

## STAFF PAPER

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## IFRS Interpretations Committee Meeting

Project	IFRS 15 tentative agenda decisions		
Paper topic	General feedback		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (Board) can make such a determination. Decisions made by the Committee are reported in IFRIC<sup>®</sup> *Update*. The approval of a final Interpretation by the Board is reported in IASB<sup>®</sup> *Update*.

## Introduction

1. As explained in Agenda Paper 2A to this meeting, the IFRS Interpretations Committee (Committee) received feedback on three tentative agenda decisions related to the application of paragraphs 22–30 and 35–37 of IFRS 15 *Revenue from Contracts with Customers* to real estate contracts. The objective of this paper is to provide a summary and staff analysis of respondents' comments that (a) apply to all the tentative agenda decisions or (b) relate to the Committee's activities more generally.
2. Respondents' comments analysed in this paper include the following:
  - (a) Concluding on specific fact patterns (paragraphs 3–18);
  - (b) Information obtained from recognising revenue over time (paragraphs 19–22);
  - (c) Other fact patterns (paragraphs 23–25);
  - (d) Outreach (paragraphs 26–29); and
  - (e) Due process steps (paragraphs 30–32).

## Concluding on specific fact patterns

### *Respondent comments*

3. A number of respondents raise concerns about the Committee providing technical responses to highly-specific fact patterns submitted to it. One Board member highlighted similar concerns at the October 2017 Board meeting. At the November 2017 meeting, the Committee itself discussed the importance of carefully considering the appropriateness of reaching such conclusions, and said it would relook at this in considering the feedback on the questions relating to IFRS 15.
4. The OIC, the ASBJ and Mazars say responding to highly-specific fact patterns may have unintended consequences—namely, that an entity might inappropriately apply the Committee’s conclusion to a fact pattern that is similar but not the same, and in doing so might misapply the requirements in a particular IFRS Standard. The ANC raises similar concerns—it suggests that, in such cases, the Committee clearly articulates in the fact pattern the factors that are relevant for consideration in reaching the particular conclusion. Mazars also says this approach risks creating a rules-based environment for implementation.
5. The ASCG says it is desirable at first glance for the Committee to reach conclusions on specific fact patterns. However, it says it is unclear how readers of such agenda decision can identify whether, and to what extent, entities could apply these conclusions to other fact patterns by analogy. It suggests that the Committee consider designing agenda decisions so that they could be applied to many other (and less specific) fact patterns. It also suggests that the Committee might consider providing variations of the fact pattern submitted from which stakeholders would be able to see what might change the conclusion.
6. The ASBJ notes that examples illustrating the application of new Standards are included in educational webcasts and also in agenda decisions. It suggests that the Board clarify what types of questions and examples it addresses in webcasts and what types of questions and examples the Committee addresses in agenda decisions. The ASBJ says, in its view, detailed analyses regarding how to implement a particular IFRS Standard could be addressed in educational material

(including webcasts) and, if needed, the language in the relevant IFRS Standard could be revised possibly through the Annual Improvements process. In contrast, it suggests that agenda decisions do not include explanatory material when the Committee concludes that the principles and requirements provide an adequate basis for an entity to determine its accounting.

### **Staff analysis**

7. In response to comments received on the Trustees' 2015 *Review of Structure and Effectiveness*, the Committee has focussed on its responsiveness both in terms of timeliness and also by trying to provide as much support as possible for entities applying IFRS Standards, even when the Committee concludes that standard-setting is not required.
8. For each question submitted, the Committee is required to consider at a public meeting whether to add a project to its standard-setting agenda. In addition, the Committee has made efforts to improve the clarity of explanatory material included in agenda decisions when, having applied the agenda criteria in the *Due Process Handbook*, it decides not to add a matter to its standard-setting agenda. So the Committee often includes material in agenda decisions that explains how the applicable principles and requirements apply to the question submitted. Although the ASBJ disagrees with this approach, we have received generally positive feedback from stakeholders over the past year about the Committee's work.
9. We think an agenda decision with explanatory material can shed additional light on a question by providing context for the question and linking the relevant pieces of the Board's literature together. For example, it may be unclear from reading a particular requirement in isolation exactly what the Board had in mind when it developed that requirement. An agenda decision can help by, for example, linking the requirement to the principle underlying it or to the Board's objective in developing the requirement or the Standard more generally. This supports the objective of helping stakeholders obtain a common understanding of the requirements and their application, and thus ultimately helps to support consistent application of the Standards.

10. For most agenda decisions that include explanatory material, the material is relevant for a range of fact patterns or transactions with characteristics specified in the agenda decision, ie the material generally does not address highly-specific fact patterns. For example, the proposed tentative agenda decision in Agenda Paper 4 on deferred tax would be relevant for any lease recognised on a lessee's balance sheet and for which the lessee receives tax deductions on a cash basis, regardless of the exact features of the lease. It would also be relevant for decommissioning costs, tax deductions for which are also received on a cash basis. That agenda decision (if proposed and finalised) would therefore have more general applicability.
11. The Committee has received a number of questions about highly-specific transactions, the answer to which depends on the particular facts and circumstances of the transaction—namely, the three questions on the application of IFRS 15 to real estate contracts (discussed in Agenda Papers 2C-2E) and the questions on the application of IFRS 9 *Financial Instruments* to dual currency bonds and load following swaps (discussed in Agenda Papers 8 and 9).
12. How we address such questions when the Committee has decided that standard-setting is not required needs careful consideration. As acknowledged by the Committee and noted by respondents, there are risks to providing answers to highly-specific fact patterns. The main risk highlighted is that stakeholders might inappropriately analogise to the conclusion when the facts are similar but not the same. The same risk arises when the Board or Committee develops illustrative examples. There is also the risk that, in appearing to be open to answering highly-specific questions, the Committee might inadvertently undermine the appropriate use of judgement by others that is required when applying a principles-based framework. The Committee might also appear open to acting like a technical enquiry helpdesk. In addition, if the answer very much depends on the particular facts and circumstances, then there may be little benefit for IFRS stakeholders around the world in the Committee providing answers.
13. For these reasons, the Committee generally does not provide answers to highly-specific fact patterns.

14. Not answering such questions does not prevent the Committee from being responsive or helpful. Indeed, we think the Committee would be responsive with respect to the IFRS 15 questions simply by pointing to the applicable requirements and providing some context (eg setting out the Board’s objective in developing particular requirements and the factors an entity needs to consider in applying those requirements to real estate contracts more generally)—this aligns with the ASCG’s suggestion mentioned in paragraph 5 of this paper. For most questions submitted, we think the Committee can achieve the objective of helping stakeholders obtain a common understanding of the requirements and their application by pointing to the applicable principles and requirements and providing some context.
15. We think this is the case for the question on the identification of performance obligations discussed in Agenda Paper 2D. When discussing this question at its November 2017 meeting, the Committee considered whether to conclude upon the number of performance obligations in the fact pattern in the submission—at that time, it decided to do so but noted that it would reconsider this in the light of the comments received. Having considered those comments, we now recommend that the Committee include in the agenda decision the explanatory material setting out the factors an entity would consider in identifying performance obligations, but not conclude on the matter. We think this explanatory material would achieve the objective of supporting a common understanding of the requirements and, in this respect, note that our recommendation would result in finalising almost all of the wording in the tentative agenda decision on identifying performance obligations.
16. However, at times we think it might be necessary to go further to achieve that objective. For example, in the case of the IFRS 15 questions we recommend concluding on the application of paragraph 35 of IFRS 15 to the fact patterns in the submissions. One reason for doing so is because we are aware that these questions are causing disruption in the implementation and application of IFRS 15. When we are aware of such disruption and if, in complying with due process, we think the Committee could help in resolving the disruption using an agenda decision, we recommend that the Committee does so.

17. For the questions regarding the application of paragraph 35 of IFRS 15 we think the Committee needs to go further than is typically the case in order to help stakeholders obtain a common understanding of the requirements. This is because of the nature of the requirements and the contracts to which they apply. For example, paragraph 35(c) discusses an entity's enforceable right to payment for performance to date. In our view, providing only general explanatory material without discussing the specific fact patterns submitted would not be sufficient to help stakeholders obtain a common understanding of how to assess the existence of an enforceable right. We also think the contrasting conclusions regarding the application of paragraph 35(b) to the fact patterns discussed in Agenda Papers 2C and 2D help to explain how to apply those requirements (in line with the ASCG's suggestion about variations of fact patterns).
18. If and when the Committee provide answers for highly-specific fact patterns, we agree with the ANC that it is important to clearly articulate the fact pattern and the factors that are relevant for consideration in reaching the particular conclusion. This reduces the risk of inappropriate application of the Committee's conclusions. That said, we think it is also important that an agenda decision is read as an extra piece of explanatory material that does not, and should not, replace an entity's consideration of all facts and circumstances relevant in determining how to appropriately account for its transactions. The material in agenda decisions should not be seen as providing answers per se but rather as providing additional, helpful information to assist an entity in applying the Standards in its own circumstances.

## **Information obtained from recognising revenue over time**

### ***Respondents comments***

19. The Brazilian real estate industry and Norwegian real estate developers say, in their view, financial statements will provide less useful information if, in the fact patterns in the submissions discussed in Agenda Papers 2C and 2E, entities are required to recognise revenue at a point in time rather than over time.

**Staff analysis**

20. When developing new requirements, the Board or Committee consider the usefulness of the information provided by those new requirements.
21. The submissions ask the Committee about the application of paragraph 35 in IFRS 15 to particular real estate contracts. The Committee has responded to those requests. In such situations, we think the Committee's role is that—to respond by explaining how to apply the requirements in the context of the particular facts submitted—the Committee's role is not to reconsider the usefulness of the information provided by the requirements.
22. When developing IFRS 15, we note that the Board specifically considered the usefulness of the information that would result from the application of paragraph 35 to residential multi-unit real estate developments. Paragraphs BC151-BC152 notes the Board's conclusions in this respect.

**Other fact patterns****Respondent comments**

23. The KASB and the Construction Association of Korea outline facts that apply to the construction of real estate in Korea—those facts are not the same as any of the fact patterns submitted to the Committee and discussed in Agenda Papers 2C-2E. The Construction Association of Korea does not ask the Committee to analyse the fact pattern included in its letter. The KASB outlines two views on how IFRS 15 might apply to the fact pattern outlined in its comment letter to illustrate its concern that the analysis in the tentative agenda decision might be used to support what, in its view, would be an unreasonable interpretation of IFRS 15. It suggests that IFRS 15 be amended to prevent such an unreasonable interpretation to arise in the context of construction contracts in Korea.

**Staff analysis**

24. We have not analysed the fact pattern specified in these comment letters, which is different from those submitted to the Committee. We think the concerns raised by

the KASB mainly relate to providing conclusions on specific fact patterns, which is discussed earlier in this paper.

25. We suggest no further action in this respect.

## Outreach

### ***Respondent comments***

26. The OIC disagrees with our decision not to perform outreach on the submissions discussed at the November 2017 meeting.

### ***Staff analysis***

27. When we perform outreach on submissions to the Committee, the main information that we seek to obtain is information about practice—typically, whether the transactions/contracts/situation described in the submission are common in some or many jurisdictions and, if so, what is the predominant accounting treatment that entities apply to that transaction/contract/situation? This information is helpful in assessing whether the matter has widespread effect and has, or is expected to have, a material effect on those affected (paragraph 5.16 of the *Due Process Handbook*).
28. As explained in each of the agenda papers that the Committee discussed, we did not perform outreach on the three submissions relating to IFRS 15 because we were already aware that it is common in many jurisdictions for entities to enter into real estate contracts before construction is complete. We were also aware that contracts and legislation in different jurisdictions vary.
29. We concluded that, in this circumstance, there were insufficient benefits to performing outreach both for the Committee and for respondents to the outreach. We expected that the outreach would only have confirmed what we already knew and would have added to the time needed to address the submissions. In this respect, we were also aware that the matters submitted were urgent in nature in the light of the effective date of IFRS 15.



## Due process steps

### *Respondent comments*

30. Orange suggests that the process of publishing agenda decisions warrants discussion with the Due Process Oversight Committee to potentially amend the *Due Process Handbook*. Orange thinks the Committee should consider the following before publishing a tentative agenda decision:
- (a) the agenda decision in the context of the qualitative characteristics of financial information in the *Conceptual Framework* and the general objectives of the applicable Standard(s);
  - (b) the potential pervasiveness of the agenda decision beyond the fact pattern in the submission;
  - (c) whether and in what form to publish an agenda decision close to the effective date of a Standard; and
  - (d) the effect of publishing an agenda decision on a Standard that is converged with US GAAP.
31. Orange also makes suggestions regarding (a) the Board's due process in finalising a Standard, and (b) whether and how the Committee addresses submissions that have a jurisdictional dimension.

### *Staff analysis*

32. We think the Committee is unable to address these comments. Orange's comment letters have been provided to the IFRS Foundation staff assisting the Trustees with their review of the *Due Process Handbook*.

#### **Question 1 for the Committee**

1. Does the Committee have any comments or questions on the matters discussed in this paper?