Project **Revenue Recognition**

Topic **Effective date**

Purpose

1. This paper addresses the following issues for the new revenue recognition standard:
   (a) What factors should be taken into account in selecting an effective date?
   (b) Should early adoption be permitted?
   (c) First-time adopters of IFRSs (IASB only).

What factors should be taken into account in selecting an effective date?

2. The exposure draft will give some indication of the proposed lead time between issuance of the standard and its effective date and will include a question soliciting information about the amount of time needed to prepare for and implement the changes proposed. The staff note below two factors which will affect the 'lead time' selected for this standard.

Level of complexity of proposed changes

3. As discussed in Agenda paper 5B / Memo 127B, some entities will be little affected by the change in accounting policies which result from the introduction of the new standard; other entities will be significantly affected.

4. The IASB website explains that the effective date of IFRSs is usually six to eighteen months after the issuance date. A recent IASB staff paper suggested a minimum gap of eighteen months for major projects. In the staff's view, that gap may be inadequate for some entities if they have to collect:

    (a) data by individual performance obligations, rather than the contract as a whole

    (b) data relating to performance obligations currently treated as cost accruals, such as post delivery services and some warranties

    (c) data relating to performance obligations currently recognised as sales incentives, such as 'free' handsets given to mobile telecommunication customers.

5. These changes might affect both costing and billing systems as well as general ledger and financial reporting systems. For some entities, such changes could be time consuming and costly to effect.

Sensitivity to number of annual financial periods presented

6. Both limited and full retrospective application of the proposed standard would require a detailed analysis of contract data and a knowledge of circumstances at contract inception. The best way to ensure this information is captured is to select an effective date after the issuance of the standard and before the beginning of the earliest period presented.

7. Although IAS 1 *Financial Statement Presentation* requires only one comparative period to be presented, SEC registrants are required to present three years in total. If these presented periods were all to be post-issuance and issuance is planned in the second half of 2011, an effective date 'for annual periods beginning on or after 1 January 2014' is suggested, ie two and a half years after planned issuance.

H2 2011	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014
Issuance	Comparative 2	Comparative 1	Reported year 1	

8. This would not prevent entities with very long-term contracts, pre-dating issuance, having to restate their contracts using estimates based on facts and circumstances prior to issuance, but it would lessen the burden on those entities with mid-length and shorter contract duration.

Should early adoption be permitted?

9. To ensure widespread comparability, some investors and regulators prefer that all entities adopt new standards at the same time.

10. However, the standards produced by the boards are intended to improve the quality of financial reporting. The stated objective of the revenue recognition project is to ensure comparability of reporting between capital markets and across all industries. In the staff's view, that wider comparability across industries and markets outweighs any concerns about the lack of comparability produced by early adoption. The staff recommend that early adoption is permitted.

11. If the boards permit early adoption, in the staff's view the disclosure required in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and FASB ASC Topic 250 *Accounting Changes and Error Corrections* would provide adequate information about the effect of the change to accounting policies. No additional disclosure would be required for early adopters.

Question 2
The staff recommend that: (a) early adoption is permitted (b) no additional disclosures are required for early adopters Do the boards agree with the staff recommendation?

First-time adopters of IFRSs (IASB only)

12. If the boards prohibit early adoption of the new standard, however, the staff recommend that first-time adopters be permitted to apply early adoption in those cases where the entity adopts IFRSs after the date of issuance, but prior to the effective date of the standard. In that case, the staff think it would be unduly burdensome to require the first-time adopter to transition to the existing revenue IFRSs at first-time adoption and then require the entity to apply the revised revenue recognition accounting standard at the effective date.

Question 2
The staff recommend that an exception be granted to first-time adopters of IFRSs if early adoption is prohibited. Does the IASB agree with the staff recommendation?