

STAFF PAPER

June 2015

IASB Meeting

| Project | Revenue from Contracts with Customers | | |
|-------------|---|--|---------------------|
| Paper topic | Clarifications to IFRS 15 —Summary of Due Process | | |
| CONTACT(S) | Andrea Allocco | aallocco@ifrs.org | +44 (0)20 7332 2731 |
| | Henry Rees | hrees@ifrs.org | +44 (0)20 7246 6466 |

This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective

1. The objective of this paper is to set out the due process steps that the IASB has taken before the publication of the Exposure Draft *Clarifications to IFRS 15 Revenue from Contracts with Customers* ('*Clarifications to IFRS 15*'), and to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date. The paper also asks the IASB to decide upon a comment period for the Exposure Draft *Clarifications to IFRS 15* and the approach to establishing transition requirements.
2. This paper:
 - (a) discusses the effective date of *Clarifications to IFRS 15*;
 - (b) proposes that no specific transition requirements should be included in *Clarifications to IFRS 15*;
 - (c) proposes a comment period of 90 days for the Exposure Draft *Clarifications to IFRS 15*;
 - (d) outlines the due process steps undertaken in relation to the Exposure Draft *Clarifications to IFRS 15*; and
 - (e) seeks the IASB's permission to ballot for publication.

Background

3. In May 2014, the IASB and the FASB jointly issued the new revenue Standard—IFRS 15 *Revenue from Contracts with Customers* and Topic 606 *Revenue from Contracts with Customers*. After issuing the new revenue Standard, the IASB and the FASB (collectively, the ‘Boards’) formed the Transition Resource Group (TRG) for Revenue Recognition to support implementation of the Standard. One of the objectives of the TRG is to inform the Boards about any implementation issues, which would help the Boards determine what, if any, action would be needed to address those issues. Since its formation, the TRG has met four times and discussed submissions from stakeholders regarding the implementation of the new revenue Standard.
4. The substantial majority of the issues discussed by the TRG have been resolved without the need for standard-setting activity. However, the TRG discussions on five topics indicated potential differences of views on how to implement the requirements in the new revenue Standard. Consequently, those topics were identified as requiring consideration by the Boards. Those topics are:
 - (a) identifying performance obligations;
 - (b) principal versus agent considerations;
 - (c) licensing;
 - (d) collectability; and
 - (e) measuring non-cash consideration.
5. Additionally, the Boards received requests from some stakeholders for practical expedients in respect of the following:
 - (a) accounting for modifications to a contract that occurred before transition to the new revenue Standard;
 - (b) for entities electing to use the full retrospective approach, accounting for a contract completed under previous revenue Standards before transition to the new revenue Standard; and
 - (c) assessing whether a sales tax (or a similar tax) is collected on behalf of a third party.

6. The Boards discussed the five topics and the practical expedients and have tentatively decided to propose targeted amendments to the new revenue Standard. The IASB tentatively decided to clarify the requirements in IFRS 15 with respect to identifying performance obligations, principal versus agent considerations and licensing by proposing amendments to the application guidance and/or amending and adding illustrative examples. The IASB concluded that it was not necessary to amend IFRS 15 with respect to collectability and measuring non-cash consideration. In respect of the practical expedients, the IASB decided to propose transition relief for modified contracts and completed contracts.
7. The FASB has to date decided to propose more extensive amendments to Topic 606 to clarify the requirements on four of the above five topics. On the remaining topic, principal versus agent considerations, the FASB has yet to make decisions but will be discussing this topic with the IASB at the June 2015 meeting. Accordingly, at that meeting, the IASB will consider whether to revise its tentative decisions reached on this topic at its May 2015 meeting. The FASB also decided to propose transition relief for modified contracts and an accounting policy choice regarding the presentation of sales taxes.
8. Because of the different decisions made, the IASB and the FASB plan to publish separate Exposure Drafts. The IASB decided to include its clarifications with respect to these topics in a single Exposure Draft. The FASB are expected to issue a number of proposed Accounting Standards Updates. The first of these was published in May 2015 and addresses the identification of performance obligations and licensing. The FASB are expected to publish other Accounting Standards Updates relating to the other topics in due course.
9. Despite the differences in the amendments proposed to the new revenue Standard by each of the Boards, the IASB expects the Boards' respective revenue recognition requirements to remain substantively converged if both Boards decide to finalise their respective proposed amendments to the Standard.

Objective of the proposed amendments

10. The objective of the proposed amendments included in the Exposure Draft is to clarify the IASB's intentions when developing the requirements in IFRS 15 in

response to stakeholder feedback. The IASB does not think that the proposed clarifications change the underlying principles of accounting for revenue from contracts with customer in accordance with IFRS 15.

11. In developing the proposals, the IASB considered carefully the need to balance being responsive to issues raised to help entities implement IFRS 15 but, at the same time, not creating a level of uncertainty about the Standard to the extent that its actions might be disruptive to the implementation process. The IASB noted that, when new Standards are issued, there are always initial questions that arise. Those questions are generally resolved as entities, auditors and others work through them over time, and gain a better understanding of the new requirements. With this in mind, the IASB considered carefully whether, and how best, to clarify particular requirements in IFRS 15 at this time.

Effective date

12. The IASB often does not propose an effective date when publishing an Exposure Draft. However, given the unusual circumstances regarding this Exposure Draft, the staff think that it would be useful to give some indication in the Exposure Draft of the expected effective date of *Clarifications to IFRS 15*.
13. IFRS 15 has an effective date of 1 January 2017. Entities are also permitted to apply IFRS 15 before the effective date. In May 2015, the IASB issued an Exposure Draft *Effective Date of IFRS 15*, which proposes to defer the effective date of IFRS 15 by one year to 1 January 2018. The IASB plans to finalise its decisions regarding the effective date of IFRS 15 in July 2015, which is expected to be around the time of the publication of the Exposure Draft *Clarifications to IFRS 15*. The FASB has also decided to propose to defer the effective date of Topic 606 for public entities by one year to 15 December 2017, with earlier application permitted for annual reporting periods beginning after the original effective date of 15 December 2016.
14. In proposing to defer the effective date of IFRS 15, the IASB acknowledged that, although intended to provide clarity, the proposed amendments to IFRS 15 may affect some entities that would wish to apply the amendments at the same time as

they first apply IFRS 15. For those entities, deferral of the effective date by one year would provide additional time to implement any amendments to IFRS 15.

15. Assuming a comment letter period of 90 days (see paragraphs 21-24 of this paper), the staff's expectation is that *Clarifications to IFRS 15* could be finalised in late 2015 or early 2016. This suggests that the IASB should be able to set an effective date that aligns with the proposed deferred effective date of 1 January 2018. If the IASB does not confirm the proposed deferred effective date, the staff think that it is unlikely that the IASB could set an effective date that would align with the existing effective date of 1 January 2017.
16. The staff are of the view that preparers should be permitted to apply *Clarifications to IFRS 15* earlier than their effective date. Permission to apply those amendments earlier would allow an entity the choice to either:
 - (a) apply *Clarifications to IFRS 15* on the same date as it first applies IFRS 15; or
 - (b) first apply IFRS 15 and then apply *Clarifications to IFRS 15* at a later date.
17. We expect that, in general, there would be little, if any, change from applying *Clarifications to IFRS 15* after initially adopting IFRS 15. This is because the objective of the amendments is to clarify the IASB's intentions when developing the requirements in IFRS 15, rather than changing the underlying principles of IFRS 15. The practical expedients proposed on transition (which are amendments, rather than clarifications) are not mandatory.

Transition

18. IFRS 15 permits entities to apply its requirements either (i) retrospectively to each reporting period presented (the full retrospective approach) or (ii) retrospectively with the cumulative effect of initially applying the guidance recognised at the date of initial application (the modified retrospective approach).
19. The staff recommend that *Clarifications to IFRS 15* does not include specific transition requirements—as a consequence, an entity would apply the requirements retrospectively. Retrospective application would require an entity to

apply *Clarifications to IFRS 15* from the date of initial application as if those amendments had always been included in IFRS 15. The expected outcome of applying the amendments retrospectively is summarised as follows:

- (a) For entities that adopt both IFRS 15 and *Clarifications to IFRS 15* at the same time, any effect of applying the amendments would be incorporated into the application of the IFRS 15 transition requirements.
- (b) For entities that adopt *Clarifications to IFRS 15* on a date after the date of initial application of IFRS 15, the cumulative effect adjustment recognised upon initial application of IFRS 15 would be restated for the effects, if any, of applying the amendments.

In both cases, the restatement of the cumulative effect adjustment and the effect on prior periods presented would depend on whether the entity had elected the full retrospective approach or the modified retrospective approach upon adoption of IFRS 15.

20. When an entity elects to use the modified retrospective approach upon adoption of IFRS 15, retrospective application of *Clarifications to IFRS 15* would not require an entity to restate financial information for periods before the date of initial application of IFRS 15. For example, consider an entity that initially applies IFRS 15 on 1 January 2017 and *Clarifications to IFRS 15* on 1 January 2018. Retrospective application would not require the restatement of financial information before 1 January 2017. Any effect of applying the amendments would be included in a restated cumulative effect adjustment as of 1 January 2017.

Question 1: Transition requirements

Does the IASB agree that no specific transition requirements should be included regarding the proposed amendments to IFRS 15 in the Exposure Draft *Clarifications to IFRS 15*?

Comment period of Exposure Draft

21. 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]
 - 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.
22. The staff think that the Exposure Draft proposing to clarify the requirements of IFRS 15 is narrow in scope. The IASB applied a high hurdle when considering whether to propose amendments to the Standard or Application Guidance. On this basis, the IASB has proposed amendments to the Standard or Application Guidance only when it considers those amendments to be essential to clarifying the Boards' intentions when developing the requirements in IFRS 15. More extensive changes have been proposed to the Illustrative Examples accompanying IFRS 15 because the IASB concluded that clarifications can often be made more effectively in the examples, rather than by amending the authoritative guidance.
23. The staff also think that the Exposure Draft is urgent. Many entities are already in the process of implementing IFRS 15 and some entities will wish to apply the amendments at the same time as they first apply IFRS 15. We think that there would be significant benefits for entities and other stakeholders if they had clarity about any possible amendments to IFRS 15 as early as is possible.
24. The staff recommend setting a comment period of 90 days, subject to consultation and approval from the DPOC. A comment period of 90 days would facilitate finalising the IASB's discussions towards the end of 2015. Such a comment period would balance the need to allow sufficient time for stakeholders to respond

to the narrow-scope amendments and, yet, also provide clarity about the proposed amendments on a timely basis.

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

Does the IASB agree with a comment period of 90 days for the Exposure Draft *Clarifications to IFRS 15*?

Intention to dissent

25. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are also formally asking whether any IASB member intends to dissent from the publication of the Exposure Draft *Clarifications to IFRS 15*.

Proposed timetable for balloting and publication

26. The balloting process will occur in June 2015 with publication of the Exposure Draft expected to follow in July 2015.

Confirmation of due process steps

27. In Appendix A of this paper, we have summarised the due process steps taken in developing the Exposure Draft *Clarifications to IFRS 15*.
28. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in the Appendix. However, because the proposed amendments to IFRS 15 are narrow in scope, the extent of the due process steps performed is more limited than would be performed for an Exposure Draft of a major Amendment or a new Standard.

Question 3: Compliance with due process

a. Is the IASB satisfied that all due process steps required to date that relate to the publication of the Exposure Draft *Clarifications to IFRS 15* have been complied with?

b. Do any of the IASB members intend to dissent from the publication of the Exposure Draft?

c. Do the IASB members agree with the proposed timetable and give permission to ballot for publication?

Appendix A—Confirmation of the Due Process Steps followed in the development of the Exposure Draft *Clarifications to IFRS 15*.

| <i>Step</i> | <i>Required/Optional</i> | <i>Metrics or evidence</i> | <i>Actions</i> |
|---|--------------------------|---|--|
| Board meetings held in public, with papers available for observers. All decisions are made in public session. | Required | Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. | The IASB has discussed this project at its meetings in February 2015, March 2015, April 2015, May 2015 and June 2015. Details of the project are available on the IASB website. Meeting papers have been posted in a timely fashion. |
| Consultation with the Trustees and the Advisory Council. | Required | Discussions with the Advisory Council. | The Trustees and the Advisory Council have been informed about the Exposure Draft as part of the regular reporting to them. |
| Fieldwork is undertaken to analyse proposals. | Optional | The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the DPOC why it does not believe fieldwork is warranted, if that is the preferred path. Extent of field tests taken. | As set out in the ‘Background’ section of this paper, the proposals were developed in response to feedback from the TRG. The TRG includes preparers, auditors and users with knowledge and experience in revenue recognition under US GAAP and/or IFRS, and represent a wide spectrum of industries, geographical locations and public and private entities. Additional field work was not deemed necessary. |
| Outreach meetings with a broad range of stakeholders, with special effort to consult investors. | Optional | Extent of meetings held. Evidence of specific targeted efforts to consult investors. | As set out in the ‘Background’ section of this paper, the proposals were developed in response to feedback from the TRG. The TRG includes a number of investors. |
| Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs. | Required | Publication of the Effects Analysis as part of the Basis for Conclusions. | We assessed the likely effects of the proposed amendments as being limited because they are narrow in scope and the objective is to clarify the guidance in IFRS 15. A description of the potential financial reporting effects of the proposed amendments will be included in the Basis for Conclusions of the Exposure Draft. |
| Finalisation | | | |
| Due process steps reviewed by the IASB. | Required | Summary of all due process steps discussed by the IASB before a Standard is issued. | Presented at the IASB meeting in June 2015. |
| The ED has an appropriate comment period. | Required | The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved. | To be discussed with the IASB at its meeting in June 2015. |
| Drafting | | | |
| Drafting quality assurance steps are adequate. | Required | The Translations team has been included in the review process. | The translations team will be asked to review the pre-ballot draft. |
| Drafting quality assurance steps are adequate. | Required | The XBRL team has been included in the review process. | The XBRL team will be asked to review the pre-ballot draft. |
| Publication | | | |
| ED published. | Required | ED has been posted on the IASB website. | The ED will be posted on the IASB website. |
| Press release to announce publication of ED. | Required | Press release has been published. Media coverage of the release. | A press release will be published announcing the ED. |