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IFRS 15 and research opportunities

IASB Research Forum
Panel session
3 November 2020

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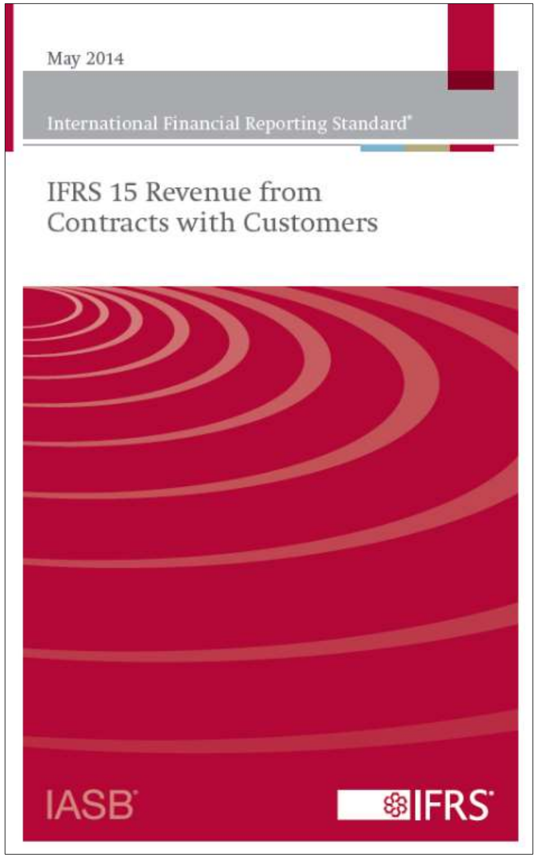
Agenda

- A quick recap of IFRS 15
- Effects on key sectors
- Research opportunities
- Panel discussion

A quick recap of IFRS 15

IFRS 15 at a glance



- Issued in 2014
- Effective for annual reporting periods from 1 January 2018
- Replaces IAS 18 and IAS 11

- Comprehensive framework for determining *when* and *how much* revenue to recognise
- Developed jointly with FASB

Intended benefits of IFRS 15

Single comprehensive framework

- Comparability of revenue information across companies
- Framework that works for ever-evolving business models

Improved guidance based on clear principles

- A five-step process for applying the principles and guidance
- Comprehensive guidance for applying the principles

Improved disclosures

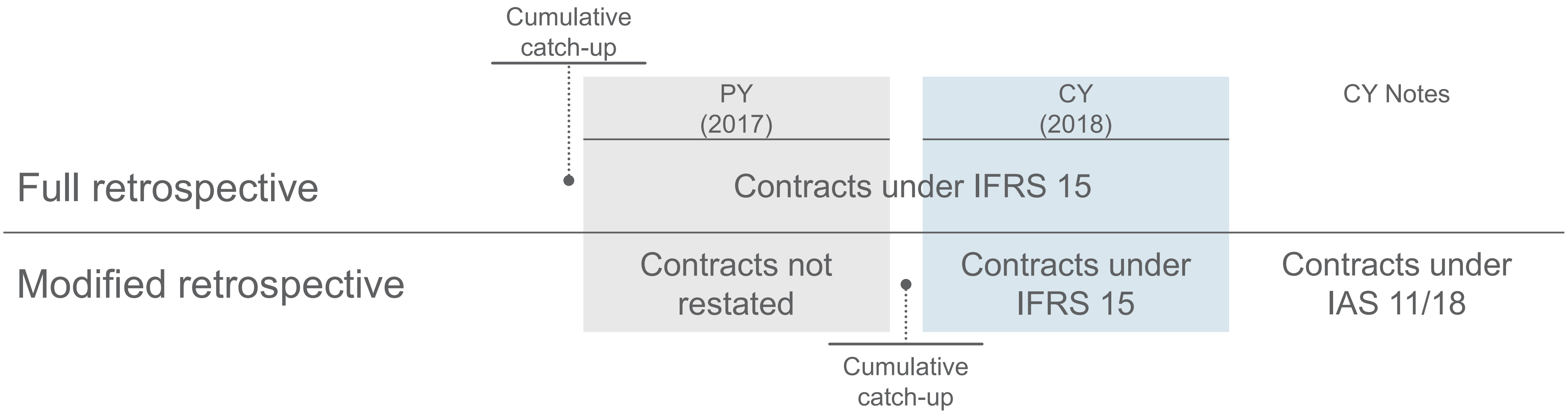
- Disaggregation of revenue
- Amounts allocated to remaining performance obligations
- Judgements and assumptions

The five steps to apply IFRS 15

Recognise revenue to depict transfer of goods or services in an amount of consideration to which an entity expects to be entitled

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) the entity satisfies a performance obligation

Transition



- Optional reliefs that permit:
  - use of hindsight in restating modified contracts
  - not to apply IFRS 15 to contracts that are completed contracts at the date of transition
- Completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 or IAS 18

Effects on key sectors

Five-step process and effects on key sectors

Which steps are most likely to affect key sectors?	Step				
	1	2	3	4	5
	Identify contract	*Identify performance obligations (PO)*	*Determine transaction price (TP)*	*Allocate TP to PO*	*Recognise revenue when PO satisfied*
Aerospace and defence	✓		✓		✓
Asset managers			✓		
Construction			✓		✓
Engineering & industrials[1]					✓
Life sciences[2]	✓	✓			✓
Media[2]	✓	✓			✓
Real estate	✓	✓			✓
Software		✓		✓	✓
Telecommunications		✓		✓	

[1] Contract manufacturing activities; [2] Licensing activities
Source: KPMG 'First Impressions: IFRS 15 Revenue'

Main effects on revenue recognition

Sector	Main effects
Aerospace and defence, Construction, Services	• Revenue may still be over time but measures of progress may change • More discipline in using costs incurred as a measure of progress • Initial costs capitalised if resources created for use in fulfilling a contract, not to normalise margins
Asset managers	• Contingent fee, eg a fee calculated with reference to an index, is recognised only if highly probable that it will not be reversed
Life sciences and Media	• Revenue recognised on transfer of licence if the licence is a right to use IP • Sales-based royalties recognised as sales occur

Main effects on revenue recognition *(continued)*

Sector	Main effects
Real estate	• Significant judgement involved in assessing whether a PO is satisfied over time—alternative use of asset and right to payment for performance completed
Software	• No need to establish vendor-specific objective evidence of fair value of a good or service
Telecommunications	• Revenue recognised for ‘free’ handset
Retail	• Some sales incentives and incidental obligations may be considered separate performance obligations

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Research opportunities

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Possible topics for research

Research outcome of interest for the Board

Did the Standard achieve its intended objectives?

Overall effects	• Did sectors that were expected to be significantly affected report financial effects as expected?
	• Did sectors that were not expected to be affected report significant financial effects?
	• Are revenue recognition policies and revenue information comparable across companies in a sector?

Possible topics for research *(continued)*

Research outcome of interest for the Board

Did the Standard achieve its intended objectives?

Revenue model	• Were companies able to better identify their performance obligations, and hence better reflect their revenue model in their reported revenue?
	• To what extent has there been a change from over-time to point-in-time recognition of revenue (and vice versa)?
	• For over-time revenue recognition, have measures of progress used by companies changed?
	• Did the diversity in accounting for revenue from licensing activities reduce?

Possible topics for research *(continued)*

Research outcome of interest for the Board

Did the Standard achieve its intended objectives?

Disclosures	• How have disclosures benefited analysts and investors? Are disclosures more specific and more useful?
	• To what extent did companies provide information about the initial effects in the interim financial statements in which IFRS 15 was first applied?
	• How did the disclosures about the effects of IFRS 15 compare with the disclosure of management's assessment of likely effects in the financial statements before IFRS 15?

Possible topics for research *(continued)*

Research outcome of interest for the Board

Did the Standard achieve its intended objectives?

Transition	• Was there any correlation between the magnitude of financial effects of IFRS 15 and the choice of transition method? For example, were companies with significant financial effects more likely to use the full retrospective transition method.

Panel discussion

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Questions for the Panel

A. What application challenges have you seen with IFRS 15?
B. How have stakeholders responded to IFRS 15?
C. What are the key takeaways for standard-setters from academic work so far?
D. What evidence would you like to see from the academic community, which would help standard-setters evaluate IFRS 15 in the PIR?
E. What other research opportunities do you see for academics to contribute evidence to the PIR?

Questions?

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