

STAFF PAPER

Week of 18 November 2013

IASB Meeting

Project	Revenue Recognition		
Paper topic	Due process update		
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Purpose of this paper

1. The purpose of this paper is to:
 - (a) update the IASB on the due process steps undertaken in recent months in the finalisation of the revenue project; and
 - (b) confirm the required due process questions to finalise the revenue standard.

Background

2. Agenda paper 7C *Due Process Summary* of May 2013 (see Appendix A), summarised the mandatory and non-mandatory due process steps completed at that time in developing the Revenue Recognition Standard. That paper detailed the lengthy, comprehensive process the Boards and staff undertook in the final development of the revenue recognition standard to ensure that the IASB and the Financial Accounting Standards Board (the FASB) issue a relevant and operational standard. Since that discussion, the Boards have completed additional due process steps and technical discussions raised on three main topics: collectibility (ie customer credit risk); the constraint on estimates of variable consideration; and licenses.

3. Small matters taken back to the IASB as part of the drafting process are called sweep issues. The consideration of sweep issues does not cause the IASB to vote on the whole Standard again. However, some may consider the three issues of collectibility, the constraint and licenses to be more than ‘sweep issues’. Accordingly, the staff decided it was appropriate to update the IASB on the additional due process steps undertaken and to ask the IASB to confirm the decisions it made in May on balloting, re-exposure and dissents. As a result, this paper includes the same three questions posed to the Board in May to complete the due process on the project and to allow the staff to finalise the standard.

Joint project

4. The revenue recognition project is a joint project with the FASB. Nonetheless, the two Boards each have their own due processes to complete in order to finalise the standard. Although the analysis of each Board’s respective due process is done separately, the final standard will be a joint standard and the Boards will be asked to approve for publication the substantially same Standard at the same time.
5. The FASB completed its own due process analysis in November 2013, and, in accordance with its own due process, provided permission for the FASB staff to begin their ballot process.

Due process steps completed by May 2013

6. In May 2013 the IASB considered the due process steps (as described in the *IASB and IFRS Interpretations Committee Due Process Handbook*) completed up until that point (see Agenda paper 7C in Appendix A). Below is a summary of those steps and the paragraphs in Agenda paper 7C where they were discussed:

Mandatory due process steps	Paragraphs in Agenda paper 7C from May 2013
Debating any proposals in one or more public meetings	8-10
Exposing for public comment a draft of any proposed new	8-10

Standard—with minimum comment periods	
Considering in a timely manner those comment letters received on the proposals	8-10
Considering whether the proposals should be exposed again	10
Reporting to the Advisory Council	11
Non-mandatory due process steps	Paragraphs in Agenda paper 7C from May 2013
Publishing a discussion document before an exposure draft is developed	8
Raising awareness of the proposals (generally “public hearings”)	15
Ensuring that the proposals are clear and complete (generally “work with consultative groups and other specialist advisory groups”)	16-18
Improving the IASB’s understanding of issues raised by the proposals, observing if any unintended consequences have been identified and identifying whether the proposals can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity’s contracts with customers (generally “fieldwork”)	19-23

7. In addition, as the project developed, the Board became aware of particular industries that were affected and of topics where a significant number of stakeholders had strong and sometimes conflicting views. The Board and staff conducted additional outreach in these areas to understand the issues, but also had a number of public discussions of the issues. This outreach and public discussion is discussed in paragraph 25 of AP 7C from May 2013.

8. In light of the above analysis, the IASB concluded in May 2013 that sufficient consultation and analysis had been undertaken and that it had met its due process requirements. The Board decided not to re-expose the Revenue Recognition Standard and agreed that the staff could begin the balloting process. No IASB members present at the meeting indicated an intention to dissent from issuing the Revenue Recognition Standard.

Update on due process completed since May 2013

9. Since the May 2013 meeting, the Boards and staff have commenced or completed the following additional due process drafting steps:
- (a) The staff made a draft of the standard available on an internal site accessible by national standard-setters.
 - (b) The staff sent the draft of the standard described in (a) to a diverse group of external parties for fatal flaw review.
 - (c) The staff has met and will continue to meet with the IFRS Taxonomy (formerly known as XBRL) team to discuss the implications of the final standard on electronic reporting.
 - (d) The staff began discussions with the editorial team about the timing of the editorial review. The staff has and will continue to liaise with the editorial team and provide drafts for their review in the finalisation of the standard.
 - (e) The translations team will review the pre-ballot draft, as is normal process.
 - (f) The staff have begun work on the effects analysis using as a basis the Boards' meetings with a number of stakeholders, industry groups and advisory bodies. These meetings helped the Boards to understand the likely effects of the standard, including the costs of implementing the standard, as well as the benefits from the improvement in financial reporting. The staff will include an analysis of likely effects in the Basis for Conclusions to the standard. The IASB will review this effects analysis as part of the drafting process.

10. As a result of some of the comments raised during the drafting process, the Boards also completed some additional technical discussions in July, September and October 2013. The IASB followed the due process steps required for these issues, including debate of proposals at public meetings. The Boards also worked with targeted groups of external reviewers to ensure the clarity and completeness of those proposals.

Sufficient compliance with required due process steps

11. The staff continue to think that the IASB has undertaken sufficient steps for the IASB to be in a position to finalise the proposed new standard. As highlighted in May, the IASB has undertaken all of the activities identified as being required and many of the additional optional activities set out in the *IASB and IFRS Interpretation Committee Due Process Handbook*. These steps have been completed throughout the project, including in recent months, as mentioned above.

Re-exposure, permission to ballot and dissents

12. At the May 2013 meeting, the Board agreed that re-exposure of the revenue standard was not necessary. The staff think that the revisions to the proposed revenue standard as a result of the recent technical discussions do not include fundamental changes that require additional input from respondents. This is because those revisions are mainly clarifications and enhancements to the requirements proposed in the 2011 ED and developed in the subsequent redeliberations. Furthermore, the revisions respond to the feedback received and it is therefore unlikely that re-exposure will reveal any new concerns. Accordingly, the staff again recommend that the Board do not re-expose the proposed revenue standard for a fourth round of public comment.
13. The IASB has now completed redeliberations and all mandatory due process steps required thus far. As such, the staff think that the IASB is ready to prepare the final IFRS for balloting. As mentioned above, the IASB and the FASB will ballot the joint revenue standard at the same time.

14. The staff also note that the decisions on most issues discussed by the Board were tentatively approved by a majority of the Board. At the May 2013 discussion of the due process undertaken on the revenue recognition project, no IASB members indicated intent to dissent. However, because the IASB has had further discussions since May 2013, the staff will ask again whether any IASB members plan to dissent.

Questions

- 1) Re-exposure:** Does the Board agree with the staff recommendation not to re-expose the revenue recognition standard?
- 2) Permission to ballot:** Is the Board satisfied that it has undertaken sufficient consultation and analysis to be able to begin the balloting process for the revenue recognition standard?
- 3) Dissents:** Do any members of the Board propose to dissent from the publication of the revenue standard?

Appendix A—copy of May 2013 Agenda paper 7C *Due Process Summary*

See separate attachment.