

# International Financial Reporting Standards

## IFRS 15 *Revenue from Contracts with Customers*

### Transition Resource Group for Revenue Recognition (TRG)— Update

Stuart Leadill

[sleadill@ifrs.org](mailto:sleadill@ifrs.org)

+44 (0)20 7246 6441

Raghava Tirumala

[rtirumala@ifrs.org](mailto:rtirumala@ifrs.org)

+44 (0)20 7246 6953

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.



# Today's discussion

---

- Addressing issues emerging from TRG discussions (5–10)
  - Background
  - Summary of IASB's tentative decisions at February 2015 meeting
  - Questions for ASAF
- Issues for which IASB has decided no standard-setting required (11–12)
  - IASB's considerations
  - Questions for ASAF
- Effective date (13–15)
  - Feedback received by the IASB
  - Questions for ASAF

# Objective of this meeting

---

- To update ASAF on the activities of TRG;
- To obtain views of ASAF on the IASB's strategy for addressing issues arising from TRG discussions;
- To seek views of ASAF on the tentative decisions of the IASB;
- To identify how ASAF could assist in disseminating the information from the TRG and IASB discussions to enhance stakeholders' understanding of the principles in IFRS 15; and
- To seek views of ASAF on the effective date of IFRS 15.

# Questions for ASAF

1. Should the IASB amend IFRS 15 to maintain the near-identical wording with its US equivalent, even if that amendment is largely driven by questions or concerns in the US or the IASB do not think that amendment is required?
2. Do you have any comments on the IASB's tentative proposals to clarify the licensing guidance?
3. Do you have any comments on the IASB's plan to develop a single ED of the clarifications and the proposed timing?
4. Do you have suggestions on improving the methods of disseminating the information from the TRG and IASB discussions to enhance stakeholders' understanding of the principles in IFRS 15? How could you assist in this regard?
5. Are you aware of concerns about the 2017 effective date in your region? If so, are the concerns arising in a particular industry sector? Do the concerns primarily relate to operationalising the accounting (eg systems) or understanding the requirements of IFRS 15?
6. How important do you think it is to maintain convergence of the effective date?

## Background – TRG activities

- TRG informs the IASB and FASB about implementation issues with the new revenue Standard. It does not issue guidance, but its discussions help practice learn about the new Standard.
- Information about the objectives, composition and operating procedures of the TRG is available on the IASB website (<http://go.ifrs.org/RTRG>).
- 40 submissions received from a variety of constituents at the time of January TRG meeting. 32 of these were considered by the TRG at its July 2014, October 2014 and January 2015 meetings.
  - For majority of issues, the TRG discussion highlights that constituents can understand and apply the Standard.
  - Some topics referred to IASB/FASB for consideration, of which two topics (licensing and identifying performance obligations) were discussed at February 2015 joint Board meeting.
- The meeting reports (‘Summary of issues discussed and next steps’) for the [July 2014](#) and [October 2014](#) meetings are available on IASB and FASB websites, together with papers and recordings of meetings.

# IASB tentative decisions at February 2015 board meeting (refer to [IASB Update](#))

- IASB and FASB met on 18 February 2015 to discuss two topics arising from the TRG discussions—licences of intellectual property (IP) and identifying performance obligations
- Beforehand, IASB discussed a broader paper ([Agenda Paper 7A](#)) setting out relevant issues to be considered in deciding whether and how to address issues emerging from the TRG, including:
  - the possible approaches to address the issues arising from TRG discussions;
  - the risks associated with addressing or not addressing the issues before the mandatory effective date;
  - the implications for maintaining convergence between IFRS 15 and Topic 606; and
  - the timing of making any clarifications.
- Individual IASB members expressed views, in particular with respect to balancing:
  - the need to provide any clarifications judged necessary for stakeholders in a way that minimises disruption to the implementation process; and
  - the desire to maintain convergence between IFRS 15 and Topic 606.

# IASB tentative decisions at February 2015 board meeting (refer to [IASB Update](#))

- The following table summarises the decisions made by IASB and FASB on the issues relating to ‘**Licensing**’ ([Agenda Paper 7B](#)):

Issue description	IASB	FASB
Determining when the nature of a licence is a right to <i>access</i> the entity’s IP	Clarify that a licence is a right to access IP if an entity’s activities significantly affect the utility of the IP.	Clarify that a licence is a right to access IP if an entity’s activities significantly affect the utility of the IP. Add a presumption that a licence of symbolic IP includes activities that significantly affect the utility of the IP.
Application of sales-based or usage-based royalties exception	Clarify that the exception applies whenever the licence is the predominant item to which the royalty relates, and that an entity should not split a single royalty.	Same decision as IASB.
Determining when an entity should assess the nature of a licence	No clarification considered necessary.	Clarify that in some cases an entity would need to determine nature of a licence that is not a separate performance obligation.
Contractual restrictions in licence arrangements	No clarification considered necessary.	Clarify that contractual restrictions are attributes of the licence and do not affect the identification of the promised goods or services.

Kindly email any questions that you have on the technical decisions of the IASB to Raghava Tirumala ([rtirumala@ifrs.org](mailto:rtirumala@ifrs.org)) in advance of the meeting.



# IASB tentative decisions at February 2015 board meeting (refer to [IASB Update](#))

- The following table summarises the decisions made by IASB and FASB on the issues relating to **‘Identifying performance obligations’** ([Agenda Paper 7C](#)):

Issue description	IASB	FASB
Promised goods or services	No action to be taken.	Not require an entity to accumulate goods or services assessed as immaterial at the contract level and assess their significance to the financial statements.
‘Distinct within the context of the contract’	Add examples to illustrate the application of the guidance.	<ul style="list-style-type: none"> <li>Add examples to illustrate the application of the guidance.</li> <li>Expand the articulation of the ‘separately identifiable’ principle.</li> <li>Revise the indicative factors with the re-articulated ‘separately identifiable’ principle.</li> </ul>
Shipping and handling activities	No decision	<ul style="list-style-type: none"> <li>Clarify that shipping and handling activities before the transfer of control are fulfilment activities.</li> <li>Add a policy election that allows an entity to account for shipping and handling activities after the transfer of control as fulfilment activities.</li> </ul>

Kindly email any questions that you have on the technical decisions of the IASB to Raghava Tirumala ([rtirumala@ifrs.org](mailto:rtirumala@ifrs.org)) in advance of the meeting.



# IASB's proposed plan for issuing clarifications to IFRS 15

- To minimise disruption to, and provide timely clarifications to assist stakeholders in, the implementation process, the IASB decided that it would develop a single Exposure Draft of proposed clarifications to IFRS 15.
- The ED will include the clarifications that the IASB tentatively decided to make at the February 2015 meeting together with any other clarifications that are considered necessary in the light of TRG discussions in January and March 2015.
- The IASB currently expects to approve the clarifications to be included in the ED at its June 2015 meeting.

# Questions for ASAF

---

1. Should the IASB amend IFRS 15 to maintain the near-identical wording with its US equivalent, even if that amendment is largely driven by questions or concerns in the US or the IASB do not think that amendment is required?
2. Do you have any comments on the IASB's tentative proposals to clarify the licensing guidance?
3. Do you have any comments on the IASB's plan to develop a single ED of the clarifications and the proposed timing?

# Issues for which IASB has decided no standard-setting required

- For majority of issues considered by TRG, the IASB and FASB have decided they do not need to consider the issue further. The report of the TRG meeting on the boards' websites should help educate and inform practice about that issue.
- For those issues arising from TRG discussions that are referred to the boards for further consideration, the IASB noted that even if it concludes no standard-setting is required, its discussion and basis for its conclusions should be another tool in educating and informing practice.
- For instance, for some of the issues discussed at the February 2015 meeting:
  - the IASB tentatively concluded that the Standard along with Illustrative Examples and Basis for Conclusions is clear and no further standard-setting is needed; and
  - the IASB agenda papers together with the IASB's discussions could help educate and inform practice about how to apply and interpret the guidance in IFRS 15.

# Questions for ASAF

---

4. Do you have suggestions on improving the methods of disseminating the information from the TRG and IASB discussions to enhance stakeholders' understanding of the principles in IFRS 15? How could you assist in this regard?

## Effective date (1 January 2017)

- The IASB has received requests from some entities to defer effective date to 2018. These formal requests, which are posted on the [IASB's website](#), have all been from entities in the Telco sector.
- During staff outreach, some entities from Information Technology sector requested for deferral of effective date.
- The FASB has received similar requests.
- The main arguments of the entities in support of deferral of effective date are as follows:
  - some believe there are too many issues to work through in the time available;
  - some US domestic preparers (and some others such as the foreign private issuers), which are required to present two year comparatives, using full retrospective application have to configure their IT systems (workarounds are inefficient and error prone) to account for the transactions under IFRS 15 from 1 January 2015; and
  - some entities have a structural problem in having many contracts with frequent modifications.

# Effective date (1 January 2017)

---

- Some US entities have expressed support for retaining the original effective date of 1 January 2017. If the effective date is deferred, those entities would not be able to adopt the Standard on 1 January 2017 if the FASB continues not to permit early adoption.
- The Boards plan to discuss the effective date in Q2 2015.

## Questions for ASAF

---

5. Are you aware of concerns about the 2017 effective date in your region? If so, are the concerns arising in a particular industry sector? Do the concerns primarily relate to operationalising the accounting (eg systems) or understanding the requirements of IFRS 15?
6. How important do you think it is to maintain convergence of the effective date?

