

## STAFF PAPER

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<b>Project</b>	<b>Revenue from Contracts with Customers</b>		
<b>Paper topic</b>	Implications of amending IFRS 15 before the mandatory effective date		
<b>CONTACT(S)</b>	Henry Rees	<a href="mailto:hrees@ifrs.org">hrees@ifrs.org</a>	+44 (0)20 7246 6466

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

### Purpose of the paper

1. This paper discusses issues, relevant in the context of IFRS, that the IASB should consider in determining whether, and how, to address the issues emerging from the joint IASB-FASB Revenue Transition Resource Group (TRG) discussions.

### Introduction and background

2. The IASB and the FASB (referred to collectively as ‘the Boards’) issued the new revenue Standard (IFRS 15 *Revenue from Contracts with Customers* and Topic 606 *Revenue from Contracts with Customers*) in May 2014. The Standard has an effective date of 1 January 2017, with early application permitted under IFRS. At the same time, the Boards decided to form the TRG to support implementation of the new Standard. More specifically, the TRG was set up to:
  - (a) solicit, analyse, and discuss stakeholder issues arising from implementation of the new Standard;
  - (b) inform the Boards about those implementation issues, which will help them determine what, if any, action will be needed to address those issues; and
  - (c) provide a forum for stakeholders to learn about the new Standard from others involved with implementation.

3. The TRG does not issue guidance. Instead, TRG members share their views on potential issues at a public meeting. After each meeting, the IASB and the FASB determine what action, if any, will be taken on each issue.

Since its formation, the TRG has met three times: on 18 July 2014, 31 October 2014 and 26 January 2015. At those meetings, the TRG discussed submissions from stakeholders in order to inform the Boards about potential issues arising from the implementation of the new revenue Standard. As of 6 February 2015, the TRG had received 40 submissions, of which 32 have already been considered by the TRG. The meeting report (‘Summary of issues discussed and next steps’) for the July and October 2014 meetings are available on the website. (Click on the links [July 2014 TRG meeting](#) and [October 2014 TRG meeting](#) to access the meeting summaries.)

4. The TRG discussion on the majority of the issues considered to date indicate that stakeholders should be able to understand and apply the Standard. However, TRG discussions at the July and October 2014 meetings indicated potential diversity in practice on the basis of practitioners’ present understanding of the new revenue standard for three issues. Those issues relate to:
  - (a) licences,
  - (b) identifying separate performance obligations, and
  - (c) determining whether an entity is acting as an agent or a principal.
5. Accordingly, the three issues have been referred to the Boards for further consideration. The first two will be considered at the February 2015 board meeting, in agenda papers 7B and 7C.

### **Ways of addressing issues emerging from the TRG**

6. When an issue has been referred to the Boards as a result of discussions at TRG meetings, the IASB needs to consider how, if at all, to address potential diversity in practice relating to that issue. The IASB could consider one or more of the following:
  - (a) conclude that the Standard, application guidance, Illustrative Examples and the Basis for Conclusions taken together provide sufficient guidance, and

no amendments to the authoritative or non-authoritative parts of the Standard are necessary.

- (b) amend the Standard or application guidance, ie the authoritative parts of the Standard.
  - (c) add to or amend the non-authoritative parts of the Standard, ie the Illustrative Examples and/or Basis for Conclusions, without amending the Standard or application guidance.
  - (d) acknowledge that diversity in practice might arise, but nonetheless decide only to monitor how practice develops potentially until the IASB undertakes its normal Post-implementation Review. The IASB's Post-implementation Review is an opportunity to assess the effect of the new requirements on investors, preparers and auditors, and normally begins after the new requirements have been applied internationally for two years. Thus, instead of taking any action at this time, the IASB could assess any implementation challenges in the future, drawing on a broader evidence base. Reasons for this approach might be because, for example, the issue is not expected to affect many transactions or that there is not yet evidence that the issue would result in diversity in practice internationally.
7. Should the IASB decide to amend either the authoritative or non-authoritative parts of the Standard, any such amendment would be subject to the IASB's due process for amendments to Standards, including developing an Exposure Draft
8. If the IASB concluded that no amendments are necessary at this time, its discussion and basis for its conclusion should be a useful tool in educating and informing practice about the Boards' intentions for the new Standard. The staff have considered whether the IASB should publish its reasons for not addressing issues following a process similar to the IFRS Interpretations Committee's rejection notice process. However, we are wary about introducing another process and think that the staff paper and IASB discussion should suffice. These could also serve as the basis for further education materials.

## Considerations in deciding whether, and how, to address issues emerging from the TRG

### *Risks associated with addressing, or not addressing, the issues*

9. For those issues for which the IASB believes diversity in practice might arise, we think that there are risks associated both with addressing the issues through amendments to IFRS 15 before its effective date, and with not taking any action at this time.
10. Taking *no action* to amend IFRS 15 at this time could have the following disadvantages:
  - (a) it might create concerns from the investor community about the possible effects of any diversity, particularly given the importance of revenue information when making investment decisions;
  - (b) it might cause or perpetuate difficulties for preparers and their auditors in using the Standard; and
  - (c) it might create the risk that those concerned about the potential diversity could decide to step in and take action that overrides the Standard if the IASB does not take action itself.
11. Nonetheless, there are also risks associated with addressing the issues that emerge from the TRG through amendments to IFRS 15, particularly at this early stage in the implementation process. When new Standards are issued, there is always an initial period in which interested parties assess the new requirements, and there are always initial questions that arise. Those questions are generally resolved as entities, auditors and others work through the issues over time, and gain a better understanding of the new requirements. As a result, the risk of diversity in practice when the new Standard is implemented can be lower than at first may appear. In contrast, providing additional guidance, even of a non-authoritative nature, can ‘reset the clock’ on this process. That can create the following difficulties:
  - (a) any intervention by the IASB could be disruptive to the implementation process that is already underway. Entities and others have already reached, or are in the process of reaching, their conclusions about how to account for

their contracts under the new Standard. In some cases, those conclusions will have resulted in changes to systems. It may cause undue costs if we were to require those entities to revisit the work they have already done to implement a Standard we have recently finalised.

- (b) amending a recently issued Standard may have implications that depend on the different ways in which IFRS 15 is incorporated into different jurisdictions. In particular, the issuance of amendments to an issued Standard may create the need to translate the amendments, and incorporate them into a Standard that may be partly through its incorporation process. This may create an unwarranted burden in some jurisdictions, particularly if the issue could have been resolved through other means.
- (c) there is a risk of unintended consequences if amendments are made within a short time frame to a Standard that was developed over a long period of time. The greater the extent of change, the greater the risk of unintended consequences, particularly because of the many interdependencies within the Standard. Accordingly, any amendments should be limited to the greatest extent possible.
- (d) providing guidance in response to issues raised might encourage further requests for even more guidance, and could potentially undermine the objective of principle-based Standards and the use of judgements. Excessively detailed guidance can create financial reporting complexity, sometimes resulting in different reporting for economically-similar transactions.
- (e) it is likely that any amendments would need to have an effective date that is after 1 January 2017, the effective date of IFRS 15. (See further discussion of timing in paragraphs 16–19.) Accordingly, some may argue that the effective date of IFRS 15 should be deferred so that IFRS 15 and any associated amendments could be implemented on the same date. This could also create a precedent that any further amendments arising from TRG discussions might create a demand for further deferral. Such uncertainty over the effective date of IFRS 15 could add to the costs of implementing IFRS 15 for those entities that have begun implementation projects.

**Implications for convergence**

12. It is also important to consider convergence because IFRS 15 and Topic 606 were issued as essentially identical Standards. If only one standard-setter were to amend its Standard, IFRS 15 and Topic 606 would no longer be fully converged.
13. In those circumstances, we think that the Boards could still retain the benefits of having a converged Standard if the outcomes of applying the two Standards are broadly similar, even if the wording of the guidance is not exactly the same, or if the level of detailed guidance differs. This could be the case, for example, if one Board decided to amend the Standard to provide more guidance than the other, provided that the requirements were not changed at a principles level. More detailed guidance in one Standard might narrow the range of judgements an entity might make to comply with one Standard, but would not necessarily result in different outcomes when applying the other Standard. Nonetheless, if one Board amends the Standard and the other does not, we would need to acknowledge that the Standards are no longer fully converged, and an entity would not necessarily be compliant with both Standards.
14. Although the ideal would be to retain fully converged Standards at all times, there may be differences in position between IFRS and US GAAP stakeholders, which may necessitate different conclusions about how to address the issues raised by the TRG. In particular:
  - (a) IFRS stakeholders are moving from having a limited amount of guidance in IAS 11 *Construction Contracts* and IAS 18 *Revenue* (and accompanying Interpretations) to substantively more guidance in IFRS 15.
  - (b) the opposite is true for US stakeholders. Topic 606 replaced significantly more revenue recognition guidance that often provided specific guidance for particular types of contracts.

Because of the different respective ‘starting points’ for IFRS and US GAAP stakeholders, the Boards may receive different requests for additional guidance or clarifications from their respective stakeholders. Even if stakeholders are looking for clarification on similar matters, the extent or amount of the clarification sought may differ.

15. We also note that if the FASB were to make some amendments to the new Standard over the next few years for which the IASB makes no equivalent amendment, then the IASB's Post-implementation Review would afford a good opportunity to review the effect of such amendments and consider whether any of the FASB's amendments should be incorporated into IFRS 15. That would allow time for the IASB to monitor whether diversity in practice actually occurs, while retaining the possibility of achieving full convergence with the FASB's Standard again.

### ***Timing***

16. If the IASB decides to amend IFRS 15, one issue that arises relates to the timing. As noted, there are three issues that have already been referred to the IASB and the FASB following TRG discussions. However, the TRG will meet three more times during 2015, and it is possible that further issues might be identified at those meetings. For example, there are some substantive submissions that had a preliminary discussion in January 2015 that will have a fuller discussion at the March 2015 TRG meeting.
17. At the same time, many entities will continue to work on the implementation of IFRS 15 as issued in May 2014. Arguably, providing timely assistance to preparers and auditors and preventing diversity in practice taking hold suggests that any possible amendments should be made as soon as possible. That would suggest that if the IASB were to conclude that any amendment to IFRS 15 is warranted, it should proceed with developing an Exposure Draft of proposed amendments as soon as possible.
18. On the other hand, the IASB has had considerable feedback from stakeholders in the past requesting that it should not create constant change. Successive Exposure Drafts of proposed changes to IFRS 15 would create a burden on the IASB's constituents and uncertainty for entities that are already implementing IFRS 15. As a result, some might consider that a better approach would be to address all possible amendments to IFRS 15 emerging from TRG discussions as a single package or in periodic packages.

19. Regardless of the approach taken, it would already be difficult for the IASB to finalise an amendment and *require* that it be implemented by the effective date of IFRS 15, which is 1 January 2017.

### ***Wider consultation***

20. The way in which the IASB addresses the issues raised by the TRG has wider implications if the IASB were to form a transition resource group for other Standards it completes in the future. Although the IASB's intent is that a transition resource group would be formed only when justified by special circumstances, nonetheless, the precedent set by the TRG may be influential.
21. Accordingly, the staff proposes that if the IASB were sympathetic to amending IFRS 15 at this time, it should discuss the implications of making those amendments with its other consultative bodies, including the IFRS Advisory Council and the Accounting Standards Advisory Forum.

#### **Question for discussion**

Do you have any comments or questions on the considerations outlined in this paper?