Staff paper

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IASB® meeting

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Project	**Post-implementation Review of IFRS 15**
Topic	**Applying IFRS 15 with other IFRS Accounting Standards**
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Purpose and structure

1. This paper provides a summary of the feedback and staff analysis of matters raised by respondents in response to question 9 *Applying IFRS 15 with other IFRS Accounting Standards* of the Request for Information: *Post-implementation Review of IFRS 15 Revenue from Contracts with Customers* (the RFI) in relation to applying IFRS 15 *Revenue from Contracts with Customers* with:

    (a) IFRIC 12 *Service Concession Arrangements*; and

    (b) other IFRS Accounting Standards, except for those covered in Agenda Papers 6A–6D for this meeting.

2. At this meeting, the IASB will be asked to decide whether to take further action on matters relating to applying IFRS 15 with IFRIC 12 and other IFRS Accounting

Standards and, if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).[1]

3. This paper provides:

   (a) summary of staff recommendations; and

   (b) summary of the feedback and staff analysis.

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB:

   (a) classify as low priority the matter related to applying IFRIC 12 requirements on contractual obligations to maintain or restore service concession infrastructure; and

   (b) take no further action on the matters related to applying IFRS 15 with IFRIC 12 and other IFRS Accounting Standards included in Appendix A.

Summary of the feedback and staff analysis

5. A few respondents (mostly standard-setters and accounting firms) provided comments on the application of IFRS 15 with IFRIC 12. A few respondents identified the topic among the major application matters and suggested the IASB conduct a comprehensive review of IFRIC 12 and make amendments to the Interpretation to align it with IFRS 9, IFRS 15 and IFRS 17. One standard-setter suggested the IASB add illustrative examples for all stages of a concession.

6. Based on the feedback the staff have identified accounting for contractual obligations to maintain or restore service concession infrastructure as a main application matter.

[1] See Agenda Paper 6 for the framework.

7. This paper analyses whether to take action in response to this application matter based on whether the feedback provides evidence that:

(a) there are fundamental questions about the clarity and suitability of the requirements;

(b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or

(c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the new requirements consistently).

8. In addition, Appendix A summarises feedback on other matters related to applying IFRS 15 with IFRIC 12 and with other IFRS Accounting Standards raised by one or a few respondents and provides staff responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity or suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

IFRIC 12 requirements on contractual obligations to maintain or restore service concession infrastructure

Summary of IFRIC 12 requirements
Paragraph 13 of IFRIC 12 states that an operator recognises and measures revenue in accordance with IFRS 15 for the services it performs. Paragraph 14 of IFRIC 12 states that an operator accounts for construction or upgrade services in accordance with IFRS 15.

Summary of IFRIC 12 requirements

Paragraph 20 of IFRIC 12 states that an operator accounts for operation services in accordance with IFRS 15.

Paragraph 21 of IFRIC 12 states that contractual obligations an operator might have as a condition of its licence, such as obligations to maintain or restore infrastructure, are recognised and measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, except for any upgrade element.

Feedback

9. Among the few comments made on IFRIC 12 the most common matter raised related to IFRIC 12 requirements on accounting for contractual obligations to maintain or restore infrastructure. Paragraph 21 of IFRIC 12 requires such contractual obligations to be recognised and measured in accordance with IAS 37, that is at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. In the respondents' view, such obligations should be accounted for applying IFRS 15 as a contract liability relating to a separate performance obligation. One accounting firm argued that these obligations should be accounted for as contract liabilities regardless of the accounting model ('financial asset model' or 'intangible asset model') applied by the operator.

10. The respondents argued that:

(a) if an operator has a contractual obligation to maintain or restore infrastructure that continues to be controlled by the grantor to a specified standard, that obligation represents an obligation to perform a service for the grantor.

(b) the nature of an obligation to actively maintain or restore infrastructure is similar to a warranty that provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications (a service-type warranty). Therefore, in the respondents' view, accounting for such an obligation should be similar to accounting for a service-type warranty—that is an entity should identify the promised service as a performance obligation and allocate part of the transaction price to that service.[2]

11. Other matters raised by one or two respondents are included in Appendix A.

Staff analysis

Clarity and suitability of the requirements

12. A few respondents said it is unclear how to apply IFRIC 12 requirements:

    (a) paragraphs 13, 14 and 20 of IFRIC 12 require an entity to apply IFRS 15 requirements in accounting for the services it performs. IFRS 15 sets out a model for revenue recognition from contracts with customers, including the requirements in paragraphs 22–30 of IFRS 15 to identify performance obligations.

    (b) paragraph 21 of IFRIC 12 requires an entity to recognise and measure its contractual obligations to maintain or restore infrastructure in accordance with IAS 37. The location of paragraph 21 within IFRIC 12 implies that it relates to obligations to maintain or restore infrastructure in all types of arrangements. However, accompanying Illustrative Examples show obligation to maintain or restore infrastructure:

        (i) as a distinct performance obligation applying IFRS 15 in Example 1 (a 'financial asset model'); and

        (ii) as a provision applying IAS 37 in Example 2 (an 'intangible asset model').

    The reasons for the different approaches are not explained in IFRIC 12, the accompanying examples or the Basis for Conclusions on the Interpretation.

[2] See paragraphs B31–B32 of IFRS 15.

13. IFRS 15 introduced the concept of a ‘performance obligation’ and provided guidance for identifying performance obligations in a contract. A few respondents noted that although consequential amendments were made to IFRIC 12, no fundamental changes were made when IFRS 15 was issued. These respondents conceptually disagree with the current IFRIC 12 requirements for contractual obligations to maintain or restore infrastructure and suggested that like other services provided by operators they should be accounted for applying IFRS 15 requirements. In their view, that would lead to recognising a separate performance obligation applying IFRS 15 instead of an IAS 37 provision.

14. For the reasons discussed in paragraphs 12–13, the staff think that there is some evidence to suggest that the clarity and suitability of the requirements in IFRIC 12 on applying IAS 37 to account for obligations to maintain or restore service concession infrastructure could be improved by reviewing whether IFRIC 12 requirements should be further aligned with IFRS 15.

Benefits to users of financial statements

15. Users did not provide any feedback on the matter in this PIR.

Costs of applying the requirements

16. We received no feedback on the RFI that accounting for contractual obligations to maintain or restore infrastructure is more costly than expected.

Prioritising the matter

17. Based on the analysis in paragraphs 12–16, the staff think that the findings from the RFI provide evidence that the characteristic for the IASB to take further action related to the clarity and sufficiency of the requirements is present.

18. To prioritise the matter, the staff considered the following prioritisation characteristics:

Prioritisation characteristic	Staff comment
Consequences of the matter	An entity's accounting for contractual obligations to maintain or restore infrastructure would affect the amount of revenue or provision presented in financial statements, which would affect profit margins. In outreach meetings users commented that generally information about revenue and margins can significantly influence their decisions.
Pervasiveness of the matter	The requirements in paragraph 21 of IFRIC 12 apply only to concession arrangements that specify obligations to maintain or restore infrastructure as a condition for a licence, so are likely to affect a limited number of entities. The matter related to contractual obligations to maintain or restore infrastructure was the most commonly raised matter in relation to IFRIC 12, but it was raised by only a few respondents. In our outreach with a large concessions company, its representatives did not mention this issue.
Ability of the IASB or the Committee to address the matter	The IASB could start a narrow-scope project to consider whether to amend the requirements in paragraph 21 of IFRIC 12 to require entities to apply IFRS 15 to account for contractual obligations to maintain or restore service concession infrastructure. However, there were other requests for amendments to IFRIC 12 raised by one or a few respondents (see Appendix A). A few respondents identified the topic among the major application matters and suggested the IASB conduct a comprehensive review of IFRIC 12 and make amendments to the Interpretation to better align it with IFRS 9, IFRS 15 and IFRS 17. Therefore, a narrow-scope project may not be sufficient to satisfy those respondents who asked for a comprehensive review of IFRIC 12 and raised the paragraph 21 matter as only one of their concerns.

Costs versus benefits	Amending the requirements on accounting for contractual obligations to maintain or restore infrastructure would lead to disruption in practice and additional costs for all entities with such obligations. If the IASB decided to conduct a comprehensive review of IFRIC 12 the project would involve substantial effort and cost and could affect all entities applying IFRIC 12. Considering the limited feedback, in the staff's view, the costs of the amendments would be likely to exceed the potential benefits.

19. The framework for prioritising matters states that a matter is classified as low priority if some of the prioritisation characteristics are present to some extent and the remainder of the characteristics are not met or there is insufficient information to conclude whether the characteristic is present.

20. The staff think the analysis of prioritisation characteristics in paragraph 18 leads to categorising the application matter related to obligations to restore or maintain infrastructure as low priority. Low priority matters are explored by the IASB in the next agenda consultation.

21. In seeking feedback on the matter in the next agenda consultation, the IASB may also wish to ask stakeholders whether any potential project on IFRIC 12 should be limited to considering the requirements in paragraph 21 or be broader. The staff note that respondents to the RFI raised multiple matters related to applying IFRS 15 with IFRIC 12 (see Appendix A) and a few respondents asked for a comprehensive review of IFRIC 12 to align it with IFRS 15 and other IFRS Accounting Standards.

Staff recommendation and question for the IASB

22. Based on the analysis in paragraphs 12–21, the staff recommend the IASB classify as low priority the application matter related to obligations to maintain or restore service concession infrastructure.

Question 1 for the IASB
Do IASB members agree with the staff recommendation in paragraph 22 of this paper?

Question 2 for the IASB
As explained in paragraph 8, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	Paragraph 7 of IFRS 15 sets out requirements for accounting for a contract that *may* be partially within the scope of IFRS 15 and partially within the scope of other Standards listed in paragraph 5 of IFRS 15. A few accounting firms asked whether paragraph 7 of IFRS 15 can be applied to other IFRS Accounting Standards not specified in paragraph 5 of IFRS 15 such as IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is unclear.	The staff suggest no action because the feedback does not suggest the matter is widespread.
Interaction with IFRS 8 *Segment Reporting*		
2	A few respondents said although the disclosure objectives in IFRS 15 and IFRS 8 differ, these requirements may be perceived as partially overlapping, and a clarification of the interaction would be helpful.	The staff suggest no action because the feedback does not suggest the matter is widespread. Paragraph BC340 of the Basis for Conclusions on IFRS 15 and Example 41 of IFRS 15 *Disaggregation of revenue—quantitative disclosure* explain or illustrate the relationship between IFRS 15 and IFRS 8. Further, paragraph 115 of IFRS 15 requires an entity to disclose sufficient information to enable users to understand the relationship between the disclosure of disaggregated revenue in IFRS 15 and revenue information disclosed for each reportable segment in IFRS 8.

Interaction with IFRS 17 *Insurance Contracts*		
3	Paragraph 7(a) of IFRS 17 excludes warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer. An accounting firm said that there might be different interpretations about the scope of the exclusion and suggested the IASB clarify the exclusion should be applied broadly.	The staff suggest no action. The matter is related to the requirements in IFRS 17. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
4	Paragraph 8 of IFRS 17 allows an entity a choice of applying IFRS 15 instead of IFRS 17 to fixed-fee service contracts that meet specified conditions. An accounting body questioned whether a contract meets the conditions to qualify for the accounting policy election when the customer has the choice to receive cash instead of receiving services. Another accounting body said this accounting policy choice is complex.	The staff suggest no action. The matter is related to the requirements in IFRS 17. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
5	A standard-setter said it is challenging to identify performance obligations in IFRS 15 when an entity chooses to apply IFRS 15 in accordance with paragraph 8 of IFRS 17.	The staff suggest no action because the feedback does not suggest the matter is widespread. Paragraph 8 of IFRS 17 allows an entity a choice of applying IFRS 15 instead of IFRS 17 and the entity would need to apply judgement in identifying performance obligations if it chooses to apply IFRS 15. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
6	A few accounting bodies questioned whether a transaction that results in	The staff suggest no action because the feedback does not suggest the matter is widespread. The determination would

	negative revenue is an insurance activity in substance.	depend on the facts and circumstances. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
7	A standard-setter said that non-insurance entities face challenges in assessing whether services they provide transfer significant insurance risk and, thus, meet the definition of an insurance contract in IFRS 17.	The staff suggest no action. The matter is related to the definition of an insurance contract in IFRS 17. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
8	A standard-setter said that different measurement bases for variable consideration in IFRS 15 and IFRS 17 are challenging and suggested the IASB consider the issue in the preparation for the PIR of IFRS 17.	The staff suggest no action. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
9	A standard-setter said separating components from an insurance contract is challenging for some contracts, for example, a salvage contract.	The staff suggest no action. The matter is related to the component separation requirements in IFRS 17. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.
10	Paragraph B35 of IFRS 17 states that a good or service other than an insurance contract service is not distinct if the cash flows and risks of the good or service and the insurance components are highly interrelated; <u>*and*</u> the entity provides a significant service in integrating the good or service with the insurance components. An accounting firm said that 'and' in this requirement should be 'or' to be consistent	The staff suggest no action. The matter is related to the component separation requirements in IFRS 17. The information will be passed to the PIR of IFRS 17 team once the IASB decides to start that project.

	with the requirement of identifying performance obligations in IFRS 15.	
Interaction with IFRS 18 *Presentation and Disclosure in Financial Statements*		
11	A standard-setter said the relationship between the term ‘ordinary activities’ in IFRS 15 and the term ‘main business activities’ in IFRS 18 needs to be clarified.	The staff suggest no action. Paragraphs BC89–BC90 of the Basis for Conclusions on IFRS 18 explain how the IASB considered the relationship between the entity’s main business activities and the operating category.
12	An accounting firm said that it would be important to ensure that IFRS 15 and IFRS 18 work in tandem and do not provide contradictory disclosure requirements.	The staff suggest no action in the PIR of IFRS 15. The IASB is planning extensive implementation support activities for IFRS 18.
Interaction with IAS 2 *Inventories*		
13	A standard-setter said it is not clear how an intermediary company accounts for the discount received from the supplier—whether the discount is deducted from inventory or added to revenue.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matter is widespread.
Interaction with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*		
14	A respondent raised concerns that IAS 20 is not aligned with the *Conceptual Framework for Financial Reporting* and IFRS 15.	The staff suggest no action because the feedback does not suggest the matter is widespread and the matter relates to IAS 20.
15	A few respondents said that it is difficult to identify whether the amount given by the government is revenue or government grants.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matter is widespread.

Interaction with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*		
16	A few accounting firms said Example 4 *Refunds policy* of IAS 37 is a transaction within the scope of IFRS 15.	Provisions—Targeted Improvements team is aware of the issue.
17	A standard-setter said it is challenging to determine whether certain transactions are in the scope of IFRS 15 or IAS 37, including product recalls, provisions for warranty extensions; and a payment to a customer following litigation.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matters are widespread.
18	A standard-setter said that the recognition of an onerous contract can result in a mismatch between revenue and expenses.	The staff suggest no action because the feedback does not suggest the matter is widespread.
Interaction with IFRIC 12		
19	An accounting firm and a standard-setter suggested the IASB clarify whether a contract asset arising during the construction or upgrade period can be a financial asset, because paragraph BC62 of the Basis for Conclusions on IFRIC 12 states that an operator's asset arising during development of an infrastructure asset in a concession arrangement is classified as a financial asset when it represents cash or another financial asset due from or at the direction of the grantor. In the respondents' view, this contradicts the requirements of paragraph 14 of IFRIC 12 to account for construction or upgrade services in accordance with IFRS 15, which identifies contract assets as non-financial assets.	The Basis for Conclusions on IFRIC 12 was written to explain the IASB's reasoning at the time IFRIC 12 was developed and was not reviewed when IFRS 15 replaced IAS 18 *Revenue*. The discussion in the Basis for Conclusions undermines the clarity of the requirements of IFRIC 12. The staff suggest no action because the feedback does not suggest that the matter is widespread.

20	Two accounting firms suggested the IASB add guidance to IFRIC 12 on accounting for significant financing component. Specifically: (a) whether an entity is required to assess the existence of significant financing component—the current guidance in IFRIC 12, including the Illustrative Example 2, suggests that a significant financing component does not arise in the intangible asset model; and (b) how to determine the discount rate when a service concession has a significant financing component.	*In response to question (a):* Paragraph BC32 of the Basis for Conclusions on IFRIC 12 clarifies the essence of the 'intangible asset model': the grantor makes a non-cash payment for the construction services, ie it gives the operator an intangible asset (a right to charge users of the public service) in exchange for the operator providing construction services. Paragraph 14 of IFRIC 12 states that the operator accounts for construction or upgrade services in accordance with IFRS 15. Paragraphs 66–67 of IFRS 15 set out requirements for accounting for non-cash consideration (the 'intangible asset model' in IFRIC 12). *In response to question (b):* Paragraph 64 of IFRS 15 sets out requirements for determining the discount rate when a significant financing component exists. Determination of the discount rate would depend on the specific facts and circumstances. *Conclusion:* The staff suggest no action because there is no evidence that the requirements on these matters are insufficient to determine the accounting outcome, moreover the feedback does not suggest that the matter is widespread.

21	Two accounting firms suggested the IASB amend IFRIC 12 to clarify a number of matters: (a) how to allocate consideration between performance obligations in a concession arrangement if the cash flows do not reflect the stand-alone prices of underlying services; (b) how to test for impairment a contract asset recognised during construction period in the intangible assets model; and (c) what is the measurement date for the non-cash consideration received from the grantor in the intangible assets model.	The staff suggest no action because the feedback does not suggest that the matters are widespread.