STAFF PAPER

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Project	Revenue from Contracts with Customers		
Paper topic	Effective date of IFRS 15		
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Introduction and purpose of the paper

1. In February and March 2015, the IASB discussed issues emerging from discussions at Transition Resource Group (TRG) meetings on IFRS 15 *Revenue from Contracts with Customers*. In the light of those discussions as well as the Financial Accounting Standards Board (FASB)'s tentative decision regarding the effective date of the new revenue Standard, this paper asks the IASB whether it wishes to defer the effective date of IFRS 15.

Summary of staff recommendations

2. We recommend that the IASB defer the effective date of IFRS 15 by one year to 1 January 2018. An entity would continue to be permitted to apply the requirements to annual periods beginning before that date.

3. If the IASB agrees to propose a deferral of the effective date, we recommend publishing the proposed deferral for comment as a separate narrow-scope Exposure Draft. That Exposure Draft would include a comment period of no less than 30 days that allows for the finalisation of the IASB's discussions in this respect at the July 2015 board meeting.

Background

The effective date and transition requirements in IFRS 15

4. IFRS 15 specifies an effective date of 1 January 2017, with early application permitted.

5. IFRS 15 also requires an entity to apply the requirements in IFRS 15 on either:

   (a) a fully retrospective basis, with some practical expedients; or

   (b) a modified retrospective basis. The modified retrospective approach does not require an entity to restate comparative periods. Instead, an entity applying this approach would recognise the cumulative effect of initially applying IFRS 15 at the date of initial application (eg 1 January 2017 for an entity with a 31 December year-end). The entity would also provide disclosures in the first year of application (eg the year ended 31 December 2017), which explain the effects of IFRS 15 on each relevant line item in the financial statements.

6. When determining the effective date of IFRS 15, the IASB acknowledged (on the basis of feedback from constituents) that the requirements in the new revenue Standard would require significant system and process changes for some entities in particular industry sectors. Constituents had also indicated that, ideally, any systems changes would be in place before the earliest comparative period begins—for some entities, this is two years before the effective date.

What has happened since IFRS 15 was published in May 2014

The TRG and amendments proposed to IFRS 15

7. The IASB and the FASB decided to form the TRG to support implementation of the new revenue Standard.

8. The TRG has met four times—in July 2014, October 2014, January 2015 and March 2015. The TRG will meet again in July 2015. To date, the discussions at TRG meetings have resolved a significant majority of the issues raised by stakeholders. Nonetheless, the Boards discussed a number of issues emerging from TRG

discussions in February and March 2015. This has resulted in the IASB and the FASB tentatively deciding to amend the new revenue Standard in a number of respects to clarify the Boards' intentions when developing the requirements in the Standard.

9. The IASB has tentatively decided to propose:

   (a) limited amendments to IFRS 15 regarding licences; and

   (b) adding an illustrative example (or examples) regarding identifying performance obligations.

   The IASB and the FASB will discuss some issues highlighted by TRG discussions on the principal versus agent guidance at the May 2015 joint board meeting.

10. The IASB plans to approve any amendments proposed to IFRS 15 at its June 2015 meeting, which would then be included in a single Exposure Draft.

11. Although the IASB has yet to discuss the effective date of its proposed clarifications, we note that this effective date could be set at a date later than the effective date in IFRS 15 (ie later than 1 January 2017), but with early application permitted. However, we also think that it is likely that at least some entities would wish to apply the amendments at the same time as they first apply IFRS 15, especially given the 'clarifying' nature of the proposed amendments.

The FASB's tentative decisions

12. Earlier in April 2015, the FASB tentatively decided to defer the effective date of the new revenue Standard for public entities to 15 December 2017—an entity would, however, be permitted to apply the Standard for annual periods beginning after 15 December 2016. The original effective date of the new revenue Standard for entities applying US GAAP is 15 December 2016, which aligns with the existing effective date of IFRS 15 of 1 January 2017.

13. In reaching this decision, the FASB considered the following:

    (a) Many US stakeholders (including a substantial majority of entities consulted about the effective date) had provided feedback to suggest that additional implementation time would be beneficial. This is because of the need to potentially develop accounting policies, update IT systems, change processes and internal controls, train employees and educate the investor community. The additional time would reduce the need to hire external consultants to implement the new Standard.

(b) The FASB received feedback to suggest that IT solutions from software providers are not yet available, and are at risk of continuing to be modified throughout 2015 because of the proposed amendments to the new Standard.

(c) A majority of entities consulted indicated that they would prefer to apply the new requirements on a fully retrospective basis.

(d) The publication of the new revenue Standard in May 2014 was later than had been expected at the time that the Boards set the effective date of 15 December 2016 (1 January 2017 for IFRS 15).

(e) Some stakeholders noted, however, that requiring a deferral for all entities might increase the costs for some entities whose implementation plans are progressing well and that expect to be ready to implement the new Standard for periods beginning after 15 December 2016.

What have we heard from IFRS stakeholders

Comment letters

14. The IASB has received a number of comment letters from IFRS stakeholders regarding the effective date, mainly from telecommunications companies.

15. These telecommunications companies have requested a one-year deferral of the effective date of IFRS 15 to 1 January 2018 for a number of reasons:

(a) IFRS 15 will have a major effect on the financial statements of telecommunications operators, and requires the collection of data at contract inception.

(b) New IT solutions are being developed, which need to be designed, tested and implemented. The timing of the release of IT software solutions means that some entities are unable to be in a position to ‘go live’ in implementing those solutions until 2016. This is a year later than, ideally, they would wish to do so with an effective date of 1 January 2017.

(c) An additional year would reduce the risk of errors, allow for more consistent application within and across industry sectors, and permit changes to internal controls, processes and systems to be implemented in a more cost effective manner.

Feedback from ASAF members and other standard setters

16. The IASB discussed the effective date with the Accounting Standards Advisory Forum (ASAF) at its meeting in March 2015. The discussion highlighted the following:

(a) ASAF members were generally not aware of significant concerns about the effective date of IFRS 15 in their respective jurisdictions, except for concerns raised by the telecommunications companies. One ASAF member noted however that, as entities commence and progress further with their implementation activities, an increasing number had mentioned that the quality of implementation might improve if the effective date were deferred by a year. In saying that, that ASAF member also noted that a major telecommunications company had specifically requested that the effective date of IFRS 15 should not be deferred. This is because it expects to be ready to apply IFRS 15 in 2017 and wishes to do so.

(b) A number noted the importance of maintaining convergence with the FASB regarding the effective date—in particular, this would be beneficial for investors, but also for foreign private issuers listed in the US that may not wish to apply the Standard before their US counterparts are required to do so.

(c) One ASAF member expressed the view that a short deferral of the effective date might be beneficial because of the combination of (i) the proposed amendments to IFRS 15 at this stage in the implementation process and (ii) the delay that occurred in publishing the new revenue Standard (ie when the IASB decided upon an effective date of 2017, it was anticipated that the new Standard would be published in 2013 whereas publication had occurred only in May 2014).

(d) A number also noted that there is some uncertainty in the marketplace at the moment because of the discussions at TRG meetings, and the possibility of further amendments being made to the Standard.

17. The IASB also received a letter from the Hong Kong Institute of Certified Public Accountants (HKICPA) expressing its support for a deferral of the effective date of IFRS 15. Although significant concerns have not yet been raised in Hong Kong, the HKICPA noted that a deferral would allow for a more orderly transition in the light of the TRG discussions and proposed amendments to IFRS 15. The HKICPA also noted the importance of retaining a converged effective date from a global comparability perspective.

Alternatives for the IASB to consider

Defer the effective date by one year to 1 January 2018

18. The IASB could consider deferring the effective date by one year to 1 January 2018. Reasons to do so include the following:

(a) IFRS 15 is a converged standard with US GAAP. We think that it is less confusing for the market if both IFRS and US GAAP preparers apply the new Standard at the same time. Although both the requirements in IFRS 15 and the FASB's tentative decision to permit early application will result in some differences in the timing of application of the new Standard, deferring the effective date by one year (consistently with the FASB's tentative decision) would be expected to significantly reduce the frequency of those differences. There is also likely to be resistance among some IFRS entities if they are required to implement the new Standard before US entities are required to do so (particularly among foreign private issuers listed in the US). In addition, retaining the existing effective date is likely to, in effect, require those groups with dual reporting requirements to adopt the new Standard as from 1 January 2017.

(b) The fact that the IASB is proposing some limited amendments to IFRS 15 makes the current situation regarding IFRS 15 somewhat unusual. Although the amendments proposed are limited (and are intended to clarify, rather than change, the requirements in IFRS 15), any uncertainty linked to the proposed amendments cannot be completely removed until the IASB decides to either finalise, or not proceed with, them. On the basis of information available to date, we would anticipate finalising any amendments to IFRS 15 in late 2015 or early 2016. This, combined with the fact that IFRS 15 was issued later than was envisaged when the IASB set the effective date, might indicate that deferring the effective date by one year would be beneficial.

(c) As noted earlier in the paper, regardless of the effective date of any amendments to IFRS 15, we would expect many entities to wish to apply the amendments at the same time as they first apply IFRS 15. In particular, if the amendments were to cause any change to an entity's accounting for revenue contracts, we think that such an entity is likely to want to avoid applying IFRS 15 and then, within a year or two, changing that accounting. Although the IASB could permit early application of any amendments, entities may not have sufficient time to implement the amended Standard by 1 January 2017.

Do not change the effective date—retain an effective date of 1 January 2017

19. Nonetheless, there are a number of reasons to retain the existing effective date of 1 January 2017:

(a) Despite issuing IFRS 15 later than expected (in May 2014 rather than in 2013), the IASB allowed a considerable amount of time between issuing the Standard and the effective date of 1 January 2017 (ie 31 months). The IASB has also permitted entities to apply a modified retrospective approach, which does *not* require entities to restate the amounts reported in comparative periods.

(b) For entities already implementing IFRS 15 and that expect to be ready to apply the requirements by 1 January 2017, retaining the 2017 effective date is likely to be the best option. This is because entities (including industry peers) are more likely to implement the Standard at the same time in that scenario—there are likely to be benefits from discussing implementation issues within and across industry sectors. Consequently, deferring the effective date may appear to penalise those that expect to be ready for 2017, and reward those that delay. It may also encourage some entities, that have not already started to implement the Standard, to delay that implementation even further.

(c) Although proposing amendments to IFRS 15 at this stage creates some uncertainty, the amendments proposed to date are limited and clarifying in nature. Those amendments are expected to facilitate implementation, rather than hinder it.

(d) IFRS stakeholders have not raised significant concerns to date about the effective date, with the exception of the telecommunications industry. Because the FASB has permitted early application for periods beginning on or after 1 January 2017, even if the IASB retains the existing effective date, entities with dual reporting requirements would still be able to apply the new revenue Standard throughout the group at the same time.

(e) Changing the effective date at this stage in the implementation process may set a bad precedent. It creates uncertainty for stakeholders if the IASB sets, and then changes, the effective date. We think that the IASB should consider doing so only in what might be considered to be exceptional circumstances.

Staff recommendation

20. Having considered the factors set out above, on balance, we recommend deferring the effective date of IFRS 15 by one year to 1 January 2018 for the following reasons:

(a) As noted above, we think that the IASB should consider deferring the effective date of a new Standard at this stage of the implementation process only in exceptional circumstances. Nonetheless, we think that the combination of the following factors makes the current situation on IFRS 15 somewhat exceptional:

(i) The Standard is a converged Standard and the FASB has tentatively decided to defer the effective date by one year. There are benefits to retaining a converged effective date, in particular, for investors and entities listed in the US using IFRS.

(ii) The proposed amendments to IFRS 15 (which although limited and intended to provide clarity) has created some uncertainty. Those amendments may also affect some entities that would wish to apply the amendments at the same time as they first apply IFRS 15. In that scenario, we think that a deferral of the effective date by one year would provide sufficient time for those entities to implement the amended Standard.

(iii) The publication of IFRS 15 later than was anticipated (in May 2014 rather than in 2013) absorbed some of the implementation time that entities were expected to have.

(b) In addition, with additional time, entities, auditors and others are more likely to be able to resolve implementation issues alone (or within industry groups), rather than submitting questions to the TRG or Interpretations Committee.

21. Nonetheless, we think it is important not to penalise those that have already progressed well in preparing for an effective date of 1 January 2017. Accordingly, we think it is important to continue to permit early application of IFRS 15.

Question 1: Effective date of IFRS 15
Does the IASB agree with the staff recommendation to defer the effective date of IFRS 15 by one year to 1 January 2018? An entity would continue to be permitted to apply the Standard early.

Comment period of Exposure Draft

21. If the IASB decides to propose deferring the effective date of IFRS 15, we think that it is important for stakeholders to have clarity about any possible change to the effective date as soon as is possible. The effective date is the ultimate target date for entities

and other stakeholders in terms of being ready to apply the new Standard. Accordingly, any change to that date is likely to directly affect an entity's implementation plans.

22. For this reason, we recommend that the proposed change to the effective date (if agreed to by the IASB) be issued for comment as a separate Exposure Draft. Because the scope of such an Exposure Draft would be very narrow, we think that the comment period could be relatively short, and much shorter than would be required if the proposed change to the effective date were included in an Exposure Draft together with other proposed amendments to IFRS 15.

23. The *Due Process Handbook* issued in February 2013 states the following about the comment period when developing an Exposure Draft:

> 6.7 The IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. If the matter is narrow in scope and urgent the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC [Due Process Oversight Committee]
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> 6.8 In exceptional circumstances, and only after formally requesting and receiving prior approval from 75 per cent of the Trustees, the IASB may reduce the period for public comment on an Exposure Draft to below 30 days but may not dispense with a comment period.

24. We think that an Exposure Draft proposing to defer the effective date of IFRS 15 by one year to 1 January 2018 would be narrow in scope. The Exposure Draft would not propose any mandatory change—ie an entity would continue to be able to apply IFRS 15 for annual periods beginning on or after 1 January 2017—nor would it propose any change to the requirements of IFRS 15, other than the effective date. In addition, we anticipate that only one question would need to be asked—whether stakeholders agree or disagree with the proposed change to the effective date—and that the document would be short (around 6 pages, excluding the cover and copyright page).

25. We also think that, if the IASB decides to defer the effective date, the Exposure Draft is urgent. As mentioned above, any change to the effective date is likely to directly affect an entity's ongoing implementation plans. For example, a change to the effective date could affect an entity's decisions about how to implement systems changes. We think that there would be significant benefits for entities and other stakeholders if they had clarity about any possible change to the effective date as early as is possible.

26. Consequently, we think that, if the IASB decides to defer the effective date, a comment period of less than 120 days, but no less than 30 days, would be appropriate.

27. In April 2015, we consulted with the DPOC on this matter. The DPOC approved a comment period of no less than 30 days for a narrow-scope Exposure Draft, should the IASB decide to propose a deferral of the effective date of IFRS 15.

28. In order to provide clarity on a timely basis, we recommend setting a comment period of no less than 30 days that would facilitate finalising the IASB's discussions in this respect at the July 2015 board meeting. Consequently, IFRS stakeholders would have clarity about the effective date of IFRS 15 in July 2015. We anticipate that this would result in setting a comment period of around 40-45 days. We think that such a comment period would balance the need to allow sufficient time for stakeholders to respond to the narrow-scope amendment and, yet, also provide clarity about the effective date on a timely basis.

Question 2: Comment period of exposure draft on the effective date

If the IASB decides to defer the effective date of IFRS 15, does the IASB agree to issue a separate narrow-scope Exposure Draft with a comment period of no less than 30 days that allows for the finalisation of the IASB's discussions in this respect at the July 2015 board meeting?