STAFF PAPER

FASB | IASB Meeting

Week of 18 February 2013

FASB Education Session 13 February 2013
IASB Education Session 19 February 2013

Project	**Revenue Recognition**		
Paper topic	Disclosures: interim requirements		
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Purpose

1. This paper considers possible refinements to the proposals in the 2011 Exposure Draft *Revenue from Contracts with Customers* ("the 2011 ED") that specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. Question 5 in the 2011 ED asked respondents for their views regarding those proposed disclosure requirements.

Staff recommendation

2. The staff recommend that the Boards retain the logic from the 2011 ED, which required an entity to provide, at a minimum, the same quantitative revenue disclosures in interim financial statements as those required in annual financial statements.

3. The staff have proposed amendments to the annual revenue disclosures (refer to agenda paper 7/167). Following those amendments, the staff recommend that the following revenue disclosures be required in Topic 270 *Interim Reporting* and IAS 34 *Interim Financial Reporting*:

   (a) disaggregation of revenue (refer to agenda paper 7A/167A);

(b) the balance of contract assets and contract liabilities and an explanation of any significant movements in those balances between the current and previous interim period (refer to agenda paper 7B/167B); and

(c) the remaining performance obligations disclosure (refer to agenda paper 7B/167B).

Structure of the paper

4. The paper is organized as follows:

    (a) Background (paragraphs 5-11)

        (i) 2011 ED proposed requirements

        (ii) Overview of current interim requirements

    (b) Summary of feedback (paragraphs 12-21)

        (i) Feedback from financial statement users

        (ii) Feedback from other respondents

    (c) Staff analysis (paragraphs 22-32)

        (i) Alternative A: No change to IAS 34 / Topic 270

        (ii) Alternative B: Amend IAS 34 / Topic 270 to specify only the "disaggregation of revenue disclosure"

        (iii) Alternative C: Amend IAS 34 / Topic 270 to require the revised 2011 ED quantitative revenue disclosures

    (d) Staff recommendation (paragraph 33-34)

Background

2011 ED proposed requirements

5. In the 2011 ED, the Boards proposed to consequentially amend Topic 270 and IAS 34 to require an entity to include the following disclosures in its interim financial statements:

(a) a disaggregation of revenue (paragraph 114 of the 2011 ED);

(b) a tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117 of the 2011 ED);

(c) a maturity analysis of remaining performance obligations (paragraph 119 of the 2011 ED);

(d) information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraph 122-123 of the 2011 ED); and

(e) a tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfil a contract with a customer (paragraph 128 of the 2011 ED).

6. In reaching their decision, the Boards considered whether the general principles in IAS 34 / Topic 270 should apply and no changes should be made to those standards because, to the extent that there has been a significant change in circumstances since the annual financial statements, the general principles in IAS 34 / Topic 270 would require disclosure of that change. However, the Boards concluded that because revenue is such an important metric to users, it warranted special treatment regarding interim disclosures. The disclosures specified by the Boards in the 2011 ED for interim disclosures relate to information that would be expected to change significantly from period to period; therefore, the Boards decided that the disclosure of that information would be consistent with the general disclosure principles in IAS 34 and Topic 270.

7. As explained in paragraph BC273 of the 2011 ED, the Boards considered, but ultimately rejected, an alternative approach of specifying that an entity should disclose only a disaggregation of revenue in interim financial statements and to specify other disclosures that an entity might need to disclose only if that information significantly changes from period to period. Although in some cases that alternative approach might have limited the volume of information that would

be required to be disclosed in interim financial statements, the Boards decided that the alternative might result in diversity in the amount of information that some entities disclose in interim financial periods given the judgement associated with identifying what represents a significant change to the recognition of revenue.

Overview of current interim requirements

8. Topic 270 and IAS 34 indicate that the objective of interim financial statements is to provide users of financial statements with timely and reliable information on an entity's financial position and performance. Furthermore, the intention is for interim financial statements to provide an update on the latest complete set of annual financial statements by reporting on changes to an entity's financial position and performance that arise from new activities, events, and circumstances. Interim financial statements need not duplicate information previously reported because the reader of interim financial statements is presumed to have access to the entity's most recent set of annual financial statements.

9. Consistent with the objective for interim financial statements, Topic 270 and IAS 34 require an entity to disclose information relating to 'significant changes' or to 'events or transactions that are significant to understanding changes in an entity's financial position and performance'. That requirement acts as a general principle for interim disclosure.

10. In addition, Topic 270 and IAS 34 specify a minimum list of disclosures for interim financial statements. For the disclosure of revenue, those standards specifically require the following information to be disclosed:

Standard	**Minimum revenue disclosures for interim financial statements**
Topic 270	• sales or gross revenue • seasonal revenue • revenues from external customers and intersegment revenues for each reportable operating segment
IAS 34	• revenues from external customers and intersegment revenues for each segment (That disclosure is required only if IFRS 8 *Operating Segments* requires the entity to disclose segment information

	in its annual financial statements and that revenue information is provided to the chief operating decision maker.)

11. The timing and requirement to provide interim financial statements is specified by regulators in each jurisdiction. For example, in the US and Canada, the capital market regulations require public companies to prepare interim financial statements on a quarterly basis. Other jurisdictions vary, with a significant number only requiring public companies to prepare interim financial statements on a semi-annual basis. In the US, the form and content of the interim financial statements are governed by Topic 270 (which incorporates the US SEC Regulation S-X, Rule 10-01 *Interim Financial Statements*[1]). Outside of the US, an entity must at a minimum comply with IAS 34 for that entity to claim compliance with IFRS, and in addition, the local regulator can supplement the requirements in IAS 34 by requiring other specific disclosures.

Summary of feedback

12. Question 5 in the 2011 ED asked respondents for feedback on the Boards' proposal to specify the revenue disclosures that an entity should include in its interim financial statements. In addition, as mentioned in agenda paper 7E/166E from the January 2013 Board meeting, the Boards and staff completed additional outreach at disclosure and transition workshops to seek further feedback on several topics, including interim reporting.

13. Although preparers, accounting firms and standard setters broadly disagreed with the proposals, views from users were mixed. The views of users and preparers were included in agenda paper 7E/166E from the January 2013 Board meeting, but are expanded on below in the context of interim reporting.

[1] Regulation S-X Rule 10-01 is included in the *FASB Accounting Standards Codification* as section 270-10-S99.

Feedback from financial statement users

14. As mentioned above, feedback received from users was typically mixed regarding the Boards' proposal to require specific revenue disclosures in interim financial statements. Some users, including the clear majority of US-based users, supported the proposal to require the same revenue disclosures for annual and interim periods because they think revenue is just as relevant on an interim basis as on an annual basis, and having the same revenue disclosures on an interim basis would improve their analysis.

> We agree that an entity should provide each of the proposed disclosures in its interim financial statements. Financial statement users rely on both interim and annual financial statements when analyzing a company's business, financial position, and results. The relevance of revenue generated by a company and the accompanying disclosures are not confined to an annual period. In our view, apart from accounting policy information that has remained unchanged during periods subsequent to the annual reporting, interim disclosures should mirror the disclosures provided on an annual basis. (CL #275 Standard & Poor's Ratings Services)

15. Contrary to the above, a few users explained that they did not agree with requiring revenue disclosures in interim financial statements. These users mentioned that specifying disclosures in interim financial statements could contribute to information overload and not allow the statements to be produced on a timely basis.

> IMA does not agree with the proposal to amend IAS 34 'Interim Financial Reporting' to specify the disclosures above. Users accept that the volume of disclosures in the Annual Report and Accounts can be necessary to ensure that they are comprehensive although they would like to see a focus on 'cutting the clutter' where possible. Overspill of what is required in the Annual Report and Accounts to

> the interim report could be perceived as 'creep' towards the production of two comprehensive reports. Users would be concerned that interim reports would not be produced on a timely basis and that the objective of IAS 34 to prescribe the minimum content of an interim financial report could be compromised. We therefore support the Alternative View that it would be inappropriate to require such disclosures without taking a holistic review of IAS 34. (CL #284 Investment Management Association)

16. The majority of users outside of the US agreed that the usefulness of interim statements could be improved if only some of the revenue disclosures proposed in the 2011 ED were required for interim periods. In other words, the majority of users' preference outside of the US was that the Boards find a balance between the proposals in the 2011 ED and relying only on the existing requirements in IAS 34.

17. Several similar views were heard at the transition and disclosure workshops. However, following detailed discussions, the staff understand that individual requests from users for specific disclosures are often based on the types of industries or companies that the user follows. For example, users following engineering and construction companies with long-term contracts were interested in the remaining performance obligation disclosure as this disclosure would give users an indication of the contractually agreed expected future revenue (future revenue information is often referred to as backlog information, but backlog information generally encompasses a wider range of expected future revenue than only the remaining performance obligation disclosure). However, the remaining performance obligation disclosure was less relevant to users following retail companies in which the contracts were of short-term duration. In addition, some users at the US workshops disagreed with providing some of the proposed interim disclosures only because they disagreed with providing those disclosures in the annual financial statements – this was particularly relevant for the reconciliation of contract balances disclosure (paragraph 117 of the 2011 ED). Although

individual responses varied, disaggregation of revenue emerged as the relatively most important disclosure that users wanted on an interim basis.

Feedback from other respondents

18. The feedback from other respondents (including preparers, auditors and standard-setters) indicated that the majority disagreed with the proposal in the 2011 ED to require specific revenue disclosures in interim financial statements. Many preparers disagreed with some of the disclosure requirements for the annual financial statements stating that they were of little benefit to their users. Other respondents explained that they thought the incremental costs of providing all of the quantitative disclosures in the 2011 ED for interim statements would outweigh the incremental benefits users would receive from them. They identified the following factors as increasing the costs of preparing interim financial statements:

    (a) the additional interim disclosures would need to be audited or reviewed and tagged in XBRL;

    (b) the potential need to overhaul existing IT systems to capture the needed information in a timely manner; and

    (c) the tighter timeframe that is usually required for filing interim financial statements (with some interim statements filed within 40 days of period end).

    > We do not agree that an entity should be required to provide all of the above disclosures in its interim financial statements... Preparers will also face these challenges on an annual basis, which we anticipate will further be compounded by a condensed timeline for quarterly reporting. (CL # 90 Tyco International Inc.)

19. Some respondents also explained that they viewed the required disclosures as being excessive and inconsistent with the objective of interim financial statements as stated in IAS 34 and Topic 270. These respondents disagreed with making any changes and instead suggested that this issue be:

(a) incorporated into the disclosure framework project; and/or

(b) incorporated into a more holistic review of interim reporting rather than tweaking interim reporting for revenue.

20. Although most preparers disagreed with the 2011 ED's proposal, some preparers acknowledged that they could provide some of the disclosures on an interim basis at a reasonable cost for the benefit that would be obtained. These preparers indicated that some of the proposed disclosure information was already tracked internally by management or provided in supplemental information for investors, and, consequently, the costs of providing the information in the interim financial statements would relate to implementing a process to present the information in the interim financial statements and have it audited or reviewed by the auditors.

21. The disclosure proposed in the 2011 ED that received the most support from preparers was the disaggregation of revenue. This is because most preparers have some form of disaggregated revenue information (e.g. revenue type, geography, customer type) that is already tracked internally in some manner. Another disclosure for which preparers explained that the cost might not be excessive was the disclosure related to an entity's remaining performance obligations. The staff noted that preparers who raised the remaining performance obligations disclosure as a viable interim disclosure were predominantly those entities for which this information would be important and is already tracked internally for management purposes (such as in the construction and engineering industries).

Staff analysis

22. Based on the feedback received, the staff think that there are three alternatives for the Boards to consider with respect to interim revenue disclosures:

(a) **Alternative A – No change to IAS 34 / Topic 270:** Do not specify for interim reporting any new disclosures related to revenue. In other words, rely on IAS 34 / Topic 270 for interim reporting requirements related to revenue.

(b) **Alternative B – Amend IAS 34 / Topic 270 to specify only the "disaggregation of revenue disclosure":** Specify an incremental revenue disclosure for interim reporting related to the disaggregation disclosures (refer to agenda paper 7A/167A) and rely on the general principles of IAS 34 / Topic 270 for any other relevant revenue disclosure.

(c) **Alternative C – Amend IAS 34 / Topic 270 to require the revised 2011 ED quantitative revenue disclosures:** The staff are proposing improvements to the 2011 ED disclosure requirements for annual financial statements (see agenda papers 7A/167A, 7B/167B, and 7C/167C). This option would require all of the improved quantitative revenue disclosure requirements to be provided in the interim financial statements. In other words, this option is consistent with the logic from the 2011 ED that all of the quantitative revenue disclosure requirements in the annual financial statements should be required on an interim basis.

Alternative A: No change to IAS 34 / Topic 270:

23. As explained above, some respondents suggested that no amendments should be made to IAS 34 / Topic 270. Proponents of making no change suggest that:

(a) a few users outside of the US suggested that the current version of IAS 34 is sufficient to ensure that they receive relevant information in the interim financial statements;

(b) requiring these disclosures on an interim basis (which in some cases is quarterly) will increase costs as evidenced by preparer feedback;

(c) the principles in IAS 34 / Topic 270 are sufficient to ensure that supplemental revenue information will be provided assuming that it "is significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period[2]"; and

(d) many respondents (including standard setters) think that it is inappropriate for the Boards to make piecemeal amendments to IAS 34 / Topic 270 without reconsidering holistically the principles and requirements of those standards because they think that IAS 34 / Topic 270 is a self-contained package (similar to the IFRS for SMEs document). Some suggested that the disclosure framework project would be a better forum in which to consider changes to the interim disclosure requirements as a whole.

24. In contrast to those views, the staff observe that other feedback indicates that the majority of users (both US and international) agreed that specifying at least *some* level of revenue disclosures in the interim financial statements would result in an improvement in the provision of relevant information to users. The staff also note that although preparers generally commented that there would be costs associated with providing the disclosures, the preparers acknowledged that in some cases these costs would not be significant, and ultimately any of the disclosures could be provided if the information was requested by users. Furthermore, the staff note that one user's view was that it is ultimately the investors of financial statements who would bear the incremental costs of providing the disclosures; consequently, if investors requested the disclosures and are prepared to pay the costs of providing those disclosures, the disclosures should be provided.

25. The staff also note that the Boards considered many of these arguments during the development of the 2011 ED. At that time, the Boards decided that, because information about revenue is crucial for users of financial statements, an entity should provide revenue information in a consistent and comparable manner in its interim financial statements, which most users agreed with. Consequently, the staff think that making a change to IAS 34 / Topic 270 is warranted.

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[2] Refer to IAS 34 paragraph 15

Alternative B: Amend IAS 34 / Topic 270 to specify only the "disaggregation of revenue disclosure"

26. Proponents of this option note that users outside of the US generally agreed that requiring *all* of the disclosure proposals would not be necessary for interim reporting purposes. In considering the feedback received from users outside of the US, there was a concern of possible disclosure overload of non-essential information in the interim financial statements. However, there appeared to be a majority view of those users that the most useful disclosure in the interim financial statements would be the disaggregation of revenue.

27. In addition to this, although there was significant concern and disagreement from other respondents (including preparers, auditors and standard setters) with the proposals, there was an acknowledgment by some preparers that it would be possible to present the disaggregation disclosures assuming that users were interested in having the information, and in some cases, the information could be provided at little incremental cost.

28. Proponents of this view think that a viable path forward is to only require the disaggregation of revenue disclosure in the interim financial statements. Proponents of this view argue that:

    (a) this was the disclosure that the majority of users stated would be most useful as a prescribed interim disclosure. Proponents of this view argue that this feedback provides the Boards the support to proceed with the alternative approach considered in the 2011 ED as explained in paragraph 7 of this paper;

    (b) in many cases, the disaggregation disclosures will not require a significant incremental cost to produce, for example, where an entity prepares segment information and the segment information is already disaggregated to the extent required by paragraph 114 of the 2011 ED; and

(c) the general principles in IAS 34 / Topic 270 would capture other situations where a significant event related to revenue required additional explanation at the interim reporting date.

Alternative C: Amend IAS 34 / Topic 270 to require the revised 2011 ED quantitative revenue disclosures

29. Proponents of this view note that users' opinions on the appropriateness of interim revenue disclosures were influenced by whether the users thought the disclosures were also relevant for annual financial statements. For example, the reconciliation of contract assets and liabilities was identified by users as the least helpful interim disclosure, but it was similarly identified as the least helpful for purposes of the annual financial statements. In other words, if users thought that the disclosure was relevant for inclusion in the annual financial statements, users generally thought that the disclosures would be relevant to also include in the interim financial statements.

30. Consequently, proponents of this view think that users want the same revenue quantitative disclosures in the interim financial statements as those in the annual financial statements. The staff have proposed amendments to the annual quantitative revenue disclosures (refer to agenda paper 7A/167A, 7B/167B, and 7C/167C). Following those amendments, the staff think that following quantitative revenue disclosures would be required in the interim financial statements:

(a) disaggregation of revenue (refer to agenda paper 7A/167A);

(b) the balance of contract assets and contract liabilities and an explanation of any significant movements in those balances between the current and previous interim period (refer to agenda paper 7B/167B); and

(c) the remaining performance obligations disclosure (refer to agenda paper 7B/167B).

31. The staff think that the revised disclosures relating to contract costs (refer to agenda paper 7C/167C) should not be a specified interim disclosure because this disclosure is not a revenue disclosure, it is a cost-related disclosure.

32. Proponents of this view think that all of the improved quantitative annual disclosures should also be required in the interim financial statements because:

    (a) after the amendments are made to the quantitative annual disclosures, these disclosures will have addressed the concerns of users not to provide disclosure overload for non-crucial information in the interim financial statements. Proponents of this view think that the quantitative revenue disclosures are a package that provides users with an understanding of the nature, amount, timing and uncertainty of revenue, and if this information is crucial to a user at the year end, it must also be crucial at the interim period. Consequently, other than for cost concerns, there is no reason to place more importance on some revenue disclosures over others in interim financial statements;

    (b) the volume of disclosures that would be required have been improved, thus addressing concerns that the costs of providing the disclosures in interim financial statements would outweigh the benefits;

    (c) some users (and the majority in the US) have stated that they would benefit from *all* of the quantitative revenue disclosures being provided in the interim financial statements; and

    (d) the Boards basis in paragraph BC272 for requiring all of the quantitative disclosures in interim financial statements continues to be relevant:

    > …because information about revenue is crucial for users of financial statements to make informed assessments about an entity's financial performance and prospects, the boards decided to specify the disclosures about revenue and contracts with customers that an entity should provide in interim financial reports. Hence, users would be provided

with consistent and comparable disclosures in interim periods because specifying the required disclosures would limit the risk that entities could reach different conclusions on what represents a significant change and how information about that significant change should be presented in the interim financial reports.

Staff recommendation

33. The staff recommend that the Boards retain the logic from the 2011 ED, which required an entity to provide, at a minimum, the same quantitative revenue disclosures in interim financial statements as those required in annual financial statements.

34. The staff have proposed amendments to the annual revenue disclosures (refer to agenda paper 7/167). Following those amendments, the staff recommend that the following revenue disclosures be required in Topic 270 *Interim Reporting* and IAS 34 *Interim Financial Reporting*:

    (a) disaggregation of revenue (refer to agenda paper 7A/167A);

    (b) the balance of contract assets and contract liabilities and an explanation of any significant movements in those balances between the current and previous interim period (refer to agenda paper 7B/167B); and

    (c) the remaining performance obligations disclosure (refer to agenda paper 7B/167B).

Question for the Boards
Do you agree with the staff recommendation that the final revenue standard should include a consequential amendment to the interim reporting standards that would require entities to provide the following disclosures in interim financial statements: (a) disaggregation of revenue (refer to agenda paper 7A/167A);

(b) the balance of contract assets and contract liabilities and an explanation of any significant movements in those balances between the current and previous interim period (refer to agenda paper 7B/167B); and

(c) the remaining performance obligations disclosure (refer to agenda paper 7B/167B).