

Determining Revenue/Purchases as a result of financing components

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Determining Revenue/Purchases as a result of financing components

Introduction

- .01 There are many revenue or purchase transactions in which there is a delay between the recognition of revenue or the item purchased and payment of the consideration. These transactions potentially contain a financing component, which may need to be accounted for separately from the revenue or purchase. Currently there is diversity in practice regarding the identification and accounting of these potential financing elements. This Circular has been issued to assist in reducing this diversity.
- .02 Circular 9/2006 – *Transactions giving rise to adjustments to revenue/purchases* previously included guidance on the recognition of financing elements. However, subsequent to the issuing of Circular 9/2006, the International Financial Reporting Standards Interpretations Committee (Interpretations Committee) has debated financing elements contained within transactions for both revenue and purchases under the current accounting standards (IAS 2 – *Inventories* and IAS 18 – *Revenue*). The Interpretations Committee's debates have often referred to the guidance provided in IFRS 15 – *Revenue from Contracts with Customers* in debating the treatment of current standards and guidance, which therefore allows an analogy to be drawn between the guidance contained in IFRS 15 and the existing standards.
- .03 This Circular considers these developments and updates the previous guidance contained in Circular 9/2006 relating to financing elements of revenue and purchases. This Circular repeals the guidance in Circular 9/2006 that deals with extended payment terms (paragraphs 23-30). However, the other guidance included in Circular 9/2006 is still considered relevant and will remain in the issued Circular.

Scope

- .04 This Circular deals only with the initial identification of a financing component by sellers or buyers of goods in transactions that possibly contain financing elements. The assessment of whether the financing component should be separately identified and recognised – and the related determination of the sale and purchase price – should be performed on initial recognition at a contract or transaction level and not at a portfolio level. The Circular considers only the specific topic of identifying a financing component in revenue and purchase transactions. Other factors such as subsequent measurement of the debtors or creditors, disclosure or the deferred tax implications are not addressed.
- .05 Entities that have applied IFRS 15 should not apply the guidance provided in this Circular in relation to revenue, but should apply the guidance contained in IFRS 15. This Circular does not provide guidance for the application of transactions falling within the scope of IFRS 15.

Approach

- .06 The assessment of whether a transaction contains a financing element begins by identifying whether a financing element exists in the transaction. If a transaction contains a financing element, the guidance then requires an assessment to determine whether the financing element is material to the transaction. Only if the financing element identified is considered material to the transaction must it be accounted for as a separate element, as indicated in the decision tree (paragraph 20) below. As noted in the scope

(paragraphs 04 and 05) above, the transaction that is being assessed to contain a financing element is considered to be the individual contract and therefore the assessment should be made on a contract-by-contract basis (IFRS 13 – *Fair Value Measurement* paragraph BC138A). This should not be performed on a portfolio basis.

- .07 An entity should therefore identify if, at inception, a transaction contains a financing element. In performing this assessment, the entity should consider the following non-exhaustive list of factors (the sources of these factors are described in Appendix B, BC4, of this Circular) in assessing whether the transaction provides a financing benefit/cost to the counterparty or if the deferral exists for other reasons:
- a) Differential pricing between the cash payment price and the price paid on deferred settlement terms;
 - b) Settlement terms deferred beyond industry norms and practice;
 - c) The date from which an entity is entitled to levy interest on overdue payments;
 - d) The existence of a transaction initiation process and credit assessment process;
 - e) Any collateral required for the transaction or payment;
 - f) A substantial amount of the transaction price is variable, the variability is outside the control of both parties, and the parties have decided to delay payment until a substantial amount of the variability is removed;
 - g) The business purpose for the different timing between delivery of the goods/ services and the payment; or
 - h) Volume of credit sales in relation to cash sales.

An entity is expected to apply its judgement, when considering these and any other relevant factors, as to whether the transaction contains a financing element. No one factor is more important than another factor and an entity should determine whether a financing element exists using the above indicators to identify the substance of the transaction. The presence of one, or more, of these factors may indicate that a financing element exists.

- .08 If an entity determines, after applying paragraph 07, that the transaction does not contain a financing element, then no further assessment of a financing element is required. However, if an entity determines that financing is an element of the transaction, then an entity should perform an assessment to determine if this is material to the transaction.
- .09 IAS 39 – *Financial Instruments: Recognition and Measurement* (and IFRS 9 – *Financial Instruments* when adopted) requires that financial instruments be initially recognised at fair value. This applies to both payables and receivables and takes into account the effect of the time value of money or financing elements. IFRS 13, paragraph BC138A clarifies that the requirement to recognise at fair value is met for short-term receivables and payables recognised at the transaction amount, where the effect of discounting is not material to the individual transaction. This requirement is similar to those contained in IAS 2/IAS 18 and IAS 16 – *Property, Plant and Equipment*/IAS 38 – *Intangible Assets*. An entity should use the guidance in IFRS 13 to determine if the financing element is material to the individual transaction (that is, this assessment should not be performed as a percentage of total sales, but rather at the unit-of-account level). The assessment should be performed by first considering if a potential financing element exists and, if it does, then considering whether the potential financing element is material to the individual transaction. Only if the financing element is material to the individual transaction should the fair value of the receivable or payable be adjusted for the

financing element. Entities may refer to IAS 1 – *Presentation of Financial Statements* for further guidance on materiality.

- .10 Further, the Interpretations Committee's discussions on financing elements contemplate that the entity should first determine the transaction price for the revenue or purchase side of the transaction. In the absence of another element (such as a material financing element) being identified in the transaction, the related receivable or payable is then measured on initial recognition at the amount of the revenue or purchase-side transaction.
- .11 The assessment of whether the financing element is material to the transaction should be performed on initial recognition of the transaction and should consider the expected payment of the transaction, based on facts and circumstances on this date. Any subsequent changes to these expectations such as delays in payment or changes in the amount of the payment form part of the subsequent measurement of the receivable or payable and do not affect the determination of the financing element on initial recognition. These changes are incorporated into the subsequent measurement provisions of IAS 39 or IFRS 9.

Financing elements – purchases

- .12 Paragraph 18 of IAS 2 addresses deferred settlement terms and states that, when the arrangement effectively contains a financing element, that element must be recognised as interest over the period of the financing. It also provides an example of a financing element; i.e. where there is a difference between the purchase price for normal credit terms and the amount paid. An entity should therefore perform the assessment of whether a financing element exists in the transaction.
- .13 Similarly paragraph 23 of IAS 16 and paragraph 32 of IAS 38 address the situation where the cost of an item of property, plant and equipment or intangible asset has payment terms that are deferred beyond normal credit terms; i.e. the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit.
- .14 To determine whether a financing element exists in a transaction, the entity should first perform the initial assessment as set out in paragraph 07. Only if an entity determines that a financing element exists should the entity perform an assessment to determine if the financing element is material to the transaction. Otherwise, the separation of a financing element is not required. The determination of whether the financing element is material to the transaction should be performed using the guidance provided in paragraphs 09-11 of this Circular.
- .15 In considering the expected payment terms of payables, paragraph 47 of IFRS 13 provides the guidance that the entity's expectation of payment cannot exceed the contractual terms of the contract. Therefore, the calculation should be limited to the contractual terms rather than the expected terms of payment.
- .16 If an entity determines that the financing element is material to the transaction, then the financing element should be accounted for separately from the purchase; i.e. the purchase (and the recognition of the payable) should be recorded at the present value of the future cash flows and an interest expense accrued until the date of payment. Conversely, if an entity determines that the financing element is not material to the

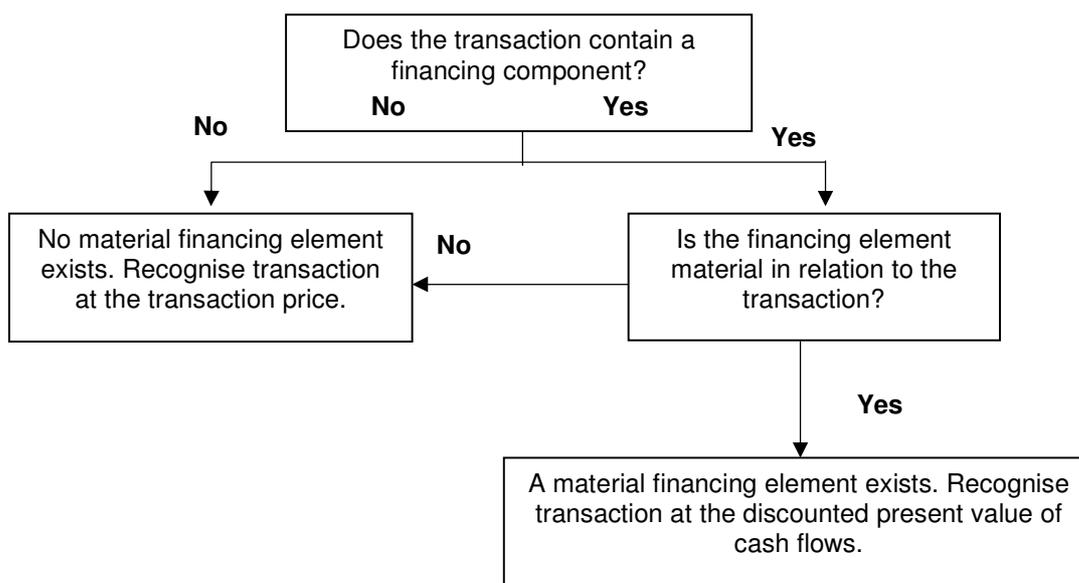
transaction, then there is no requirement to account for the financing element separately from the purchase.

Financing elements – revenue

- .17 Revenue should be measured at the fair value of the consideration received or receivable (IAS 18). If a transaction contains a financing element, this element should be accounted for separately as the consideration for the revenue transaction comprises two elements and hence the fair value of the consideration for the original revenue transaction should exclude the revenue for the financing element.
- .18 To determine whether a financing element exists in a transaction, the entity should first perform the initial assessment as set out in paragraph 07 of this Circular. Only if an entity determines that a financing element exists should the entity perform an assessment to determine if the financing element is material to the transaction. Otherwise, the separation of a financing element is not required. The determination of whether the financing element is material to the transaction should be performed using the guidance provided in paragraphs 09-11 of this Circular.
- .19 If an entity determines that the financing element is material to the transaction, then the financing element should be accounted for separately from the revenue; i.e. recognise the revenue (and the related receivable) at the present value of the future cash flows and subsequently accrue interest income until the date of expected payment. IFRS 13, paragraph B13 requires that an entity should consider the date of expected payment in measuring fair value. This includes considering both the impact on the timing of the expected cash flows and the related discount rate. Conversely, if an entity determines that the financing element is not material to the transaction, then the financing element is not required to be accounted for separately from the revenue.

Decision tree

- .20 The following decision tree may assist entities in applying the guidance to determine whether a transaction contains a financing element.



Conclusion

- .21 Where there is a delay between the recognition of revenue or the item purchased and payment of the consideration, an entity should identify if a financing element exists based on the factors set out in paragraph 07 of this Circular. If a financing element exists, an assessment should be performed to determine if the financing element is material to the transaction. Only if the financing element is material to the transaction should it be accounted for separately.
- .22 Entities should account for any change in terms of IAS 8– *Accounting Policies, Changes in Accounting Estimates and Errors*.

Responsibility

- .23 Members should determine the necessary action required in the context of their responsibility.

**Johannesburg
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Senior Executive: Corporate Reporting**

Appendix A: Accounting References

Accounting standard references

Paragraph 10 of IAS 2 states: *“The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.”*

Paragraph 11 of IAS 2 states: *“The costs of purchase of inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs.... Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.”*

Paragraph 18 of IAS 2 states: *“An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.”*

Paragraph 23 of IAS 16 states: *“The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23 Borrowing Costs.”*

Paragraph 32 of IAS 38 states: *“If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with IAS 23 Borrowing Costs.”*

Paragraph 10 of IAS 18 states: *“The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.”*

Paragraph 14 of IFRS 13 states: *“Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IFRS that requires or permits the fair value measurement, except as provided in this IFRS.”*

Paragraph 47 of IFRS 13 states: *“The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.”*

Paragraph B13 of IFRS 13 states: *“Present value (i.e. an application of the income approach) is a tool used to link future amounts (e.g. cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:*

- a) *An estimate of future cash flows for the asset or liability being measured.*
- b) *Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.*

- c) *The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e. a risk-free interest rate).*
- d) *The price for bearing the uncertainty inherent in the cash flows (i.e. a risk premium).*
- e) *Other factors that market participants would take into account in the circumstances.*
- f) *For a liability, the non-performance risk relating to that liability, including the entity's (i.e. the obligor's) own credit risk."*

Paragraph BC138A of IFRS 13 states: *"After issuing IFRS 13, the IASB was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of paragraphs B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The IASB did not intend to change the measurement requirements for those short-term receivables and payables, noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial."*

Paragraph 61 of IFRS 15 states: *"The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (i.e. the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:*

- a) *The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and*
- b) *The combined effect of both of the following:*
 - i. *The expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and*
 - ii. *The prevailing interest rates in the relevant market."*

Paragraph 62 of IFRS 15 states: *"Notwithstanding the assessment in paragraph 61, a contract with a customer would not have a significant financing component if any of the following factors exist:*

- a) *The customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer.*
- b) *A substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).*
- c) *The difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract."*

Paragraph BC234 of IFRS 15 states: *“The boards also observed that for many contracts, an entity will not need to adjust the promised amount of customer consideration because the effects of the financing component will not materially change the amount of revenue that should be recognised in relation to a contract with a customer. In other words, for those contracts, the financing component will not be significant. During their redeliberations, the boards clarified that an entity **should consider only the significance of a financing component at a contract level rather than consider whether the financing is material at a portfolio level**. The boards decided that it would have been unduly burdensome to require an entity to account for a financing component if the effects of the financing component were not material to the individual contract, but the combined effects for a portfolio of similar contracts were material to the entity as a whole.”*[emphasis added]

Paragraph 23 of IAS 16 states: *“The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23.”*

Paragraph 32 of IAS 38 states: *“If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with IAS 23 Borrowing Costs.”*

Interpretations Committee meeting discussions

Paragraph 20 of agenda paper 3 from the July 2015 Interpretations Committee meeting states: *“There is also guidance with respect to deferred payments for the acquisition of assets in IAS 2 Inventories (paragraph 18), IAS 16 Property, Plant and Equipment (paragraph 23) and IAS 38 Intangible Assets (paragraph 32) that makes it clear that if a contract contains a financing element, the difference between the purchase price on normal credit terms and the amount paid is recognised as interest over the period of financing.”*

Paragraph 21 of agenda paper 3 from the July 2015 Interpretations Committee meeting states: *“Based on this analysis, we think that recognising the financing component of a transaction separately, so that the transaction is recognised at its cash price, is applied throughout IFRS. We would therefore expect that for both revenue and inventories, the contract price would be adjusted for any significant financing component of the arrangement, whether explicit or implied.”*

Paragraph 31 of agenda paper 6 from the November 2014 Interpretations Committee meeting states: *“However, we think that it is important at this stage to make a distinction between the time value of money as a factor in a cash-flow-derived measurement basis and the objective of measuring both revenue and inventory in a way that excludes the effect of any financing arrangement. This is explained in paragraph BC232 of IFRS 15: The boards also decided to remove the term ‘time value of money’ from the discussion about adjustments for financing components, to reflect their decision that the focus is on whether the payment terms provide the purchaser or the entity with a significant benefit of financing. This is because the term ‘time value of money’ is a broader economic term that may suggest that it is necessary to adjust the promised amount of consideration in circumstances other than when the cash sales price may differ from the contractual payments.”*

Paragraph 32 of agenda paper 6 from the November 2014 Interpretations Committee meeting states: *“We note that this discussion by the boards reflects a change between the second Exposure Draft and the final Standard; the boards decided to focus on the narrower concept of a ‘financing component’, rather than the broader concept of ‘time value of money’. In this paragraph the IASB highlights that there are some circumstances in which the transaction price should not be adjusted, i.e. when the gap between payment date and delivery date arises for reasons other than a financing arrangement.”*

Paragraph 39 of agenda paper 6 from the November 2014 Interpretations Committee meeting states: *“We think it is the IASB’s intention to adjust the transaction price when there is a significant financing component of the contract and not to adjust the transaction price when there is no significant financing component. The IASB acknowledged that the prepayment may be made for reasons other than financing.”*

Paragraph 40 of agenda paper 6 from the November 2014 Interpretations Committee meeting states: *“A prepayment might arise for operational reasons, such as:*

- (a) the purchaser might be in financial difficulty and the supplier requires a deposit against credit risk;*
- (b) the purchaser might compensate the supplier for incurring other upfront contract costs, such as plant or equipment, that are necessary to provide the goods or services bought;*
- (c) the purchaser might pay the supplier in advance to secure a supply of raw materials in future years, particularly in times when demand exceeds supply; and*
- (d) the purchaser might pay in advance to fix the purchase price of raw materials over a future period.”*

The Interpretations Committee agenda decision on 14 July 2015: *IAS 2 Inventories and IAS 38 Intangible Assets—should interest be accreted on prepayments in long-term supply contracts?* states: *“The Interpretations Committee received a request seeking clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make significant prepayments to the supplier. The question considered is whether the purchaser should accrete interest on long-term prepayments by recognising interest income, resulting in an increase in the cost of inventories and, ultimately, the cost of sales.*

The Interpretations Committee discussed this issue and noted that paragraph 18 of IAS 2 Inventories requires that when an entity purchases inventories on deferred settlement terms, and the arrangement contains a financing element, the difference between the purchase price on normal credit terms and the amount paid is recognised separately as interest expense over the period of the financing. It also noted that IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets include similar requirements when payment for an asset is deferred. IFRS 15 Revenue from Contracts with Customers, issued in May 2014, additionally includes the requirement that the financing component of a transaction should be recognised separately in circumstances of both prepayment and deferral of payment.

The Interpretations Committee conducted outreach on this issue, but the outreach returned very limited results. In the absence of evidence about this issue, and of a broader range of information about the facts and circumstances relating to these transactions, the Interpretations Committee thought it would be difficult for it to address this topic efficiently and effectively. The Interpretations Committee observed, however, that when a financing component is identified in a long-term supply contract of raw materials, that financing

*component should be accounted for separately. The Interpretations Committee acknowledged that **judgement is required to identify when individual arrangements contain a financing component** [emphasis added].*

The Interpretations Committee concluded that this issue did not meet its agenda criteria and therefore it [decided] to remove this issue from its agenda.”

Appendix B: Basis for Conclusions

- .BC1 The Accounting Practices Committee (APC) considered the inclusion of the examples contained in the exposure draft (ED 374 – Circular x/2017 – *Determining Revenue/Purchases as a Result of Financing Components*) and the feedback received from the comment letter process. Some respondents requested that the scope or guidance contained in the examples be expanded. The APC notes that the current guidance in the Circular contains sufficient detail for entities to apply judgement to the identification and accounting of financing components. The APC also notes that to expand the examples would breach the limited scope of the Circular and it would not be possible to cover all possible scenarios. The APC decided therefore to move the examples from the Circular and insert them into the frequently asked questions (FAQs) issued by SAICA.

- .BC2 Feedback was also received from respondents on the use of IFRS 15 in providing guidance on current standards prior to the effective date of IFRS 15. In response to these comments, the APC notes that IFRS 15 contains specific guidance on financing elements, which should only be used by entities that have adopted IFRS 15. The APC has therefore amended the scope of the Circular to exclude revenue transactions for entities that have adopted IFRS 15. It should be emphasised that IFRS 15 has not been early adopted. The references to IFRS 15 are included here only because some of the Interpretations Committee discussions on the identification of a financing element referred to IFRS 15.

- .BC3 The APC notes that in using a two-step approach to the identification and accounting of a financing element (qualitative followed by a quantitative assessment), such an approach is consistent with the Interpretations Committee discussions on financing elements. Specifically in paragraph 31 of agenda paper 6 of the November 2014 Interpretations Committee meeting and the final agenda decision issued by the Interpretations Committee in July 2015 on their deliberation of long-term supply contracts, the Interpretations Committee concluded that the time value of money is a concept that is broader than a financing element and that judgement is needed in identifying whether a financing element exists in a transaction. This therefore allows for a qualitative assessment in determining whether a transaction contains a financing element. The APC further concluded that if an entity determines that no financing element exists, an entity need not disclose this fact unless the judgement or estimation involved in determining that no financing element exists is considered to meet the disclosure requirements in IAS 1 paragraphs 122 or 125.

- .BC4 In developing the possible indicators of a financing element contained in paragraph 07 of this Circular, the APC considered existing indicators used in IFRS or in discussions by the Interpretations Committee and IASB. More specifically, the guidance for each indicator is considered below.

Indicator	Guidance
a) Differential pricing between the cash payment price and the price paid on deferred settlement terms.	Existing guidance in IAS 2 paragraph 18, IAS 16 paragraph 23 and IAS 38 paragraph 32 on deferred settlement terms and differential between the cash selling price and the credit selling price.

b) Settlement terms deferred beyond industry norms and practice.	Existing guidance in IAS 2 paragraph 18, IAS 16 paragraph 23 and IAS 38 paragraph 32 on deferred settlement terms and differential between the cash selling price and the credit selling price.
c) The date from which an entity is entitled to levy interest on overdue payments.	Paragraph 31 of agenda paper 6 of the Interpretations Committee November 2014 meeting, where it is stated that a financing element is a subset of or narrower than the time value of money. The APC considers this indicator to be one possible factor that would indicate that a financing element exists rather than only a time value of money element.
d) The transaction initiation process and the extent of credit assessments performed are designed to provide financing.	Paragraph 31 of agenda paper 6 of the Interpretations Committee November 2014 meeting, where it is stated that a financing element is a subset of or narrower than the time value of money. The APC considers this indicator to be one possible factor that would indicate that a financing element exists rather than only a time value of money element.
e) Any collateral required for the transaction or payment.	Paragraph 31 of agenda paper 6 of the Interpretations Committee November 2014 meeting, where it is stated that a financing element is a subset of or narrower than the time value of money. The APC considers this indicator to be one possible factor that would indicate that a financing element exists rather than only a time value of money element.
f) A substantial amount of the transaction price is variable and the entity has decided to delay payment until a substantial amount of the variability is removed.	IFRS 15 paragraph 62(b) and is used by analogy in the identification of a financing element (refer to BC3 above).
g) The business purpose for the different timing between delivery of the goods/ services and the payment.	Paragraphs 32, 39 and 40 of agenda paper 6 of the November 2014 Interpretations Committee meeting, in which the Interpretations Committee acknowledged that there may be valid reasons other than the provision of a financing benefit for a delay between payment and revenue recognition.
h) Volume of credit sales in relation to cash sales.	Paragraph 31 of agenda paper 6 of the Interpretations Committee, November 2014 meeting, where it is stated that a financing element is a subset of or narrower than the time value of money. The APC considers this indicator to be one possible factor that would indicate that a financing element exists rather than only a time value of money element.

- .BC5 Some respondents requested additional guidance on the application of materiality. The APC notes that to provide such guidance would be beyond the scope of the Circular. Further the APC notes that IAS 1 contains sufficient guidance in the application of materiality.

- .BC6 Some respondents requested additional guidance on the transitional provisions in the Circular. The APC notes that the Circular does not introduce any new guidance or requirements, but rather seeks to reduce diversity in the application of the existing guidance, and therefore no further transitional guidance was required.

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