
Project	Revenue from Contracts with Customers
Topic	Transition reliefs for first-time adopters of IFRSs

Objective of this paper

1. In June the IASB and FASB tentatively decided that four transition reliefs should be granted for the application of the proposed revenue standard. This paper discusses whether those transition reliefs should also be given to first-time adopters of IFRSs.
2. Throughout this paper:
 - (a) the *effective date* is the beginning of the period in which an entity first applies the new standard,
 - (b) the *date of transition to IFRSs* ('transition date') is the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements,
 - (c) the *first IFRS reporting period* is the latest reporting period covered by the entity's first IFRS financial statements.
3. The staff recommend that the IASB do not amend IFRS 1 *First-time Adoption of International Financial Reporting Standards* to grant first-time adopters of IFRSs any transitional reliefs with respect to the proposed revenue standard.

Structure of the paper

4. The paper is organised as follows:
 - (a) background
 - (b) should the transition reliefs be extended to first-time adopters?

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

IASB Staff paper

- (c) summary and staff recommendation.

Background

5. In June 2011 the boards tentatively decided to require retrospective application of the proposed revenue standard in order to ensure comparability of revenue across all reporting periods. In the boards' view, retrospective application is required to ensure that trend information about revenue is preserved and financial information is comparable.
6. The boards were mindful, however, of the concerns of comment letter respondents and others who thought that full retrospective application would impose a burden on preparers disproportionate to the benefit gained by comparability. Accordingly, the boards tentatively decided to grant four transitional reliefs to full retrospective application. These reliefs were that an entity:
 - (a) should not be required to restate contracts that begin and end within the same annual reporting period
 - (b) should be permitted to use hindsight in estimating variable consideration in the comparative reporting periods
 - (c) should be required to perform the onerous test only at the effective date unless an onerous contract liability was recognised previously in a comparative period
 - (d) should not be required to disclose the maturity analyses of remaining performance obligations for prior periods.
7. These reliefs were selected because they:
 - (a) reduce the number of contracts that required restatement, thereby reducing the burden on preparers, or
 - (b) reduce the amount of hindsight employed in the restatement process by making estimation contemporaneous or removing the need for estimation, and

IASB Staff paper

- (c) do not significantly reduce comparability across reported periods.

Should the transition reliefs be extended to first-time adopters?

- 8. Paragraph 9 of IFRS 1 states that the transitional provisions in other IFRSs do not apply to a first-time adopter's transition to IFRSs.
- 9. Therefore, the Board needs to decide whether any specific exemptions should be added to IFRS 1 with respect to the proposed revenue standard.

Option 1 - do not grant first-time adopters any of the reliefs given to entities already using IFRSs

- 10. The primary objective of IFRS 1 is comparability of accounting policies across all reporting periods from the transition date onwards. To achieve this, IFRS 1:
 - (a) requires that the accounting policies effective at the end of the first IFRS reporting period are applied to all reported periods from the transition date onwards, and
 - (b) assumes most first-time adopters will plan the transition process on a timely basis with most information needed to prepare its opening IFRS balance sheet collected at, or very soon after, the transition date.
- 11. In transitioning in accordance with IFRS 1, therefore, the opening IFRS balance sheet is prepared in real-time and all relevant IFRSs are applied from the transition date. This ensures an ordered transition and full comparability across all periods after the transition date.
- 12. One view says that to remain consistent with the objective of IFRS 1, the boards should not grant any transition reliefs to first-time adopters.

IASB Staff paper

Option 2 - grant first-time adopters some of the same transition reliefs given to entities already using IFRSs

13. Some think the burden on first-time adopters is analogous to the burden imposed on existing users of IFRSs applying the proposed standard retrospectively. That view would suggest the following reliefs granted to existing users of IFRSs could also be granted to first-time adopters of IFRSs if the objectives of the two processes are identical:
 - (a) an entity should not be required to restate contracts that begin and end within the same annual reporting period
 - (b) an entity should be permitted to use hindsight in estimating variable consideration in the comparative reporting periods
 - (c) an entity should not be required to disclose the maturity analyses of remaining performance obligations for prior periods.
14. The boards' discussion in June 2011 concluded that the above proposed reliefs are compatible with the objective of maintaining comparability across reported periods. Comparability across reported periods is also the primary objective of IFRS 1.
15. The staff excluded the relief for the onerous test (in paragraph 6(c)) because this does affect the comparability of the reported information.

Adoption compared with application

16. The staff think the position of a first-time adopter is different from that of an existing user of IFRSs applying the revenue standard for the first time. First-time adoption assumes an orderly adoption of IFRSs from the transition date. Retrospective application takes the effective date as its starting point and restates the prior period(s).
17. The reliefs granted to existing IFRS preparers in the proposed standard are designed to simplify the *restatement* process by either not requiring non-contemporaneous estimates or judgements or by reducing the number of contracts requiring restatement. These reliefs provide little benefit to the *adoption* process because first-

IASB Staff paper

time adopters will be able to make those estimates and judgements in real time from the transition date and individual contracts will not be identified for restatement. In first-time adoption, all contracts will be accounted for on a go-forward basis from the transition date.

Summary and staff recommendation

18. The objective of the two exercises, retrospective application and first-time adoption, are the same, but the task of first-time adoption is different from that of retrospective application. The reliefs proposed for retrospective application will not significantly help first-time adopters in their task of accounting for all transactions in accordance with IFRSs from the transition date.
19. Granting first-time adopters the transitional reliefs would introduce complexity into IFRS 1 out of proportion to any benefit gained and, therefore, the staff do not recommend amending IFRS 1 to include any of the transitional reliefs of the proposed revenue standard.

Question

Do the boards agree with the staff recommendation that IFRS 1 should not be amended to grant first-time adopters of IFRSs any transitional reliefs with respect to the proposed revenue standard?