STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**IFRS 15 *Revenue from Contracts with Customers*–Assessment of promised goods or services**
Paper topic	Initial Consideration

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about whether a stock exchange (entity) provides an admission service that is distinct from an ongoing listing service.

2. The objective of this paper is to:

   (a) provide the Committee with a summary of the matter;

   (b) present our research and analysis; and

   (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

Structure of the paper

3. This paper includes:

   (a) background information (paragraphs 5–11);

   (b) outreach (paragraph 12);

   (c) staff analysis (paragraphs 13–52); and

   (d) staff recommendation (paragraphs 54–61).

4. There are two appendices to this paper:

   (a) Appendix A—proposed wording of the tentative agenda decision; and

   (b) Appendix B—submission.

Background information

5. Paragraph 22 of IFRS 15 states:

   > At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:
   >
   > (a) a good or service (or a bundle of goods or services) that is distinct; or
   >
   > (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 23).

6. Paragraph 47 of IFRS 15 requires an entity to determine the transaction price of the contract. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer (excluding amounts collected on behalf of third parties).

7. Having determined the transaction price, an entity then allocates that transaction price to the performance obligations identified. Paragraph 73 of IFRS 15 states:

   > The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

8. In the fact pattern described in the submission, the entity charges a customer two types of fee related to listing on the exchange:

   (a) admission fees—non-refundable upfront fees. These fees may be flat fees, or based on the value of the securities being admitted; and

   (b) ongoing fees—periodic (typically annual) fees payable having been admitted to the exchange. These fees may be based on the total market capitalisation of the customer during each annual period.

9. The entity relates these fees to two services:

   (a) Initial listing (admission to the exchange)—the submission highlights a number of activities the entity undertakes to enable admission to the exchange. These include:

      (i) internal risk assessment and due diligence for new applications;

      (ii) submitting high risk applications to the appropriate committee for assessment and approval;

      (iii) review of a customer's listing application forms, including checking all relevant documentation is correctly in place;

      (iv) issuing reference numbers and tickers for the new security;

      (v) circulating data sync files to allow the security to be traded once admitted;

      (vi) processing of the listing and admission to the market;

      (vii) publishing the security on the order book;

      (viii) issuing of dealing notice on the admission date; and

      (ix) presentations and seminars about an exchange's markets and market segments, which act as a form of education for the customer.

   (b) Ongoing listing—for customers that have been admitted, the entity provides ongoing market access and maintains the listing (for example, maintaining technology, regulatory oversight and general operation).

10. In addition to the activities undertaken relating to the initial listing, the submission identifies the following benefits that a customer obtains from these activities:

    (a) access to capital and enabling companies to raise finance at the time of admission for growth and further development;

    (b) instantaneous increase/change in shareholder base immediately after listing;

    (c) immediate objective market value of the business based on the market value of the securities admitted; and

    (d) instantaneously raised public profile and enhanced status, which is a significant change from pre to post listing.

11. The submitter asks whether, applying IFRS 15, the entity identifies as separate performance obligations an initial listing service and an ongoing listing service.

Outreach

12. We decided not to perform outreach on this topic. This is because the submitter provided us with publicly available financial statements of stock exchange entities from various jurisdictions in which those entities describe the expected effects of adopting IFRS 15, mentioning this fact pattern in particular. Accordingly, we are aware that the fact pattern is widespread.

Staff analysis

Assessing promised goods or services

13. In identifying the performance obligations in a contract with a customer, an entity first assesses the goods and services promised in the contract. Paragraph 22 of IFRS 15 states '…an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer…'. In paragraph BC87, the Board notes that 'before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all of the promised goods or services in that contract'.

14. Having assessed those promised goods or services, an entity then identifies as a performance obligation each promise to transfer (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct good or services that are substantially the same and that have the same pattern of transfer to the customer (paragraph 22 of IFRS 15).

15. In the context of assessing the promised goods or services in a contract, paragraph 25 of IFRS 15 states:

> Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not a performance obligation.

16. Paragraphs B48–B51 provide further requirements for an entity to consider when it charges non-refundable upfront fees to customers. In particular, paragraph B49 states:

> To identify performance obligations in such contracts, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 25). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right as described in paragraph B40.

17. Paragraph BC93 explains the Board's considerations in developing these requirements:

> The boards also clarified that an entity should not account for activities it may perform that do not transfer goods or services to the customer. This may occur in many contracts in which an entity undertakes separate activities that do not directly transfer goods or services to the customer (for example, service contracts that require significant setup costs), even though those activities are required to successfully transfer the goods or services for which the customer has contracted. The boards decided that including those activities as performance obligations would have been inconsistent with the core revenue recognition principle because those activities do not result in a transfer of goods or services to the customer.

18. The fact pattern described in the submission is one in which the entity provides a customer with access to the capital markets by admitting the customer for listing on a stock exchange; the entity charges the customer a non-refundable upfront fee as well as ongoing listing fees. Accordingly, we think the main question in the submission relates to the assessment of the promised goods and services in the contract, ie does the entity promise to transfer to the customer a service of initially being listed (an initial listing service) as well as a service of being listed on an ongoing basis (an ongoing listing service), or instead does it promise to transfer only one service of being listed on the exchange?

19. The submission (reproduced in Appendix B to this paper) discusses some of the requirements in paragraphs 27–30 of IFRS 15 relating to the assessment of whether a promised good or service is distinct. An entity would make such an assessment only if it has identified more than one promised good or service in the contract. As noted above, in the fact pattern described in the submission we think the main question relates to the assessment of the promises in the contract, rather than an assessment of 'distinct' as described in paragraphs 27–30 of IFRS 15. Accordingly, our analysis in the following paragraphs focuses on the assessment of the promised goods and services in the contract.

Is there an initial listing service?

Activities performed at or near contract inception

20. Paragraph 25 of IFRS 15 (reproduced above in paragraph 15 of this paper) notes that performance obligations include only those activities undertaken that transfer a good or service to a customer. It uses as an example a services provider performing various administrative tasks to set up a contract. It concludes that those setup activities are not a performance obligation because the performance of those tasks does not transfer a service to the customer.

21. Paragraph B49 expands upon this requirement specifically in relation to contracts for which an entity charges a customer a non-refundable upfront fee at or near contract inception. For such contracts, an entity assesses whether the fee relates to the transfer of a promised good or service. It notes that even though the fee might relate to activities the entity must undertake at or near contract inception to fulfil the contract, that activity might not result in the transfer of a promised good or service to the customer.

22. Accordingly, in the fact pattern described in the submission the entity assesses whether the activities that it undertakes (listed in paragraph 9(a) of this paper) results in the transfer of a promised good or service to the customer.

23. The activities listed in paragraph 9(a)(i)–9(a)(viii)[1] describe activities the entity needs to undertake to enable the customer to be listed on the stock exchange. Those activities are required to 'successfully transfer the promised goods or services for which the customer has contracted' (paragraph BC93)—ie the service of being listed on the exchange. In our view, however, undertaking those activities does not transfer a service to the customer.

Benefits obtained by the customer

24. The submission identifies various benefits (reproduced in paragraph 10 of this paper) that the customer obtains from the activities undertaken at or near contract inception

[1] Paragraphs 38–42 of this paper discuss the activity listed in paragraph 9(a)(ix) further.

listed in paragraph 9(a) of this paper. We have considered those benefits to assess whether the entity transfers a service to the customer on initial listing.

25. The benefits listed in paragraph 10 identify the benefits obtained by the customer from being listed on the stock exchange. The benefits arise as a result of being listed; the customer did not have those benefits before being listed. In our view, however, those benefits are no different from the benefits obtained by the customer after the initial listing—ie those benefits are the same benefits the customer obtains the day after listing and on all subsequent days for which the customer remains listed.

26. Accordingly, we think the benefits obtained by the customer from being listed do not indicate that the customer obtains a service on initial listing.

Series of distinct services

27. We think the contract may include a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (ie a series of distinct listing services for each day that the customer is listed). Paragraph 22 of IFRS 15 requires an entity to identify such a series of distinct services as a single performance obligation.

28. Paragraphs BC113–BC116 of IFRS 15 explain the Board’s reasons for including that requirement in paragraph 22. Paragraph BC114 uses an example to illustrate that, without that requirement, in a repetitive service contract such as a cleaning contract an entity would be required to allocate the overall consideration to each increment of service (for example, each hour of cleaning) to be provided in the contract. The Board decided that it would not be cost-effective to apply the model in this manner, and included paragraph 22(b) of IFRS 15 as part of the definition of a performance obligation to alleviate costs. This is because when paragraph 22(b) of IFRS 15 applies, an entity would identify a single performance obligation and allocate the transaction price to the performance obligation. The entity would then recognise revenue by applying a single measure of progress to that performance obligation.

29. We think the listing service provided by the entity is comparable in some respects to a cleaning contract because it also involves the transfer of a series of services to the

customer—ie the entity provides a daily/hourly service of being listed on the exchange for each day that the customer is listed.

30. We note that the requirements regarding a series of distinct services might be applicable only if the contract is not cancellable. If the contract is cancellable at any time, then the entity would account for that contract as a day-to-day contract.

Passporting

31. The submission notes that customers of an entity operating in the European Economic Area (EEA) have the right to use an approved prospectus to obtain a listing on a second exchange. Entities being admitted to an exchange in the EEA have this right for up to 12 months after being admitted. The entity can use this 'passporting' right to (a) create a secondary listing in another jurisdiction, or (b) change the location of its primary listing.

32. We have considered whether this passporting right provides evidence of the transfer of a good or service to the customer on initial listing.

33. Based on the fact pattern described in the submission, we think the passporting right is merely a feature of being listed. A customer must initially list on an exchange before applying to passport—the customer cannot simply take a certificate of approval to another exchange in the EEA at the conclusion of the application process without first listing on the entity's exchange.

34. We view a customer's right to use the passporting facility as similar to some other reciprocal agreements; for example, membership of a sports club that provides customers not only with access to that sports club but also access to other clubs that are part of a wider sporting network. In that case, we think the right to access other clubs is a feature of the membership of the sports club; it does not provide evidence of a service promised to the customer on initial admission to the club.

Listing application rejected

35. In assessing whether the entity transfers a good or service to the customer on initial listing, we have also considered what happens if the customer fails to obtain a listing—in that situation, has the customer obtained any goods or services that would indicate there is an initial listing service?

36. We have been provided with information about the listing rejection process in a number of jurisdictions. For some of these jurisdictions, we are not aware of any customers that have been rejected in an application for a listing. In those jurisdictions, we understand that customers continually refine their application until the listing authority is satisfied that the customer meets the listing criteria.

37. In other jurisdictions entities consider applications as a ‘checklist’. If a customer does not meet all the items on the checklist, then the entity does not approve the application. In that case, we are not aware that the customer obtains anything from the entity that might indicate the transfer of a good or service on initial listing.

Are there any other services in the contract?

Education

38. Paragraph 9(a)(ix) of this paper lists as one of the activities undertaken by the entity presentations and seminars about the exchange’s markets and market segments. Depending on the particular facts and circumstances, we think that activity may result in the transfer of a service to the customer—the provision of education.

39. An entity would need to consider the particular facts and circumstances pertaining to this education to determine whether it transfers a service to the customer. We think this might depend on the type of education provided to a customer.

40. For example, if the entity is merely guiding the customer through the listing application process, then we think such education is likely to represent an embedded part of the service of being listed on the exchange—ie it would not be a service. This is because in that case the entity is explaining its listing process; it is not transferring a service to the customer. As noted in paragraph 36 of this paper, we are aware that some entities provide such education—they guide customers through the application process, resulting in a customer continually refining its application until it is accepted.

41. In contrast, if the education were on matters other than the application process (from which the customer could benefit unrelated to the listing), then this may result in the transfer of an education service to the customer.

42. It is important to note that the identification of a promised education service does not necessarily mean that the entity would recognise as revenue the non-refundable upfront fee at the time of providing the education to the customer. In that situation, the entity would first assess whether the education service is distinct (applying paragraphs 27–30 of IFRS 15). The entity would then allocate the transaction price to each performance obligation in the contract in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services (paragraph 73 of IFRS 15).

Material right

43. In researching this submission, we have identified some entities that allow customers to extend their listing beyond the initial non-cancellable period. An entity therefore needs to consider whether the contract includes a material right that the entity identifies as a performance obligation separate from the listing service.

44. Paragraphs B39–B43 of IFRS 15 specify requirements relating to customer options for additional goods and services. In particular, paragraphs B40–B41 describe the circumstances in which an entity considers as a material right an option to acquire additional goods and services:

> B40 If, in a contract, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.
>
> B41 If a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the

> customer with a material right even if the option can be exercised only by entering into a previous contract. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the customer exercises the option to purchase the additional goods or services.

45. Illustrative Example 53 accompanying IFRS 15 provides an example in which an entity enters into a contract with a customer with a non-refundable upfront fee. In the example the customer is able to renew the contract each year.

Fees for subsequent listings

46. In researching this submission, we have identified that a similar question arises for fees charged by an entity for subsequent listings—ie fees an entity charges a customer for subsequent listings of (a) additional shares of the same class, or (b) new shares of a different class. We understand that, for such subsequent listings, an entity often charges a non-refundable upfront fee as well as an ongoing fee.

47. We think the starting point in considering how to account for fees charged for subsequent listings is no different from the starting point in considering fees for initial listings. The entity first assesses the goods and services promised in the contract. We are not aware of any reason why an entity would consider the assessment of promised services differently for subsequent listings than for the initial listing.

Staff conclusion

48. IFRS 15 requires an entity to assess the promised goods and services in a contract with a customer. Having assessed those promised goods or services, an entity then identifies as a performance obligation each promise to transfer (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (paragraph 22 of IFRS 15).

49. Although the submission asks whether the initial listing service and ongoing listing service are separate performance obligations, we think the main question relates to the

assessment of the promises in the contract, rather than an assessment of 'distinct' as described in paragraphs 27–30 of IFRS 15.

50. In considering the fact pattern described in the submission, we think the entity provides a service of being listed on the exchange. In our view, undertaking the activities listed in paragraph 9(a)(i)–9(a)(viii) do not transfer a service to the customer.

51. Nonetheless, we think there may be contracts for which an entity assesses that there is more than one promised good or service in the contract. For example, we think in some circumstances an exchange may provide an education service or provide a customer with an option for additional services that provides the customer with a material right.

52. When an entity has assessed the goods and services promised in the contract, it determines whether those goods and services are distinct applying paragraphs 27–30 of IFRS 15 (ie it identifies the performance obligations in the contract). The entity then allocates the transaction price to each performance obligation(s) in the contract in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services (paragraph 73 of IFRS 15).

Question 1 for the Committee
Does the Committee agree with our analysis of the requirements in IFRS 15, summarised in paragraphs 48–52 of the paper?

Should the Committee add this matter to its standard-setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?[2]

53. Based on our analysis, we think the requirements in IFRS 15 provide an adequate basis for an entity to identify the performance obligations in the fact pattern described in the submission.

Staff recommendation

54. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16–5.17 of the *Due Process Handbook* (discussed in paragraph 53 of this paper), we recommend the Committee does not add this matter to its standard-setting agenda. Instead, we recommend it publish an agenda decision that explains how an entity applies the requirements in IFRS 15 to the fact pattern described in the submission.

Should the Committee answer the fact pattern in the submission?

55. The Committee generally does not provide answers to highly specific fact patterns.

56. In March 2018 the Committee discussed whether it should provide a response to specific fact patterns submitted to it and, if so, in what circumstances. Paragraphs 3–18 of Agenda Paper 2B to that meeting discuss some of the considerations made by the Committee.

57. The objective of including explanatory material in agenda decisions is to help stakeholders obtain a common understanding of the requirements and their application, and thus ultimately supports consistent application of the Standards. 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.

[2] Paragraph 5.16(b) of the *Due Process Handbook*

58. One reason for responding to a specific fact pattern is if we are aware that the question is 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.

59. In this case, we are aware that the question in the submission is causing difficulties in the application of IFRS 15. Some stock exchange entities included a reference to this submission in the accounting policy note to their 2018 interim financial statements.

60. Accordingly, if the Committee agrees with the staff analysis in this paper, we recommend that the Committee provide a conclusion regarding the assessment of the promised goods or services in the contract. We think this would be helpful to stakeholders in obtaining a common understanding of the requirements.

61. Appendix A to this paper outlines the proposed wording of the tentative agenda decision.

Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the tentative agenda decision

Assessment of promised goods or services (IFRS 15 *Revenue from Contracts with Customers*)

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

a) a good or service (or a bundle of goods or services) that is distinct; or

b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In paragraph BC87 of IFRS 15 the Board note that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the particular facts and circumstances of the contract. Accordingly, the outcome of an entity’s assessment depends on those particular facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, including:

- *internal risk assessment and due diligence for new applications;*
- *submitting high risk applications to the appropriate committee for assessment and approval;*
- *reviewing issuers’ listing application forms, including checking all relevant documentation is correctly in place;*
- *issuing reference numbers and tickers for the new security;*
- *circulating data sync files to institutions to allow the security to be traded once admitted;*
- *processing of the listing and admission to the market;*
- *publishing of the security on the order book; and*
- *issuing of dealing notice on the admission date.*

In addition to those activities, the customer obtains the following benefits from being listed on the exchange:

- *access to capital to enable a customer to raise finance at the time of admission for growth and further development;*
- *instantaneous increase/change in shareholder base after listing;*

- *immediate objective market value of the business based on the market value of the securities admitted; and*
- *instantaneously raised public profile and enhanced status.*

The Committee observed that the activities performed by the entity at or near contract inception are required to successfully transfer the goods or services for which the customer has contracted—ie the service of being listed on the exchange. However, the performance of those activities by the entity does not transfer a service to the customer.

The Committee observed that the benefits obtained by the customer from being listed on the exchange arise as a result of being listed; the customer did not have those benefits before being listed. Those benefits are no different, however, from the benefits obtained by the customer after the initial listing—ie those benefits are the same benefits the customer obtains the day after listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer an admission service as well as an ongoing listing service to the customer. Instead, the service promised by the stock exchange is the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B—Submission

A1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

Stock exchanges reporting under IFRS have been considering how the implementation of IFRS 15 might impact the accounting for their revenue streams, in particular, admission fees. Admission fees are non-refundable upfront fees. Therefore, paragraphs B48-B51 of IFRS 15 require the exchanges to determine whether a distinct good or service is transferred to the customer or if it is advance payment for future goods or services.

While several issues may arise as a consequence of this determination (e.g., determining the appropriate measure of progress, accounting for contract costs), this agenda item request is solely in relation to whether the admission to a stock exchange is distinct from the ongoing listing (i.e., whether there is one performance obligation or two).

1. Background

Stock exchanges typically provide the following services in return for two separate sources of revenue:

a. Admission – the stock exchange undertakes significant upfront activity to enable admission onto an exchange, including:
   - Internal risk assessment and due diligence for new applications;
   - High risk applications submitted to the appropriate committee for assessment and approval;
   - Review of issuers listing application forms, including checking all relevant documentation is correctly in place;
   - Issuing reference numbers and tickers for the new security;
   - Circulating data sync files to institutions (on the day before admission) to allow security to be traded once admitted;
   - Processing of the listing and admission to the market;
   - Publication of the security on the order book; and
   - Issue of dealing notice on admission date.

   Prior to admission, issuers also receive presentations and seminars about an exchange's markets and market segments, which act as a form of education for the potential issuer. In return, the customer pays the exchange a non-refundable upfront fee at the point of admission (admission fee). These may be flat fees, or based on the value of securities being admitted.

b. Ongoing listing – for customers that have been admitted, the exchange provides ongoing market access and maintaining the listing (maintain technology, regulatory oversight, general operation etc.). In return, the customer pays a periodic (typically annual) fee to remain listed on the exchange (ongoing listing fee). This fee may be based on the total market capitalisation of a company during each annual period.

2. Accounting treatment under IAS 18

Prior to the adoption of IFRS 15, practice under IFRS generally has been to recognise fees for admission to a stock market upfront, at the point of admission, with the ongoing listing fees recognised over the period (typically a year) to which they related.

3. Issue

Is admission to a stock exchange a distinct service from ongoing listing services (i.e., is there one performance obligation or two)?

Divergent views under IFRS have emerged amongst exchanges globally on whether admission and ongoing listing are distinct (i.e., separate performance obligations), broadly split between View 1 and View 2 below.

View 1: The admission service (service 1) and ongoing listing services (service 2) are separate performance obligations.

Those in favour of this view provide the following reasons:

i. A recipient of the exchange's admission services can benefit from service 1 separately from service 2. While admission is required to be listed, an issuer need not remain listed to benefit from admission. The benefits of service 1 are:
   - access to capital and enabling companies to raise finance at the time of admission for growth and further development;
   - instantaneous increase/changing shareholder base immediately after listing;
   - immediate objective market value of the business based on the market value of the securities admitted;
   - instantaneously raised public profile and enhanced status which is a significant change from pre to post listing

   The benefits of service 2 are ongoing access to liquidity pool and changing investor base.

   Proponents of View 1 acknowledge that there is one-way dependency between admission and listing, but note that IFRS 15. 29(c) requires two-way dependency to conclude that the promises are highly interdependent. Therefore, the delivery of service 1 satisfies the criteria set out in IFRS 15.27, of being capable of being distinct and distinct in the context of the contract because the two services provided are separately identifiable.

ii. For European Economic Area (EEA) exchanges only: within the EEA, an issuer, within 12 months of being admitted, is able to 'passport' their admission prospectus to another exchange (also within the EEA). This may be undertaken with the aim of having a second listing, or to obtain that second listing and then de-list from the primary exchange (effectively transferring). This provides further evidence that service 1 and service 2 for a specific exchange are not necessarily highly interdependent or interrelated (IFRS 15.29(c)).

iii. Service 1 benefits the private/pre-admission shareholder base, who is able to realise their investment in the admitted entity. The pre-admission shareholders are the ultimate approvers and beneficiaries of the initial admission transaction. The continual listing service benefits a different party, being the 'new' post-admission shareholder base that became shareholders on admission.

    This concept to 'look through' the issuer as a legal entity to its shareholder base is relevant to other companies across the capital markets industry who are engaged by an issuer to assist in the preparation, approval, execution and maintenance of a successful flotation, for example, companies such as corporate advisors, regulators, brokers, sponsoring banks, consultants, accountant and lawyers, all of whom are contracting with the admitting company. However, these advisers are ultimately completing services to benefit either the pre- or post-admission shareholder, depending on the stage of company lifecycle.

iv. The admission fee is paid solely and exclusively in respect of service 1, in the minds of both the issuer and the exchange. This service is provided by a separate division of the exchange to that which provides the ongoing listing service and no ongoing commitments are bundled into the admission fee as part of the admission contract.

v. The stock exchange has no contractual or legal obligation to refund the admission fee once the company has been admitted. If the exchange were to delist or suspend a security from trading (for a reason other than a breach of contract by the exchange), there is no obligation to refund the admission fee. In addition, no commitment for maintaining a listing is provided. For example, within the EEA, the issuer could passport to another exchange or simply delist at any time in the future (refer to the appendix for further discussion on passporting).

vi. Included within the admission fee, is the support and advice received by the prospective issuer from the exchange, in effect, being counselled through the listing process. This is a distinct service, which is fully satisfied upon admission.

vii. The outcome of View 1 faithfully represents the effects of the transactions in the financial statements. Some believe that if the exchange were to defer the admission fee it would result in recognising revenue in reporting periods in which the exchange is not actually providing an admission service and incurring no costs in relation to the initial admission. In addition, a liability would be recorded on the exchange's balance sheet against which it has no outstanding obligation. Furthermore, in a business combination accounted for in accordance with IFRS 3 *Business Combinations*, proponents of View 1 note that an acquirer of an exchange would likely release any deferred revenue relating to Service 1 as part of the fair value adjustments to reflect the fact that the fair value of this obligation is nil.

viii. If the exchange were to defer the admission fee (based on the average period over which an issuer is listed) it would result in significant revenue growth in a year when the underlying business is performing badly. That is, the average period over which a customer is listed would shorten in a year if a large number of issuers delisted and would result in a large deferred income release in that year. This could mean that a reader of an exchange's financial statements could be presented with a misleading view of performance.

View 2: Admission to a stock exchange is not distinct from the promise to be listed on an ongoing basis. Instead, admission and listing are a single performance obligation because the nature of the promise to the customer (the listing company) is the provision of access to the capital market.

Promises to admit and list a company on a stock exchange may be capable of being distinct in situations where passporting is permitted, as an issuer can use and benefit from initial admission without remaining listed on the first stock exchange. However, in all situations, these promises are not distinct in the context of the contract:

i. IFRS 15 sets out that a good or service that is promised to a customer is distinct in the context of the contract if 'the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract' (IFRS 15.27). IFRS 15.29(c) indicates that two or more services are not separately identifiable when the goods and services are highly interdependent or highly interrelated. Ongoing access to the market, i.e., being listed on the exchange (service 2) is only possible if the issuer has first been admitted (service 1). Since the nature of the promise is to provide access to the capital market, there is also reasonable expectation that, on completion of the admission process (service 1), the issuer would then be listed on the exchange (service 2). Furthermore, the customer cannot receive and benefit from the services without both being admitted to and listed on the exchange.
ii. As a result, there is a high degree of interdependency between being admitted and ongoing access to the market, even though there are separate fees paid for admission and for annual listing. An exchange would not be able to fulfil its promise of providing access to the capital market by transferring each of the services independently. Therefore, the two services should be treated as a single performance obligation.

For EEA exchanges only: the issuer's ability to passport to another exchange within EEA is part of the regulation to which the exchange is subject and may, therefore, be an implicit or explicit term of the contract. However:

- The right to passport is an ongoing right granted to the issuer, not one that exists at the point of admission.
- While an issuer may wish to exercise this right, it does not need to notify the home exchange of its intention to passport to another exchange. The contract between the home exchange and the issuer (and, therefore, the promises to the issuer in that contract) do not differ depending on whether the issuer intends to passport or not.
- If the issuer were to passport to another exchange and de-list from the home exchange, such a change would represent a termination, rather than indicate that the home exchange is able to separately satisfy its promises in the original contract.
- The right to passport is not an option that the exchange grants to the issuer or a promise that it satisfies. Rather, if an issuer wishes to passport, it must seek approval from the Regulator, not the exchange.

In addition, proponents of View 2 put forward the following considerations:

- While the admission fee is perceived by both exchanges and issuers as relating solely to the initial admission service, similar arguments could apply to set-up fees. Furthermore, the fact that a fee is known to relate to initial activity is not sufficient to determine that the service is separately identifiable from the ongoing listing.
- The fact that no obligation exists to refund the admission fee once the company has been admitted and that no ongoing commitments are bundled into the admission fee as part of the admission contract are not relevant to the assessment whether admission services represent a separate performance obligation, but rather affect the timing of revenue recognition.
- Even if the outcome of View 1 (i.e., recognising revenue for admission fee upon admission) coincides with the incurrence of related costs, the requirements in IFRS 15 for determining the timing of recognition of revenue are not dependent upon, or designed to match, the recognition of related costs. Furthermore, similar issues could arise with setup activities, if upfront fees do not relate to the transfer of a promised good or service. Faithful representation in revenue recognition should reflect performance by the exchange when (or as) it transfers control to the customer.

Proponents of View 2 also believe that the customer in the contract is the issuer, not its preadmission shareholder base. Appendix A of IFRS 15 defines a customer ‘as a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration’. The shareholder base is not party to the contract and, therefore, cannot be the customer, as per definition of IFRS 15. The individual shareholders might not be identifiable and they are not able to enforce their legal rights and obligations. However, the issuer is the customer in this contract because it legally approved the arrangement which resulted in enforceable rights and obligation even though other parties (i.e., the shareholder base) might also benefit from this arrangement. Proponents of View 2 are concerned about unintended consequences for other scenarios if a look-through concepts is accepted in this context.

4. Reasons for consideration

a. Is the issue widespread and has, or is expected to have, a material effect on those affected?

From our review of IAS 8 *Accounting Policies and Accounting Estimates* disclosures and discussions with exchanges, we understand that there is currently a global divergence of views even though fact patterns are nearly identical, as to whether there is one or two performance obligations, albeit with a trend among the exchanges more towards two performance obligations (view 1 in this paper).

b. Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

In light of admission fees constituting one of the two key sources of revenue for exchanges, we believe that clarity is needed so that a consistent approach can be taken amongst IFRS reporters.

c. Can the issue be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting?

Yes. We believe that consideration by the Committee is needed in this instance and that it can be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting.

d. Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS Standards

We believe this issue is sufficiently narrow in scope that it can be addressed in an efficient manner.

e. Will the solution developed by the Interpretations Committee be effective for a reasonable time period? The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.

We are unaware of any current or planned IASB project that will directly address this issue.

Appendix: Passporting rights within the EEA

Articles 17 and 18 of the Prospectus Directive 2003/71/EC (PD) offer a ‘passporting’ facility for issuers wishing to publicly offer securities or admit securities to trading on a regulated market in a Member State other than their home Member State. The passporting facility can be used by an issuer to:

- Change the location of its primary listing to another exchange location in the EEA; or
- Obtain a secondary listing(s) in another country(ies) in the EEA.

Under the PD, ‘passporting’ allows a prospectus approved by the issuer's home competent authority in the European Union (EU) to be accepted by a host competent authority in another EU member state as the basis of a public offer or admission of securities to a regulated market in that member state, for a period of up to 12 months after the approval of a prospectus by a competent authority within the EEA. This is subject to the requirement for a supplementary prospectus, i.e. no significant new factors, material mistakes or inaccuracies coming to light since the date the prospectus was approved. The potential need to produce a supplementary prospectus increases the likelihood that an issuer will passport a prospectus into a host member state within a shorter timeframe, rather than a longer period following approval in its home state.

- To passport a prospectus for admission to trading within the EEA, the competent authority in the issuer’s home state must supply the host competent authority with a certificate of approval, a copy of the prospectus as approved, and (if applicable) a translation of the summary of the prospectus.

- Approval of a prospectus does not guarantee that an applicant will be allowed admission to trading on any given market because an issuer must also satisfy the regulated market's specific rules and regulations. However, admission to a regulated market cannot occur unless a prospectus has been approved by an EEA competent authority.
- In general, an equity prospectus is approved by the competent authority in a company's home member state which is often the country of incorporation and domicile of the company, but can also be the competent authority of where the public offer is occurring (i.e. a company incorporated and domiciled outside of the EEA can have a prospectus approved by an EEA competent authority under the PD).
- When an issuer seeks an admission to a regulated market, it does not necessarily need to maintain its admission to trading on that same exchange venue and location. An issuer could admit to trading on one exchange for its IPO, subsequently admit to another exchange to provide the service of ongoing trading of the security, and de-list from the exchange and regulated market on which it performed its original admission or IPO.
- The contract between a customer and the exchange generally does not require an issuer to commit or declare its future intentions regarding ongoing admission to trading of its securities after initial admission, and an issuer is not bound to retain an admission to trading on one of the exchange's markets for a pre-defined period of time. Furthermore, an issuer does not have to notify the home exchange venue during the initial admission process if it intends on using the passporting facility at a later date to passport out. In addition, initial admission fees are charged to issuers on both passported admissions and non-passported admissions
- The home exchange is not required to perform any services to the customer or the receiving regulated market and exchange when an issuers passports out, and as such, the home exchange does not incur any costs when an issuer passports out of its exchange.
- When passporting into a new exchange venue within the EEA, an issuer does not necessarily have to raise capital in doing so (depending on the rules of the local market), i.e. it can admit their shares for trading or seek a secondary listing on the new or 'host' exchange.