IFRS Accounting

Staff paper

Agenda reference: 6C

IASB® meeting

Date	**April 2024**
Project	**Post-implementation Review of IFRS 15**
Topic	**Applying IFRS 15 with IFRS 10 and IFRS 11**
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Purpose and structure

1. In March 2023, the IASB tentatively decided against asking stakeholders about matters arising in applying IFRS 15 with IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* in Request for Information: *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers (the RFI). Instead, the IASB tentatively decided to assess demand for resolving matters related to the interaction between IFRS 15 and those Standards in the next agenda consultation.

2. For both IFRS 10 and IFRS 11, this paper:
   (a) provides background to the requirements in the Standards;
   (b) provides a summary of respondents' feedback to the RFI related to the application of IFRS 15 with those Standards;
   (c) provides a reminder of the March 2023 IASB discussion; and
   (d) asks the IASB whether— in light of the feedback to the RFI—you wish to reconsider your March 2023 tentative decision to consider the priority of the matters related to applying IFRS 15 with those Standards in the next agenda consultation rather than as part of this post-implementation review (PIR).

3. If the IASB decides to consider matters arising from applying IFRS 15 and IFRS 10 and/or IFRS 11 in this project, the staff will bring to a future meeting an analysis of the matters based on the IASB's framework for responding to the matters identified in a post-implementation review.

Applying IFRS 15 with IFRS 10

Background

Summary of IFRS 15 and IFRS 10 requirements

Paragraph 5 of IFRS 15 states that IFRS 15 does not apply to 'financial instruments and other contractual rights and obligations within the scope of… IFRS 10…'.

Paragraphs 25 and B98 of IFRS 10 apply when an entity loses control of a subsidiary. Paragraph 25(c) requires an entity to recognise the gain or loss associated with the loss of control of a subsidiary. Paragraph B98 specifies how an entity calculates and recognises that gain or loss:

(a) paragraphs B98(a)–(b) require the recognition or derecognition of the component parts of the gain or loss (for example, the recognition of the consideration received and the derecognition of the subsidiary's assets and liabilities) in the statement of financial position; and

(b) paragraph B98(d) requires the recognition of the resulting gain or loss in profit or loss after having recognised and derecognised the appropriate items in the statement of financial position.

4. FASB ASC Topic 810, Consolidation provides an exception from applying the deconsolidation guidance in that Topic for transactions that are in substance addressed by Topic 606, Revenue from Contracts with Customers:

> 810-10-10-3A The deconsolidation and derecognition guidance in this Section applies to the following:
>
> …

c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:

1. Topic 606 on revenue from contracts with customers…

Summary of feedback

5. Some respondents (mostly regulators, standard-setters and accounting firms) asked the IASB to clarify how to account for transactions in which an entity—as part of its ordinary activities—sells an asset by selling an equity interest in a single-asset entity that is a subsidiary (a so-called 'corporate wrapper'). Around half of those respondents highlighted the matter as a high priority.

6. Most respondents' questions related to the presentation of the sale results—whether they should be presented net (as a gain or loss on the disposal) or gross (as proceeds from the disposal and related expense). A few respondents noted that determining whether to apply IFRS 10 or IFRS 15 to a sale of an asset via a corporate wrapper could also affect:

   (a) the timing of revenue recognition—for example, if the sale arrangement would meet the criterion in paragraph 35(c) for overtime revenue recognition;

   (b) measurement—for example, because IFRS 15 and IFRS 10 requirements on variable consideration differ;

   (c) information to be disclosed about the arrangement; and

   (d) classification of the resulting cash flows in the cash flow statement.

7. A few respondents reported diversity in practice, in particular in the real estate, pharmaceutical and utilities sectors. However:

   (a) an accounting firm said common practice has generally been developed in jurisdictions where such transactions are common; and

(b) a European regulator noted that the findings of its review of a sample of financial statements showed that the accounting treatment applied by entities in the sample reflected predominantly the substance of the transaction, that is disposal of the asset in the ordinary course of business.[1]

8. A few respondents suggested the IASB should reconsider the priority of this matter because:

(a) corporate wrapper transactions are widespread and the effect on financial statements can be material;

(b) uncertainty about the accounting treatment of corporate wrappers has not been resolved by either the IASB or the IFRS Interpretations Committee; and

(c) stakeholders are unsure whether and if so how, the amendments to the definition of a business in IFRS 3 *Business Combinations* affect accounting for a sale of a corporate wrapper.

9. Most respondents suggested that accounting for corporate wrappers should reflect the substance of the transaction, which in their view would mean accounting for them applying IFRS 15. A few respondents noted that such treatment would lead to closer alignment with US GAAP under which the sale of a corporate wrapper to a customer would generally be in the scope of Topic 606. A few respondents acknowledged that a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards—for example, IFRS 16 *Leases*, IAS 40 *Investment Property* and IAS 12 *Income Taxes*. A respondent also suggested the IASB consider accounting by the acquirer—that is whether the acquirer should account for the acquisition of shares or the acquisition of an asset.

[1] The review examined financial statements of a sample of entities whose ordinary activities involve the construction of large single assets and their sale through corporate wrappers. See ESMA's *Report on the application of IFRS 10, IFRS 11 and IFRS 12*.

IASB's March 2023 discussion

10. In March 2023, the IASB noted that it considered the accounting for corporate wrapper transactions:

    (a) in 2019 and 2020, while discussing a question submitted to the IFRS Interpretations Committee about a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a single-asset entity that is a subsidiary. The IASB considered whether to add to the work plan a narrow-scope project relating to such transactions, but decided against doing so.

    (b) during the post-implementation review of IFRS 10, IFRS 11 and IFRS 12 *Disclosure of Interests in Other Entities*. The IASB determined that the corporate wrapper matter was of low priority and would be explored further if it were identified as a priority in the next agenda consultation.

    (c) in the Third Agenda Consultation. Only a few respondents suggested developing requirements on the sale of assets via corporate wrappers, so the IASB concluded that the matter did not meet the criteria for adding a project to the work plan.

11. In discussing the initial feedback on this matter in the first phase of the PIR of IFRS 15, the IASB noted that accounting for sales of assets via corporate wrappers is a cross-cutting issue. Developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards and would require significant resources. Stakeholders to the Third Agenda Consultation identified other priorities for the IASB for 2022-2026 period.

12. Therefore, the IASB decided against including a question about accounting for the sale of assets via corporate wrappers in the RFI. Instead, the IASB decided to assess the demand for resolving the matter in the next agenda consultation. Given that the matter was among the most commonly raised matters in the first phase of this post-

implementation review, the IASB directed the staff to include an explanation of this decision in the RFI.

Question for the IASB

13. As mentioned in paragraphs 5 and 8, some respondents used the RFI to urge the IASB to clarify the matter and reconsider its priority arguing that the diversity in practice remains, the matter is widespread and its consequences on financial statements can be material.

14. If the IASB decided to reconsider its previous decision to consider this matter in the next agenda consultation, the staff would bring to a future meeting analysis of the matter based on the IASB's framework for responding to the matters identified in a PIR. In that paper, the staff could outline the options for resolving the matter, for example:

    (a) confirming that corporate wrapper transactions remain in the scope of IFRS 10;

    (b) considering a targeted narrow-scope amendment that would include within the scope of IFRS 15 specific 'revenue-like' corporate wrapper transactions; and

    (c) considering a comprehensive project on corporate wrapper transactions.

Question 1 for the IASB
In light of the feedback on the RFI does the IASB wish to reconsider its previous decision to consider the priority of the corporate wrapper matter in the next agenda consultation rather than as part of this PIR?

Applying IFRS 15 with IFRS 11

Background

Summary of IFRS 15 and IFRS 11 requirements

Paragraph 5 of IFRS 15 states that IFRS 15 does not apply to:

> …(c) financial instruments and other contractual rights and obligations within the scope of… IFRS 11…; and
>
> (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

Paragraph 6 of IFRS 15 states that this Standard applies to a contract only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities.

IFRS 11 applies to all entities that are a party to a joint arrangement.

Paragraph 4 of IFRS 11 defines a joint arrangement as an arrangement in which two or more parties have joint control. Paragraph 5 sets out the characteristics of a joint arrangement, namely:

(a) the parties are bound by a contractual arrangement; and

(b) the contractual arrangement gives two or more of those parties joint control of the arrangement.

Summary of IFRS 15 and IFRS 11 requirements

Paragraphs 7–13 define joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control, and provide guidance on assessing whether the contractual arrangement gives parties control.

15. In November 2018, the FASB issued Accounting Standards Update ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606. The Update:

    (a) clarifies that some transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account; and

    (b) requires that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognised under Topic 606 is precluded if the collaborative arrangement participant is not a customer.

Summary of feedback

16. A few respondents (mostly standard-setters and accounting firms) reported challenges related to the interaction between IFRS 15 and IFRS 11, including:

    (a) how to determine whether a collaborative arrangement is in the scope of IFRS 15, IFRS 11 and/or another IFRS Accounting Standard;

    (b) how to account for arrangements that contain both a supplier-customer and joint control components; and

    (c) how to account for arrangements when no joint control is established and when neither party is seen as a customer—that is, for arrangements outside the scope of IFRS 15 and IFRS 11.

17. A few respondents asked how to apply the requirements in IFRS 15 to specific collaborative arrangements, for example, to the measurement of assets arising from recognising a joint operator's revenue using the sales method in the oil and gas industry.

18. The respondents asked the IASB to research and provide more guidance (for example, education materials, illustrative examples or flowcharts) on these questions. A standard-setter suggested the IASB clarify which collaborative arrangements are outside the scope of IFRS 15 based on paragraph 5(d) of the Standard.

19. Some of those commenting on the topic said that the challenges related to accounting for collaborative arrangements are common, in particular in the pharmaceutical, biotechnology, oil and gas, healthcare, media, telecommunications and real estate industries. An accounting firm suggested collaborative arrangements are becoming more common—for example, to enter new markets—and that there is diversity in understanding how to analyse such transactions. In addition, a few respondents noted that the FASB provided guidance on collaborative arrangements in Topic 808, Collaborative Arrangements.

IASB's March 2023 discussion

20. In March 2023, the IASB noted that a question about accounting for collaborative arrangements that are outside the scope of IFRS 11 came up in the PIR of IFRS 11. The June 2022 Feedback Statement on the PIR of IFRS 10, IFRS 11 and IFRS 12 states that:

    (a) the IASB noted that collaborative arrangements are only common in some industries.

    (b) if identified as a priority in the agenda consultation following the PIR of IFRS 10, IFRS 11 and IFRS 12, the IASB could research whether there is a group of collaborative arrangements outside the scope of IFRS 11, with common features. If there is a homogenous group of collaborative arrangements, the IASB could assess whether IFRS Accounting Standards provide guidance for those arrangements and if standard-setting is needed.

21. The PIR of IFRS 10, IFRS 11 and IFRS 12 was running concurrently with the Third Agenda Consultation, so the matter could not be included in the Third Agenda Consultation. The feedback in the first phase of the PIR of IFRS 15 did not provide new insights compared to the feedback received in the PIR of IFRS 10, IFRS 11 and IFRS 12. The IASB decided to consider this matter in the next agenda consultation rather that in the PIR of IFRS 15 to better assess the priority of this matter compared to the priority of other projects on the IASB's workplan.

Question for the IASB

22. As mentioned in paragraphs 16–19, a few respondents urged the IASB to provide guidance on accounting for collaborative arrangements suggesting that the challenges:
    (a) are common in many industries and are becoming more widespread; and
    (b) relate not only to the requirements in IFRS 11 but also to the requirements on the scope of IFRS 15.

23. The staff think that the challenges mentioned in paragraphs 16(a)–(c) relate to complex collaborative arrangements and entities need to apply judgement in determining which IFRS Accounting Standards to apply and how. If the IASB decided to reconsider its previous decision to consider the matters related to applying IFRS 15 and IFRS 11 in the next agenda consultation, the staff would bring to a future meeting analysis of the matters based on the IASB's framework for responding to the matters identified in a PIR.

Question 2 for the IASB
In light of the feedback on the RFI does the IASB wish to reconsider its previous decision to consider the priority of the matters related to applying IFRS 15 with IFRS 11 in the next agenda consultation rather than as part of this PIR?