

AGENDA PAPER

IFRS Foundation Trustees' meeting – Due Process Oversight Committee

Johannesburg 10 July 2013

**Agenda
paper** 3D(ii)

Revenue recognition: Due process 'life cycle' review

Attached is the paper presented to the IASB at its May 2012 meeting summarising the outreach activities on the 2011 Exposure Draft *Revenue from Contracts with Customers* (Agenda paper, AP 7B for that meeting).

STAFF PAPER

21 – 25 May 2012

FASB | IASB Meeting

Project	Revenue recognition		
Paper topic	Summary of outreach activities		
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Background and objective of this paper

1. The boards published their joint revised exposure draft (ED) *Revenue from Contracts with Customers* on 14 November 2011. The comment period on the revised exposure draft ended on 13 March 2012.
2. The staff and members of both boards engaged in extensive outreach activities between September 2011 (when drafting of the revised exposure draft was nearing completion) and May 2012. These outreach activities followed on from the targeted outreach that was performed throughout the redeliberations phase that led to the development and publication of the revised exposure draft. Additionally, agenda paper 3B/134B that was previously presented to the boards in December 2010 summarizes outreach activities performed on the June 2010 exposure draft.
3. This paper provides an update on the outreach activities the staff and members of both boards conducted between September 2011 and May 2012 by describing the:
 - (a) objectives of the outreach,
 - (b) activities undertaken,
 - (c) individuals and organizations consulted, and
 - (d) geographies where the outreach was conducted.

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The Financial Accounting Standards Board (FASB), is the national standard-setter of the United States, responsible for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. For more information visit www.fasb.org

4. This paper does not provide a summary of the feedback received. Agenda paper 7A/160A includes a summary of the feedback received in comment letters and from the outreach activities described in this paper.

Objectives of outreach

5. One of the objectives of conducting outreach on a published due process document is to raise awareness and help individuals and organizations understand the proposals. That is an objective that is typical for all projects that the boards undertake. However, in light of the boards' reasons for re-exposing the proposals, the outreach objectives for the revised revenue proposals were directed towards obtaining feedback on:
- (a) whether the proposals are clear and complete,
 - (b) whether they can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers,
 - (c) whether any unintended consequences were identified, and
 - (d) the cost/benefit impact of the proposals.

Activities Undertaken

Raise Awareness

6. To raise awareness of the ED and help individuals and organizations understand the proposed guidance, the staff undertook the following activities:
- (a) Webcasts: after publication of the ED in November 2011, one joint and one IASB-only webcast were held to communicate the key changes from the 2010 ED. An additional joint webcast was held in February 2012 to address frequently asked questions that the staff received on the revised revenue proposals. The staff also took part in various webcasts

hosted by other organizations including some of the large accounting firms and the CFA Institute.

- (b) Podcasts: a FASB member and an IASB member discussed the main proposals in the ED in separate recorded interviews.
 - (c) Email alerts: subscribers received email alerts about outreach events and other news on the revenue project.
 - (d) Other educational materials: the staff published two summaries of the proposals contained in the ED—a *FASB In Focus* document and an IASB *Snapshot* publication. The FASB staff also posted to the FASB website a summary comparison document outlining the differences between current US GAAP and the proposed guidance in the ED.
7. The staff and some board members gave presentations on the revenue proposals at over 30 events and conferences, including:
- (a) IFRS Conferences in Boston, Massachusetts, USA; Sao Paulo, Brazil; Melbourne, Australia; and Kuala Lumpur, Malaysia.
 - (b) Industry Conferences: general financial reporting conferences as well as conferences focused on specific industries, including engineering and construction, software and technology, pharmaceuticals, and automotive.
 - (c) Conferences and meetings hosted by accounting standard setting organizations and accounting professional bodies (e.g. the World Standard Setters, Accounting Standards Board of Japan, American Institute of Certified Public Accountants, and Hong Kong Institute of Certified Public Accountants).

Obtain feedback on the questions for respondents and other parts of the proposed guidance

8. In total, the board members and staff conducted over 200 outreach activities between September 2011 and May 2012. Those activities were designed to obtain

feedback on the questions for respondents and other parts of the proposed guidance from across a wide range of industries and jurisdictions.

9. The boards and staff addressed industry-specific issues in the following forums:

- (a) Industry workshops: many industry-based workshops were held to discuss and test aspects of the revised revenue proposals. Those workshops included:
 - (i) over 50 industry-specific gatherings, which typically included between 2 and 10 industry organizations and up to 30 participants (not including FASB and IASB members and staff).
 - (ii) workshops conducted by the European Financial Reporting Advisory Group (EFRAG) to test the revised revenue proposals by applying the proposals to some of the participants' contracts and discussing the findings from those tests with the other workshop participants. Eight workshops were held which covered a total of five industries and involved between two to eight entities per workshop.
- (b) Meetings and calls: many individuals and individual entities met with the board members and staff to discuss their views on how the proposals would apply to their businesses. Some of those meetings followed a similar format to workshops because the entities discussed how they had separately applied different aspects of the ED (e.g., time value of money and disclosure guidance) to their contracts and reported on the operability of the proposals to the staff.
- (c) Formal roundtables: as part of their due process requirements, the boards and staff held six roundtable meetings including one in Tokyo, Japan; two in London, United Kingdom; two in Norwalk, Connecticut, USA; and one specifically devoted to U.S. nonpublic entities in Salt Lake City, Utah, USA.

- (d) Outreach events: separate outreach events on the proposals were held in Kuala Lumpur, Malaysia; Sao Paulo, Brazil; and Tokyo, Japan.
10. For the workshops and some of the individual meetings, the staff and participants generally coordinated in advance of the meeting date to prepare materials that would facilitate the discussion. The materials generally included (a) descriptions of specific transactions that were used to test the proposed guidance, (b) a description of the current accounting for those transactions, and (c) an explanation of the participant's understanding of the accounting that would result from applying the proposed guidance. Consequently, participants were very familiar with the proposals in the ED and were prepared to discuss implementation topics related to their industry and some cost/benefit analyses.
11. Using the information received from the workshops and individual meetings, the staff identified industries that would be most affected by the proposed guidance. The staff is using the information and findings from those industry workshops to discuss the proposals and expected impacts with users that analyse those identified industries.

The individuals and organizations consulted

12. The staff reached out to a broad audience of individuals and organizations to obtain feedback on the proposed guidance. The individuals and organizations consulted during the outreach efforts include:
- (a) Users: the boards and staff performed targeted outreach with users. User outreach activities are discussed in more detail below.
- (b) Preparers, industry groups and trade associations: preparers representing over 15 different industries were consulted individually and collectively in industry-specific workshops as discussed in paragraph 9 above. The staff sought to consult with entities from industries that might be significantly impacted by the proposals.

- (c) Accounting firms: the proposals were discussed with each of the large accounting firms on multiple occasions. In addition, many of those accounting firms were represented at most of the industry workshops and other meetings.
- (d) Regulators: the U.S. Securities and Exchange Commission, U.S. Public Company Accounting Oversight Board, U.S. Office of the Comptroller of the Currency, European Securities and Markets Authority, Ontario Securities Commission (Canada) and Securities Commission of Brazil.
- (e) FASB and IASB advisory groups: the FASB's Financial Accounting Standards Advisory Council, Investors Technical Advisory Committee, Not-for-Profit Advisory Council, Private Company Financial Reporting Committee and Small Business Advisory Committee, and the IASB's Advisory Council, Capital Markets Advisory Committee and Global Preparer's Forum.
- (f) Accounting standard setters: EFRAG, the Accounting Standards Board of Japan, the Asian-Oceanian Standard-Setters Group, Brazilian Accounting Pronouncement Committee, the Group of Latin American Accounting Standard-Setters and the Canadian Accounting Standards Board.

13. The preparers described in the paragraph above represented many industries and included public and nonpublic entities. The industries represented include:

- (a) Aerospace & Defense;
- (b) Airlines;
- (c) Automotive;
- (d) Energy and utilities;
- (e) Engineering and construction;
- (f) Financial services including asset managers, alternative asset managers, banks and credit cards;
- (g) Franchisors;

- (h) Healthcare;
- (i) Hospitality including hotel managers and timeshares;
- (j) Life sciences including biotech, medical devices and pharmaceuticals;
- (k) Manufacturing;
- (l) Media and entertainment;
- (m) Mining, oil and gas;
- (n) Real Estate including residential real-estate;
- (o) Software and technology; and
- (p) Telecommunications.

FASB outreach for nonpublic entities

14. The FASB outreach has also targeted private and not-for-profit entities. However, a detailed description of the feedback received from those activities will be described in an appendix to memo 160A, which will be presented to the FASB only.

Outreach with users

15. Revenue is very important to users of financial statements as it is a critical input for their financial models. In addition, the boards consider user outreach to be an essential part of its due process. Consequently, the boards and staff conducted a number of activities to elicit user feedback on the proposals. Furthermore, the boards and staff will continue to conduct outreach with users throughout redeliberations to incorporate their views, as appropriate, on alternatives presented to the boards.

16. Although outreach with users is ongoing, user outreach activities to date have taken many forms including:

- (a) participating in a webcast hosted by the CFA Institute.

- (b) attending meetings with user groups such as the FASB's Investors Technical Advisory Committee, the Corporate Reporting Users Forum (in various jurisdictions), the EFRAG user panel working group, the Canadian Standard-Setters User Advisory Council, the IASB's Capital Markets Advisory Committee and a meeting with various representatives from the Japanese user community including from the Securities Analysts Association of Japan.
- (c) obtaining feedback from industry-specific analysts. The staff used a targeted approach to user outreach. The staff identified the industries that would be most affected by the proposed guidance and directed the user outreach towards users that analyse entities in those industries. The industries that were targeted include:
 - (i) financial services,
 - (ii) media & entertainment,
 - (iii) real estate,
 - (iv) software and technology, and
 - (v) telecommunications.

The geographies where the outreach was conducted

17. The outreach was conducted in many geographic regions to ensure that the proposed guidance is understandable, capable of being applied in practice and accepted globally. The geographic regions where outreach was conducted include:

- (a) Africa: South Africa.
- (b) Asia and Oceania: Australia, Bangladesh, China, Hong Kong, Japan, Malaysia and Singapore.
- (c) Europe: Belgium, France, Germany, Ireland, Spain and the United Kingdom.
- (d) Latin America: Mexico and Brazil.

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(e) North America: United States of America and Canada.

Future outreach activities

18. Additional outreach will be undertaken as the boards' redeliberations progress.

This is discussed further in the project plan that is presented in agenda paper 7C/160C.

Summary

19. The following table provides a summary of the type, volume, and geographies of the outreach that the boards and staff have conducted since September 2011:

Activity	Volume	Type of Participant	Industries	Geographies
Educational	30-50	All	Aero. & Defense Automobiles Eng. & Construct. Oil & Gas Life Sciences Software & Tech.	All
Industry Workshops	60-90	Preparers Accounting Firms	Airlines Automobiles Eng & Construct. Financial Services Healthcare Hospitality Media & Ent. Life Sciences Real Estate Software & Tech. Telecomm Energy & Utilities	All
Meetings/Calls	75-100	All	All	Europe Latin America North

				America
Roundtables and Other Outreach Events	9	Accounting Firms Acct. Std. Setters Preparers Regulators Users	Aero. & Defense Eng. & Construct. Financial Services Healthcare Media & Ent. Mining, Oil & Gas Life Sciences Software & Tech. Telecomm.	Asia/Oceania Europe Latin America North America