragraph 6(a) of the draft Interpretation proposes that an entity is not required to apply the Interpretation to insurance contracts that it issues and reinsurance contracts that it holds.

26. When the Interpretations Committee considered the scope of the draft Interpretation (January 2015, Agenda paper 5), it noted:

> … the foreign exchange implications of insurance contracts have already been considered as part of the IASB's Insurance project. (The Exposure Draft *Insurance Contracts* ED/2013/7 proposes that insurance contracts should be treated as monetary items for the purposes of IAS 21). Consequently, we recommend that the proposed interpretation need not apply to insurance contracts.

27. By proposing optional application of the draft Interpretation to insurance contracts, the existing accounting for such contracts is unaffected. In other words, entities can continue to use either the multi-transaction or one-transaction approach if they currently treat insurance contracts as non-monetary items. Because the Board is now finalising the new Standard for insurance contracts, we think that it would be inappropriate to require a change in accounting before application of that new Standard.

28. Nonetheless, given the proposal included in the *Insurance Contracts* Exposure Draft (and assuming that this is retained in the final Standard), when the new insurance contracts Standard is issued, the Board will be required to make a consequential amendment to remove insurance contracts from the scope of the Interpretation.

29. The staff agree that the Interpretation need not be applied to insurance contracts and recommend retaining paragraph 6(a) in the final Interpretation.

Income taxes

30. Similarly, paragraph 6(b) of the draft Interpretation proposes that an entity is not required to apply the Interpretation to income taxes. Some respondents questioned the inclusion of this paragraph.

31. The Interpretations Committee considered this point when developing the draft Interpretation (January 2015) and noted:

> Prepayments of income tax generally arise in relation to current tax. However, there is interplay with deferred tax and in particular in respect of deductible temporary differences that give rise to possible deferred tax assets. Furthermore, paragraph 78 of IAS 12 permits entities to classify foreign exchange gains or losses on deferred foreign tax liabilities or assets as deferred tax expense (income), if that presentation is considered to be the most useful to the users of financial statements.

32. Paragraph BC11 of the draft Interpretation summarises the Interpretations Committee's considerations, noting that it decided that the draft Interpretation need not be applied to income taxes to avoid unintended consequences because of complexities in respect of income taxes due to the interplay with deferred tax.

33. The staff see no reason to change the Interpretations Committee's conclusions when developing the draft Interpretation. Permitting but not requiring an entity to apply the Interpretation to income taxes avoids any unintended consequences.

34. Consequently, the staff recommend retaining paragraph 6(b) in the final Interpretation. We also recommend that the Basis for Conclusions explain more fully the reasons for permitting optional application to income taxes.

Question 1 – Scope of the Interpretation

Does the Interpretations Committee agree with the staff recommendation:

(a) not to address the description or definition of non-monetary items within the Interpretation?

(b) to acknowledge in the Basis for Conclusions that determining whether an item is non-monetary depends on the facts and circumstances, and may require judgement?

(c) to retain the scope exclusions in paragraphs 5 and 6 of the draft Interpretation, but to clarify the drafting of, and explanations for, those exclusions?

Consensus

35. As noted in Agenda Paper 7A and paragraph 2(b) of this paper, nearly all respondents support the consensus proposed in the draft Interpretation. In the light of this support, the staff wish to discuss only three matters with the Interpretations Committee:

    (a) Transactions with a significant financing component

    (b) Other issues relating to the consensus:

        (i) Rationale for the one-transaction approach; and

        (ii) Exposure to foreign exchange risk.

36. Other matters raised by respondents in relation to the proposed consensus are set out in Appendix A to this paper.

Transactions with a significant financing component

37. As noted in paragraph 27 of Agenda paper 7A, some respondents think that the Interpretation should address transactions with a significant financing component, as described in IFRS 15 *Revenue from Contracts with Customers*.

38. Paragraph 60 of IFRS 15 requires an entity to adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In other words, the contract contains a significant financing component.

39. The Interpretations Committee discussed this matter in March 2015, and decided not to address the matter in the draft Interpretation.

40. In the light of the number of respondents who suggested that the Interpretation should address this matter (and that many of those respondents indicated that an illustrative example would be helpful), the staff propose to address the matter within the illustrative examples accompanying the Interpretation.

Other issues on the consensus

Rationale for the one-transaction approach

41. As explained in paragraph 28 of Agenda paper 7A, two respondents highlighted that the draft Interpretation would result in the recognition of different amounts of revenue if advance consideration is paid on different dates or in different currencies, even though the contract values may be the same.[2] These respondents view this as possibly conflicting with the principle in paragraph 46 of IFRS 15. That paragraph states that … 'when (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation'.

42. The staff do not agree that the outcome of applying the draft Interpretation in these circumstances conflicts with paragraph 46 of IFRS 15. We think that the reason that an entity would recognise different amounts of revenue in the circumstances described in paragraph 41 is a consequence of the different risk profiles of the respective contracts. For example, if one contract is dominated in a foreign currency and the other is in the entity's functional currency, then the contract dominated in a foreign currency includes exposure to foreign exchange risk. Consequently, the actual amount of cash received (in the entity's functional currency) may not be equivalent to the contact value because of fluctuations in the exchange rate between the date of contract inception and the date that the advance consideration is received. Similarly, for example, assume that two contracts require the payment of the same amount of advance consideration denominated in a foreign currency on different dates. In this case, we think that those two contracts have been priced differently. This is because the actual amount of cash received (in the entity's functional currency) may not be the same in each contract because of differences in the exchange rates on the respective payment dates.

43. Consequently, in these circumstances, we think that any difference in the amount of revenue recognised reflects the different risks in the contracts.

[2] Accounting Standards Committee of Germany (CL21), BDO (CL44).

Exposure to foreign exchange risk

44. Paragraph 106 of IFRS 15 states:

> If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

45. As noted in paragraph 30(d) of Agenda Paper 7A, one respondent disagrees with the consensus in the circumstance in which an entity recognises a contract liability when a foreign currency payment is due applying paragraph 106 of IFRS 15. This is because the entity is exposed to foreign exchange risk between the date of recognition of the asset (the right to an amount of consideration that is unconditional) and its settlement—ie the date that the payment is received. This respondent notes that the outcome of applying the Interpretation in this circumstance is not consistent with the principle in paragraph BC25(a) of the draft Interpretation—namely, that application of the Interpretation reflects that an entity is no longer exposed to foreign exchange risk with respect to the transaction.

46. The staff agree that, in the circumstance described, the entity is exposed to foreign exchange risk between the date that the consideration is due and the date that it is received. However, we think that the accounting for this circumstance is clear applying the draft Interpretation, and thus we do not suggest amending the draft Interpretation in this respect. We think that doing so would complicate the proposed requirements.

47. In saying that, we think that the principle explained in paragraph 25(a) of the Basis for Conclusions should be changed to say that the Interpretation reflects that an entity is 'typically' no longer exposed to exchange risk.

Question 2 – Consensus of the Interpretation
Does the Interpretations Committee agree with the staff recommendation to address transactions with a significant financing component within the illustrative examples accompanying the Interpretation?

Transition

48. The draft Interpretation proposed the following transition requirements:

> A2 On initial application, an entity shall apply this [draft] Interpretation either:
>
> (a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
>
> (b) prospectively to all assets, expenses and income in the scope of the [draft] Interpretation initially recognised on or after:
>
> (i) the beginning of the reporting period in which an entity first applies the [draft] Interpretation; or
>
> (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the [draft] Interpretation.

Feedback received

49. As outlined in paragraphs 31-32 of Agenda Paper 7A, respondents generally support the transition requirements proposed in the draft Interpretation. In particular, respondents support the relief provided from having to potentially restate amounts relating to assets purchased before any of the reporting periods presented.

50. However, some respondents recommend that prospective application should be specified from a single date rather than the choice of dates proposed in paragraph A2(b) of the draft Interpretation. They think that this would enhance comparability

between entities. Another respondent recommends that an entity be permitted to apply the Interpretation only to items for which the payment or receipt of the advance consideration occurs after a specified date.

Was this discussed in developing the draft Interpretation?

51. The Interpretations Committee discussed the transition requirements at its meeting in January 2015 (Agenda Paper 5). The Interpretations Committee decided that, because of the interplay with the initial application of IFRS 15, it should propose similar transition requirements to those in IFRS 15.

52. IFRS 15 has two methods of transition: (i) full retrospective application, and (ii) retrospective application with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application (the 'cumulative catch-up approach')[3]. An entity can choose either of these transition methods.

53. The effect of the transition requirements in paragraph A2(b)(i) of the draft Interpretation is similar to that of the cumulative catch-up approach in IFRS 15. This is because paragraph A2(b)(i) of the draft Interpretation permits an entity to apply the Interpretation prospectively from the beginning of the reporting period in which the entity first applies the Interpretation (hereafter referred to as the date of initial application). Accordingly, the entity:

    (a) would not restate amounts previously reported;

    (b) would apply the requirements of the Interpretation to any asset, expense or income recognised after the date of initial application for which a non-monetary prepayment asset or deferred income liability was recognised before that date; and consequently

    (c) would translate that asset, expense or income using the spot exchange rate at the date of the initial recognition of the non-monetary prepayment asset or deferred income liability.

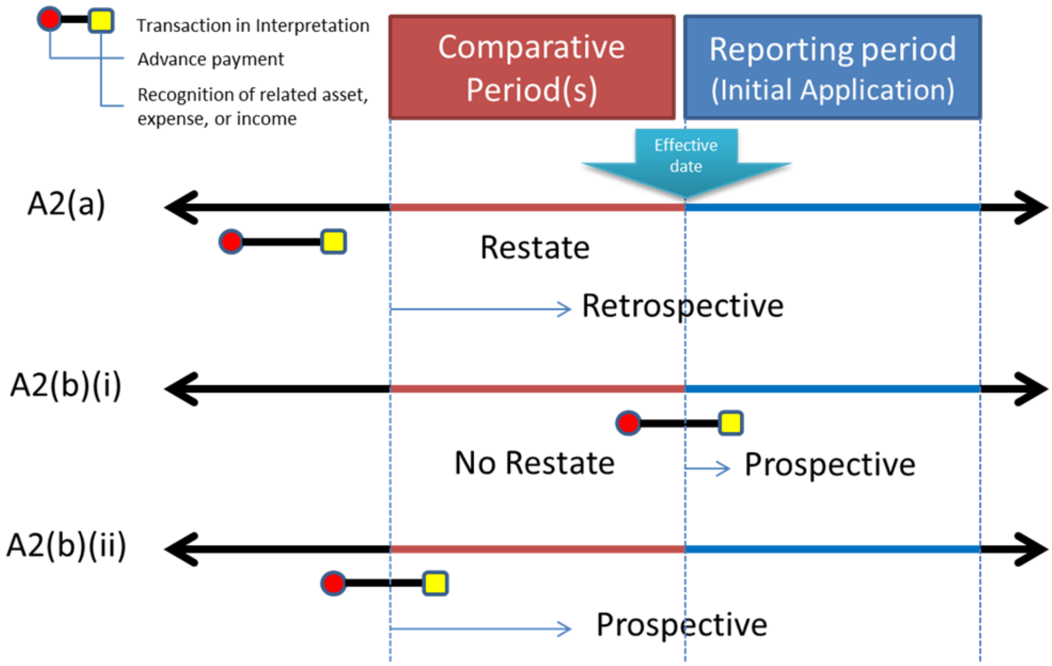
54. Paragraph A2(b)(ii) of the draft Interpretation permits an entity to apply the draft Interpretation from the beginning of a prior reporting period presented as comparative

[3] Applying the cumulative catch-up approach, an entity applies IFRS 15 retrospectively either to all contracts or only to contacts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).

information in the financial statements of the reporting period that includes the date of initial application. This option is provided to enhance comparability between amounts presented within an entity's financial statements, without the entity having to apply the full retrospective approach.

Staff analysis and recommendation

55. The draft Interpretation proposes three options on transition, as follows:



56. As explained above, paragraph A2(b)(i) has a similar effect on transition to the cumulative catch-up approach permitted by IFRS 15—that approach results in no restatement of information reported for the comparative period. Because many of the transactions within the scope of the Interpretation will be revenue transactions, the staff agree that there is interplay between IFRS 15 and the Interpretation, and thus that the Interpretation should include transition requirements that have a similar effect to those in IFRS 15.

57. The staff understand that the transition option in paragraph A2(b)(ii) has the potential to improve comparability between amounts presented within an entity's financial statements without the entity having to apply the full retrospective approach. However, including three options on transition has the potential to decrease comparability between entities. The staff also acknowledge concerns expressed by respondents that permitting various approaches to transition increases complexity.

58. On balance, we recommend that the Interpretations Committee remove paragraph A2(b)(ii) from the Interpretation. Removing this paragraph but retaining paragraph A2(b)(i) still provides relief from full retrospective application on transition and recognises the interplay between the Interpretation and IFRS 15.

59. We do not support the proposal to permit an entity to apply the Interpretation only to items for which the payment or receipt of the advance consideration occurs after a specified date. We do not think that this approach recognises the interplay between the Interpretation and IFRS 15, nor does it provide comparable information.

First-time adopters

Feedback received

60. Some respondents raised a concern that the burden of applying the Interpretation may be significantly different between existing IFRS entities and first-time adopters (see paragraph 35 of Agenda Paper 7A). These respondents note that existing IFRS entities are given relief from full retrospective application. However, to avoid full retrospective application, a first-time adopter could only use the fair value option in IFRS 1 *First-time adoption of International Financial Reporting Standards*, for some assets which could possibly lead to undue cost or effort.

Was this discussed in developing the draft Interpretation?

61. The Interpretations Committee discussed the transition requirements at its meeting in January 2015 (Agenda Paper 5). At that meeting, the Interpretations Committee decided not to provide first-time adopters with transition relief because:

    (a) for completed contracts within the scope of IFRS 15, there is no effect on transition; and

    (b) first-time adopters have the option to elect to measure property, plant and equipment, investment property or intangible assets at fair value and use that fair value as deemed cost (paragraph D5-D7 of IFRS 1).

62. Consequently, the draft Interpretation did not propose any specific transition requirements for first-time adopters.

Staff analysis and recommendations

63. When first applying IFRS Standards, a first-time adopter decides whether to elect to measure property, plant and equipment, investment property or intangible assets at fair value (and use this as deemed cost), or apply the recognition and measurement requirements in the relevant Standards as if they had always been applied. An entity might choose to retrospectively apply the requirements in the relevant Standards when the accounting policies it applied under its previous GAAP comply with the requirements in the relevant IFRS Standards. When an entity chooses to retrospectively apply the requirements in the relevant Standards for assets acquired in a foreign currency, it will also need to determine if it has complied with the relevant requirements in IAS 21 (which would include the requirements in the Interpretation if the Interpretation is finalised).

64. The staff acknowledge that the draft Interpretation did not propose to provide first-time adopters with transition relief equivalent to that provided to existing IFRS entities. However, the staff think that providing relief to first-time adopters would be of marginal benefit. This is because first-time adopters have to determine if they comply with the recognition and measurement requirements in the relevant Standards in any event, as well as determining compliance with IAS 21. In the staff's view, the burden on transition for first-time adopters relates to determining compliance with the requirements in the relevant Standards—we think that complying with the requirements of this Interpretation would not add a significant amount of additional work. In addition, we have no means of knowing the exchange rate that might have been used by a first-time adopter to translate foreign currency payments made in prior periods applying previous GAAP. The transition relief provided to existing IFRS entities is based on the fact that these entities already comply with the requirements of current Standards.

65. Consequently, the staff recommend not to provide transition relief for first-time adopters.

Question 3 - Transition
Does the Interpretations Committee agree with the staff recommendation: (i) to remove the option to apply the prospective transition approach in paragraph A2(b)(ii) of the draft Interpretation? (ii) not to provide transition relief for first-time adopters of Standards?

Terminology

66. As noted in paragraph 38 of Agenda Paper 7A , the Australian Accounting Standards Board (CL12) noted that the draft Interpretation introduces the term 'deferred income liability', and also uses the term 'contract liability' in the illustrative examples.

67. The Interpretations Committee discussed the use of this term at its meeting in March 2015. Although the term is not used in current Standards, the Interpretations Committee decided that it was understood by the accounting profession.

68. In considering the terminology to be used, we think that it is helpful to think about what might best describe the asset and liability referred to in the Interpretation—ie the draft Interpretation addresses the date of the transaction on initial recognition of assets, expense or income when advance consideration has been paid or received.

69. The staff suggest that, instead of introducing new terminology into Standards and Interpretations, we should refer to:

    (a) 'Liability from receipt of advance consideration'; and

    (b) 'Asset from payment of advance consideration'.

70. In addition, the staff think that this terminology is preferable to using 'deferred income liability' because that phrase is not consistent with the work that the Board is doing on the *Conceptual Framework* project.

Questions 4 and 5 – Terminology and other matters

4. Does the Interpretations Committee agree with the staff recommendation to use the following terms in the Interpretation:
   (a) Liability from receipt of advance consideration; and
   (b) Asset from payment of advance consideration?
5. Does the Interpretations Committee have any comments on the other matters set out in Appendix A to this paper?

Appendix A—Other matters raised in comment letters

Topic	Reference to Agenda Paper 7A	Issue	Interpretations Committee previous discussion	Staff proposal
Scope				
Embedded derivatives	Paragraph 23(a)	One respondent noted that embedded foreign currency derivatives that require separation at inception of a contract have not been addressed in the draft Interpretation.	Not previously discussed.	Discuss at a future Interpretations Committee meeting.
Clarification of scope	Paragraph 23(c)	Some respondents suggested that the examples included in paragraph BC10 should be included in the text of the Interpretation.	Not specifically discussed.	The staff will review the drafting of the scope of the Interpretation, but do not think that the list of examples in BC10 should be included in the text of the Interpretation.
Presentation in statement of financial position	Paragraph 23(d)	One respondent raised a concern that the draft Interpretation does not cover the presentation issue of prepayments and deferred income liabilities in the balance sheet.	This matter is outside the scope of the Interpretation.	No further action is proposed.
Presentation in income statement	Paragraph 29	The draft Interpretation does not address the presentation of exchange gains and losses in the income statement.	The Interpretations Committee's considerations are set out in paragraphs BC32 and BC33 of the draft Interpretation.	No further action is proposed.

Topic	Reference to Agenda Paper 7A	Issue	Interpretations Committee previous discussion	Staff proposal
Consensus				
Cost versus benefit	Paragraph 30(a)	Some respondents had reservations about the practical implementation challenges associated with the draft Interpretation, including updating ERP systems.[4] These respondents stated that most ERPs are based on a 'multiple-transaction' approach. Consequently, they think that the Interpretation may create significant implementation costs.	Not specifically discussed.	Discuss at a future Interpretations Committee meeting.
Additional Illustrative Examples: -contract liability -non-cash advance consideration		Some respondents requested examples illustrating: (a) the accounting when an entity is required to recognise a non-monetary contract liability before payment is received applying IFRS 15, paragraph 106; and (b) non-cash advance consideration.	Not specifically discussed.	No further action is proposed—we think that the four illustrative examples in the draft Interpretation (amended to address drafting concerns and significant financing) are adequate on this topic.

[4] Mazars (CL35), SwissHoldings (CL37).