



# STAFF PAPER

January 2019

## IFRS® Interpretations Committee meeting

<b>Project</b>	<b>Assessment of promised goods or services (IFRS 15)</b>		
<b>Paper topic</b>	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

## Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the recognition of revenue by a stock exchange (entity) that provides a listing service to a customer. Specifically, the submission asked whether the entity promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the submission, the entity charges the customer a non-refundable upfront fee on initial listing as well as an ongoing listing fee.
2. In September 2018 the Committee published a tentative agenda decision. In that tentative agenda decision the Committee observed that:
  - (a) paragraph 22 of IFRS 15 *Revenue from Contracts with Customers* requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. In paragraph BC87 of IFRS 15, the International Accounting Standards Board (Board) noted 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.
  - (b) 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 for which an entity charges a non-refundable upfront fee, the entity assesses 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.

3. In the fact pattern described in the submission, 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.
4. The objective of this paper is to:
  - (a) analyse the comments on the tentative agenda decision; and
  - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.
5. There are two appendices to this paper:
  - (a) Appendix A—proposed wording of the agenda decision; and
  - (b) Appendix B—comment letters.

### **Comment letter summary and staff analysis**

6. We received nine comment letters, reproduced in Appendix B to this paper.
7. Deloitte, EY and Mazars agree with the Committee’s decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. Nonetheless, Mazars questions one aspect of the tentative agenda decision.
8. The Philippines Stock Exchange (PSE) and the Malaysian Accounting Standards Board (MASB) agree with the Committee’s decision not to add the matter to its

standard-setting agenda. However, they disagree with the Committee’s technical analysis.

9. The Accounting Standards Board of Japan (ASBJ) and Hong Kong Exchanges and Clearing Limited (HKEX) do not comment on whether they agree with the Committee’s decision not to add the matter to its agenda, but comment on the Committee’s technical analysis.
10. The Global Financial Reporting Collective (GFRC) and the Organismo Italiano di Contabilità (OIC) agree that the Committee has analysed the correct paragraphs in IFRS 15, but comment on particular aspects of the tentative agenda decision.
11. Further details about the matters raised by respondents, together with our analysis, is presented below. We have considered comments relating to the process separately from those relating to the Committee’s technical analysis.

## **Staff analysis—process**

### ***The fact pattern***

#### *Matter raised by respondents*

12. HKEX says the tentative agenda decision addresses a narrow fact pattern that is applicable only to some exchanges. HKEX therefore disagrees with the statement in [Agenda Paper 2](#) to the Committee’s September 2018 meeting that ‘the fact pattern is widespread’.
13. HKEX lists a number of factors in its contracts with customers that it says do not match the fact pattern described in the submission, including:
  - (a) it does not grant customers an option to renew a contract or provide the customer with a material right as described in paragraph B40 of IFRS 15.
  - (b) it does not provide the customer with an option to get a refund of listing fees by withdrawing the listing application.
  - (c) it has the ability to reject a customer’s application for listing.

(d) once an application lapses, the only way for the customer to become listed is to submit a new listing application and pay the initial listing fee again.

14. The OIC says the Committee should not discuss the application of IFRS Standards to specific fact patterns because this may have unintended consequences.

*Staff analysis*

15. Our research indicates that it is common for a stock exchange entity to provide customers with a service of being listed in exchange for a non-refundable upfront fee and an ongoing annual fee. Comments received in comment letters also suggest that this basic fact pattern—the provision of a service in exchange for an upfront fee and an ongoing annual fee—also applies to entities other than stock exchange entities.
16. In [Agenda Paper 2](#) to the Committee’s September 2018 meeting, we identified a number of variations on the basic fact pattern. The variations include some of the factors listed by HKEX, which are reproduced in paragraph 13 of this paper. We analysed these variations in the September 2018 agenda paper to assess whether they would result in an outcome different from that of the basic fact pattern—we concluded that they would not. Accordingly, the variations are not mentioned in the tentative agenda decision, thus resulting in the agenda decision being applicable to a wider population of contracts than might otherwise be the case.
17. For this reason, we do not suggest any significant change to the tentative agenda decision in this respect. We continue to think the Committee should use the fact pattern described in the submission to illustrate the application of paragraphs 25 and B49 of IFRS 15. In particular, we think the fact pattern submitted provides a good example of the distinction between activities undertaken by an entity and services transferred to a customer, which the requirements in paragraphs 25 and B49 of IFRS 15 specifically address.
18. In considering the comment from the OIC, we have suggested some editorial changes to the fact pattern described in the tentative agenda decision. Those suggestions are intended to remove what we view as unnecessary detail in the fact pattern. We note that the tentative agenda decision states that the outcome of an entity’s assessment of

the goods and services promised in a contract depends on the facts and circumstances of the contract—we think this helps to limit the risk of unintended consequences.

### ***Other fact patterns***

#### *Matter raised by respondents*

19. The GFRC asks how the tentative agenda decision might affect the accounting for two other fact patterns. Those fact patterns include one in which an entity organises a marathon for customers and one in which an entity sells a software solution to a customer.

#### *Staff analysis*

20. We have not analysed the fact patterns described in this comment letter, which are different from the fact pattern submitted to the Committee.

### ***Information that is useful***

#### *Matter raised by respondents*

21. The GFRC, MASB, PSE and HKEX say applying IFRS 15 as outlined in the tentative agenda decision would result in information that is not useful to users of financial statements.
22. The MASB, PSE and HKEX say the result would be the recognition of revenue in reporting periods in which the entity is not providing what they describe as an admission or initial listing service. The MASB also says the accounting set out in the tentative agenda decision could result in significant revenue growth when the underlying business is performing badly (eg if a large number of customers were to delist, the entity would recognise a large amount of revenue in that reporting period (previously recognised as a contract liability on receipt of the upfront fee)).
23. The GFRC says it would be more intuitive for an entity to recognise the upfront fee when the initial listing is complete than to apply the accounting set out in the tentative agenda decision.

*Staff analysis*

24. The submission asks the Committee about the application of IFRS 15 in identifying performance obligations in the fact pattern submitted; the Committee has responded to that request. 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. Because the Board or Committee considers the usefulness of the information provided when it develops new requirements, the Committee’s role in this instance is not to reconsider the usefulness of the information provided by the requirements. This is particularly the case for Standards in the period before the Board conducts a post-implementation review.
25. When developing IFRS 15, we note that the Board specifically considered the usefulness of information about activities that do not directly transfer goods or services to the customer (for example, service contracts that require significant setup costs). Paragraph BC93 of IFRS 15 explains that the Board 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.

**Staff analysis—application of IFRS 15**

***Activities vs goods or services***

*Matter raised by respondents*

26. The PSE, MASB, ASBJ and OIC commented on the distinction between an activity performed by an entity and a service transferred to a customer.
27. The PSE and MASB list what they describe as services—they say this demonstrates that the entity transfers a service on initial listing that is distinct.
28. The PSE says:
  - (a) on initial listing it lists the customer in the relevant sector index, adds the customer’s shares to the official register of listed shares, provides the

- customer with a venue for its IPO, and publishes listing notices and offering forms on the exchange's disclosure portal.
- (b) after initial listing it disseminates the customer's disclosures to shareholders by including these on the entity's website, monitors disclosures and news concerning the customer, allows the customer to participate in road shows/investment forums, and oversees the customer's compliance with the exchange's regulation.
29. The MASB lists three types of fees that the stock exchange in Malaysia charges to customers:
- (a) a non-refundable upfront fee for (i) a review of the customer's application form, internal risk assessment and due process, (ii) submitting the application to the appropriate Committee for approval, and (iii) an assessment of the application by the appropriate Committee.
- (b) a second upfront fee for initial listing. This is refundable and compensates the entity for processing of the listing, issuing reference numbers and tickers, and allocating shares.
- (c) an annual listing fee for ongoing market access, provision of technology and general operation support, and regulatory oversight.
30. The MASB says the upfront fees are paid solely for admission, which supports its view that there is an admission service that is distinct. It says what it describes as the 'admission service' is not highly interrelated with what it describes as the 'ongoing listing service'—this is because the entity can provide the admission service without any ongoing listing commitment.
31. The OIC says the initial listing may be considered as a service that is distinct, because a customer can benefit from admission to the exchange separately from the ongoing listing.
32. The ASBJ suggests that the Committee clarify that it has assumed the initial admission activity is a setup activity. The ASBJ is concerned that a non-stock exchange entity, that charges a customer a non-refundable upfront fee for a specific

activity, may inappropriately apply the conclusion in the tentative agenda decision without considering its particular facts and circumstances.

*Staff analysis*

33. 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 25 goes on to state:
 

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.
  
34. Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts for which an entity charges a non-refundable upfront fee, the entity assesses 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.
  
35. Paragraph B50 of IFRS 15 states:
 

If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 22–30.
  
36. Those paragraphs of IFRS 15 create a distinction between activities that an entity must undertake to fulfil a contract and goods and services promised to a customer under a contract. An entity assesses the latter to identify the performance obligations in a contract. Activities that an entity must undertake to fulfil a contract but that do not transfer a good or service to the customer are not performance obligations.
  
37. The activities listed by the PSE (see paragraph 28 of this paper) and the MASB (see paragraph 29 of this paper) are the same as, or similar to, the activities listed in the submission and included in the tentative agenda decision. In our view, the

performance of those activities does not transfer a service to the customer as the activities are performed. Instead, we think the entity has promised to transfer to the customer the service of being listed on the exchange.

38. Accordingly, we do not agree with the PSE and MASB’s view that such activities represent a service transferred to the customer on initial listing.
39. The OIC’s comment (see paragraph 31 of this paper) refers to the criteria in paragraph 27 of IFRS 15 for a good or service to be distinct. In the fact pattern described in the submission, there is no promised initial listing service to which the entity would apply paragraph 27.
40. Finally, in considering the ASBJ’s comment (see paragraph 32 of this paper), we note that the activities listed in the tentative agenda decision are not assumed to be a setup activity. The submitter asked whether the activities undertaken by the entity at or near contract inception represent a service that is distinct. If the Committee were to assume that the activities listed in the submission are a setup activity, then we think the Committee would not have responded to the question submitted because such an assumption would eliminate the question.

## **Benefits**

### *Matter raised by respondents*

41. HKEX refers to [Agenda Paper 2](#) to the September 2018 meeting, noting the staff view that ‘...[the] benefits [obtained by the customer on initial listing] are no different from the benefits obtained by the customer after 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.’ HKEX disagrees with this view on the grounds that the customer incurs an annual listing fee for what it describes as the annual listing service; it says there is no interdependency between the initial and ongoing listing.
42. The PSE says the benefits on initial listing (which it identifies as the ability of the customer to widen its shareholder base, obtain an objective valuation of the business and enhance its profile) continue to be benefits after the customer is listed. The PSE also lists a number of other benefits that the customer obtains as a result of its ongoing

listing—for example, attracting private placement investors because of the existence of a secondary market for the shares.

*Staff analysis*

43. We continue to think the benefits listed in the submission and in the letters from HKEX and the PSE are the benefits of being listed on the exchange.
44. Nonetheless, we note that the tentative agenda decision did not refer to benefits, but to the listing service. The tentative agenda decision included the Committee’s observation that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.
45. We agree with the Committee’s observation, which focuses on the listing service transferred to the customer. In our view, the comment letters have not identified any factors that would indicate that there is an initial listing service transferred to the customer at or near contract inception that is distinct.

**More than one view**

*Matter raised by respondents*

46. HKEX says the facts and circumstances of its contracts demonstrate that it transfers two distinct services to its customers—which it describes as an initial listing service and an annual listing service.
47. HKEX says [Agenda Paper 2](#) to the September 2018 meeting acknowledges that there are two views on whether the initial listing is a service distinct from the ongoing listing. HKEX says it would be appropriate for both view 1 (the initial listing and the ongoing listing are separate performance obligations) and view 2 (the initial listing is not distinct from the ongoing listing) to be considered applicable depending on the particular facts and circumstances; entities and their auditors would then apply their judgement in determining which view is applicable.
48. HKEX says its facts and circumstances are ‘in line with view 1’ of the submission.

### *Staff analysis*

49. We agree that the assessment of the goods or services promised in a contract and the identification of performance obligations depends on the facts and circumstances of the contract. However, we do not agree with HKEX’s summary of the analysis in Agenda Paper 2 to the September 2018 meeting.
50. Firstly, we note that the two views the HKEX refers to in Appendix B of that paper are the views in the submission; they are not the views of the staff or Committee. Secondly the submission outlined one fact pattern and two views about how an entity might apply IFRS 15 to that fact pattern—it did not include two different fact patterns. The fact pattern described by HKEX in its comment letter would appear to be the same as the fact pattern described in the submission—ie a customer is required to pay a non-refundable fee on initial listing and ongoing annual fees to remain listed.
51. At its meeting in September 2018, the Committee concluded that neither ‘view 1’ nor ‘view 2’ in the submission accurately describe how an entity applies IFRS 15 to the fact pattern described in the submission and in HKEX’s comment letter. The Committee concluded that the entity does not promise to transfer any good or service to the customer other than the service of being listed on the exchange. In other words, the entity transfers only one service to the customer and accordingly there is one performance obligation in the contract.

### **Other comments**

52. Respondents also made the following comments on the consequences of the Committee’s conclusion in the tentative agenda decision. The following table summarises these comments, along with our analysis and recommendations:

<b>Respondent comments</b>	<b>Staff analysis</b>
<p><i>Length of listing period</i></p> <p>The PSE, MASB, Mazars, GFRC and OIC say an entity would be required to determine the period over which to recognise the upfront fee as revenue as the service of being listed is transferred to the customer—they say this might be difficult, costly or not feasible.</p> <p>The PSE says being admitted to the exchange on initial application does not guarantee the customer will remain listed thereafter.</p>	<p>The submission did not ask about the accounting for the contract after having identified the performance obligations in the contract. Indeed, the submission states: ‘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).’</p> <p>Accordingly, we recommend no change to the tentative agenda decision in this regard. We note that IFRS 15 provides a framework within which an entity determines its recognition of revenue—paragraph 31 of IFRS 15 states that an entity recognises revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.</p>

<p><b><i>Withdrawn application</i></b></p> <p>The GFRC asks about the consequences of the tentative agenda decision for a failed or withdrawn application. It thinks the entity might recognise the non-refundable upfront fee as other revenue/income on withdrawal of the application, but not as revenue from contracts with customers.</p> <p>The ASBJ commented on the use of ‘successfully’ in the tentative agenda decision: ‘...the activities performed by the entity at or near contract inception are required to successfully transfer the goods or services...’. The ASBJ notes its inclusion in paragraph BC93 of IFRS 15 but not in paragraph 25. The ASBJ suggests using the wording in paragraph 25.</p>	<p>We think the inclusion of ‘successfully’ in the tentative agenda decision may have led to the GFRC’s thought about the recognition of other revenue/income on withdrawal of a customer application. This implication was not what was intended in using ‘successfully’. If the contract is a contract with a customer as described in paragraph 6 of IFRS 15, we think the entity would recognise revenue (and not other revenue) in relation to the contract, regardless of whether the application is withdrawn.</p> <p>We agree with the ASBJ’s suggestion to remove the word ‘successfully’ from the agenda decision (see Appendix A to this paper).</p>
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***Number of contracts***

The ASBJ says the tentative agenda decision does not clearly state whether the customer has separate contracts for initial listing and ongoing listing. It thinks the number of contracts between the entity and the customer may influence the conclusion in the tentative agenda decision, unless it is necessary to combine such contracts and account for them as a single contract applying paragraph 17 of IFRS 15.

Paragraph 17 of IFRS 15 states:

An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 22–30.

The fact pattern described in the submission (and in the tentative agenda decision) did not specify whether the entity has one or more contracts with the customer. This is because the number of contracts, per se, does not affect the identification of performance obligations—rather, that identification is based on an assessment of the goods and services promised in the contract (the contract being determined applying paragraph 17 of IFRS 15).

Accordingly, we recommend no change to the tentative agenda decision in this regard.

<p><b><i>Refund of costs</i></b></p> <p>The OIC says, in some cases, the entity might consider the upfront fee to be a refund of costs incurred. In this case, the OIC asks whether IFRS 15 is applicable.</p>	<p>In the fact pattern described in the submission, the entity provides a service to the customer of being listed on the exchange. To obtain the service, the customer pays the entity a non-refundable upfront fee and an ongoing listing fee. Although the payment terms in the contract may be designed to cover costs incurred by the entity, the contract is to provide a service to the customer. In our view, such a contract is within the scope of IFRS 15.</p> <p>We recommend no change to tentative agenda decision in this regard.</p>
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### Staff recommendation

53. On the basis of our analysis, we recommend finalising the agenda decision as published in IFRIC Update in September 2018 with some editorial changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

#### Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

## Appendix A—Proposed wording of the agenda decision

A1 We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

**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 as well as 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 International Accounting Standards Board (Board) noted 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 assesses 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 facts and circumstances of the contract. Accordingly, the outcome of an entity’s assessment depends on those 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:*

- ~~assessing internal risk and performing due diligence for new applications;~~
- ~~submitting high-risk applications to the appropriate committee for assessment and approval;~~
- ~~reviewing issuers’ the customer’s 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 the dealing notice on the admission date.*

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 also observed that the listing service transferred to the customer is the same on initial 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 any good or service to the customer other than 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—Comment letters

## Accounting Standards Board of Japan (ASBJ)

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21 November 2018

Ms. Sue Lloyd  
Chair of the IFRS Interpretations Committee  
International Accounting Standards Board  
Columbus Building, 7 Westferry Circus  
London E14 4HD, United Kingdom

### **Comments on the Tentative Agenda Decision Relating to IFRS 15 Revenue from Contracts with Customers — Assessment of Promised Goods or Services**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to IFRS 15 *Revenue from Contracts with Customers* — Assessment of promised goods or services, proposed in the September 2018 IFRIC Update.
2. This tentative agenda decision illustrates the thought process and interpretations of how the principles and requirements in IFRS 15 would apply to a specific fact pattern. As noted in the tentative agenda decision, the principles and requirements in IFRS 15 provide an adequate basis to determine the appropriate accounting treatment for the specific fact pattern provided in the tentative agenda decision.
3. We believe that the issue in the tentative agenda decision assumes that the admission service is merely a setup activity. Accordingly, we believe that it is necessary to clarify this point.
4. The fact pattern in the submission relates to the assessment of the promised goods or services for an entity that is a stock exchange. However, entities in other industries may also apply the interpretation provided in this agenda decision by analogy when an entity charges a customer a non-refundable upfront fee at or near contract inception for a specific activity, without fully considering the facts and

circumstances, once the agenda decision is finalised. Together with the reason stated above, we believe that it is necessary to clarify the assumptions.

5. In addition, the tentative agenda decision does not clearly state whether the admission services and ongoing listing services are included in a single contract. If these services were stated in more than one contract, unless it is necessary to combine such contracts and account for them as a single contract in accordance with paragraph 17 of IFRS 15, the outcome would be different from that in the tentative agenda decision and, in that case, we think each contract would be accounted for separately.
6. Accordingly, we think that the tentative agenda decision should clarify the assumptions, such as whether the admission services and ongoing listing services are included in a single contract.
7. The tentative agenda decision includes a description saying, “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” (underline added). We think this description is based on paragraph BC93 of IFRS 15. However, paragraph 25 of IFRS 15 does not include the term “successfully”, and we believe that tentative agenda decision shall be described based on the main text of the IFRS Standards, which are authoritative. In addition, we think the IASB should clarify in the agenda decision whether the IASB intends to change the meaning of the requirements by including this term.
8. We hope our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', with a stylized flourish at the end.

Yukio Ono  
Chairman  
Accounting Standards Board of Japan

International Financial Reporting Standards  
Interpretations Committee  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD

29 October 2018

Dear IFRS Interpretations Committee members,

**Tentative agenda decision - Assessment of promised goods or services (IFRS 15 Revenue from Contracts with Customers) - Agenda Paper 2 (IFRIC Update September 2018)**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee ('Committee') published in the September 2018 *IFRIC Update*.

The Committee received "a request about the recognition of revenue by a stock exchange that provides a listing service to a customer ... 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 also observed that the listing service transferred to the customer is the same on initial 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 any good or service to the customer other than the service of being listed on the exchange."

We support the Committee's decision not to take this issue onto its agenda and agree with the tentative agenda decision, as worded in the September 2018 *IFRIC Update*.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*

1 November 2018

Ms. Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD  
United Kingdom

Dear Ms Lloyd,

**Tentative agenda decision – IFRS 15 *Revenue from Contracts with Customers* – Assessment of promised goods or services**

Hong Kong Exchanges and Clearing Limited (HKEX) is pleased to respond to the IFRS Interpretation Committee's tentative agenda decision in relation to whether a stock exchange provides an admission service that is distinct from an ongoing listing service.

HKEX's own facts and circumstances demonstrate that our initial listing service and annual listing service (instead of admission service and ongoing listing service as per the IFRIC staff paper) are two distinct and separate performance obligations. Listing status and/or initial funds raised are benefits which are enjoyed upon listing in consideration of the initial listing fee being paid. Once a company is accorded with listing status, the Listing Rules require the company to pay annual listing fees and the company can enjoy the benefit of post-listing services such as subsequent issuances/secondary offerings. Such fees are very distinct and different from that derived from initial listing.

Moreover, we consider the tentative agenda decision set out in the IFRIC staff paper is predicated upon a narrowly-defined fact pattern which is applicable to certain exchanges but is contrary to the actual circumstances of HKEX. In particular, we disagree with the staff paper which states "*the fact pattern is widespread*".

Given that the staff paper recognises there are two views on whether admission to a stock exchange is a distinct service from ongoing listing service, it would be appropriate for both View 1 and View 2 to be considered applicable depending on the specific facts and circumstances. Accordingly, preparers and their auditors should apply their judgements in determining which view is applicable.

Our comments to the tentative agenda decision are explained in more detail in the Appendix. If you have any questions regarding the matters raised in this letter, please contact me at [JohnKillian@hkex.com.hk](mailto:JohnKillian@hkex.com.hk), or Vincent Kwong at [VincentKwong@hkex.com.hk](mailto:VincentKwong@hkex.com.hk).

Yours sincerely,



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John Killian  
Group Chief Financial Officer

### **Detailed comments on tentative agenda decision – Whether a stock exchange provides an admission service that is distinct from an ongoing listing service**

HKEX's specific facts and circumstances set out below are in line with View 1 (page 20 of the IFRIC staff paper):

- 1) The admission service (service 1) and ongoing listing service (service 2) are separate performance obligations. A recipient of the SEHK's initial listing service can benefit from service 1 separately from service 2. The delivery of service 1 by SEHK satisfies the criteria set out in IFRS 15.27 (staff paper page 20 refers) of being distinct in the context of the contract because the two services provided are separately identifiable.
- 2) The benefits of service 1 are:
  - (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.
- 3) The benefits of service 2 are the ongoing access to liquidity pool and changing investor base. The listed issuers are also subject to regulatory and compliance oversight which helps the issuers to maintain its listing status, a benefit we consider very distinct from that derived from capital raised. Regulatory and compliance oversight generally involves monitoring listed companies' compliance with the continuing obligations of the Listing Rules including continuous disclosures by listed companies and their corporate governance practices.
- 4) The initial listing fee for HKEX is paid solely and exclusively in respect of service 1, in the mind of the listing applicant. 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. As a result, we consider the admission service is a distinct service from ongoing listing service in the context of IFRS15.22 and IFRS15.27-30.
- 5) The outcome of View 1 faithfully represents the effects of the transactions in HKEX's financial statements. The deferment of the initial listing fee would result in recognising revenue in reporting periods which HKEX has neither provided initial listing service nor incurred costs in relation to it. In addition, an absurd situation where a liability would be recorded on HKEX's balance sheet against which it has no outstanding obligation would arise.

HKEX's specific facts and circumstances are inconsistent with View 2 of the IFRIC staff paper for the following reasons:

- 6) Paragraph 16 of the staff paper refers to paragraphs B48-B51 of IFRS 15 – “... *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 the option provides the customer with a material right as described in paragraph B40*”.

SEHK does not grant the listing applicant any option to renew the contract or provide the listing applicant with a material right as that described in paragraph B40 of IFRS 15.

In our guidance letter which relates to re-filing of a listing application <https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Archive/Guidance-Letters/gl7-09.pdf?la=en>, it is stated clearly that “*At present, when six months have elapsed since the submission of a Form A1 [the listing application form], the Exchange [The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX] will issue a letter informing the sponsor that the Form A1 has lapsed and the initial listing fee is forfeited ...*”

This guidance letter makes it unequivocally clear that the performance obligation ends with the lapse of the application period and there is no interdependency with the ongoing listing service. Once an application lapses, the only way for the applicant to receive the initial listing service is to submit a new listing application and pay the initial listing fee again.

- 7) Paragraph 25 of the staff paper makes reference to IFRIC staff view that “... *those benefits are no different from the benefits obtained by the customer after 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.*”

Subsequent to listing, an issuer incurs annual listing fee for the annual listing service. This is a separate performance obligation and there is no interdependency between initial listing and ongoing listing services. In view of the above, we disagree with the staff view which states “... *those benefits are no different from the benefits obtained by the customer after the initial listing ...*”

- 8) Paragraph 30 of the staff paper states that IFRIC staff 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.*”

For HKEX, there is no option for a listing applicant to get a refund of listing fee by withdrawing the listing application.

- 9) Paragraphs 36 and 37 of the staff paper imply that there is no mechanism for rejecting a listing application.

For HKEX, this is not the case. SEHK (through the Exchange's Listing Committee and Listing Department) can reject listing applications based on certain criteria stipulated in the Listing Rules and guidance materials. Whilst unfavourable listing decisions may be appealed, SEHK is not obliged to assist the applicant in any way to obtain an approval of the listing status (as opposed to the process of other exchanges).

As reported in the HKEX 2017 Annual Report, there were eight new listing applications rejected in 2017 (2016: thirteen).

- 10) Paragraph 43 of the staff paper – “... *identified some entities [exchanges] 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 ...*”

SEHK does not extend its initial listing services beyond its initial non-cancellable period. Listing applicants have to pay a new initial listing fee and submit a new listing application after the six-month period has lapsed. There is no such material right given to the listing applicants to extend the contract.

- 11) Paragraph 44 of the staff paper – Option to acquire additional goods or services (B40-B41 of IFRS 15)

The initial listing fee pays for the initial listing services only. There is no option for the listing applicant to acquire additional goods or services.

- 12) Paragraph 45 of the staff paper – Illustrative Example 53 of 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.

For HKEX, once an application lapses, the only way for the applicant to receive the initial listing service is to submit a new listing application and pay the initial listing fee again.

### **Authority of IFRIC agenda decisions**

- 13) As the request only refers to a narrowly-defined fact pattern, we have doubts on its applicability to other jurisdictions that have a different fact pattern which justifies a different accounting treatment. As a result, we consider the determination of the appropriate accounting treatment is a matter of judgement based on the facts and circumstances of each case. Significant judgements made in determining the accounting treatment should be disclosed in the notes to the financial statements and therefore should not be bound by this agenda decision.

## Appendix

- 14) In addition, we disagree with the staff view in paragraph 12 of the staff paper which states *“the fact pattern is widespread”* and consider the IFRIC staff should perform further outreach, if considered necessary. We consider the fact patterns discussed in the staff paper (for example, not possible to reject listing application, passporting and option that provides the listing applicant with a material right, etc.) are not applicable to exchanges such as HKEX.
- 15) Given that the staff paper recognises there are two views on whether admission to a stock exchange is a distinct service from ongoing listing service, it would be appropriate for both View 1 and View 2 to be considered applicable depending on the specific facts and circumstances. Accordingly, preparers and their auditors should apply their judgements in determining which view is applicable.



November 19, 2018

**IFRS Interpretations Committee**  
Columbus Building, 7 Westferry Circus  
Canary Wharf, London E14 HD United Kingdom

**Attention: Ms. Sue Lloyd**  
*Chairperson*

Gentlemen:

We refer to the Staff Paper dated September 2018 (“Staff Paper”) prepared for the IFRS Interpretation Committee (the “Committee”) in relation to the submission received by the Committee on the recognition by a stock exchange of its admission or listing fees.

## **I. Background**

Based on the submission, prior to the adoption of IFRS 15, the practice generally has been to recognize admission fees upfront, at the point of admission, and the ongoing listing fees (or annual listing maintenance fee) over the period to which they relate, which is typically a year.

Under IFRS 15 (*Revenue from Contracts with Customers*), however, entities, in general, are required to:

- (i) assess the goods or services promised in a contract with a customer and to identify each promise to transfer a good or service as a performance obligation;
- (ii) determine the transaction price of the contract;
- (iii) allocate the transaction price to each performance obligation (or distinct good or service) on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and
- (iv) recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

In relation to item (iv) above, IFRS provides that for a performance obligation satisfied over time, an entity should select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.

The submitter, thus, asks how the implementation of IFRS 15 will impact the accounting for stock exchange's admission fees. In particular, the submitter asks whether the admission to a stock exchange is a distinct service or performance obligation from ongoing listing services.

## II. Staff Analysis

The Committee staff's assessment is that the benefits reaped by the customer upon initial listing are the same benefits the customer obtains the day after listing and on all subsequent days for which the customer remains listed. Thus, they concluded that the admission service and ongoing listing service are not two distinct performance obligations. Instead, the Exchange promises only one service, *i.e.*, the service of being listed on the exchange.

The Staff Paper also equated a stock exchange's listing service to a repetitive service contract such as a cleaning contract which involves the transfer of a series of services to the customer. In the context of listing, the stock exchange provides a daily/hourly service of being listed on the exchange for each day that the customer is listed. In transactions of this nature, paragraph 22(b) of IFRS 15 requires the entity to identify a single performance obligation, allocate the transaction price to that performance obligation, and recognize revenue by applying a single measure of progress to that performance obligation.

## III. PSE's Assessment

Guided by paragraph 25 of IFRS 15, which provides that performance obligations include activities that transfer a good or service to a customer, PSE submits that admission or initial listing is a distinct and separate performance obligation from allowing a company to remain listed in the stock exchange.

At the point of initial listing, the Exchange includes the listed company in the relevant sector index, adds the company's shares to the official registry of listed and Exchange-tradable shares, and gives the company a venue for its initial public offering, which includes use of the receiving centers of the Exchange, utilizing the brokers or trading participants of the Exchange as selling agents, and publication of listing-related notices and offering forms on the Exchange's disclosure portal, among others. These are the services rendered by the Exchange to listing applicants upon their admission to listing.

As a consequence of listing on the stock exchange, the listed company is able to widen its shareholder base, obtain a more objective valuation of its business, enhance its profile, and avail of opportunities available to publicly-listed companies. While these benefits continue to be realized by listed companies even after initial listing, an additional value derived by listed companies from their continued listing is the ease with which they can conduct additional fund-raising activities. For instance, listed companies easily attract private placement investors because of the existence of a secondary market for their shares, adding to the shares' liquidity. The Exchange also provides services that are distinct from the services rendered on initial listing. Post-initial listing, the Exchange facilitates the dissemination of the listed companies' disclosures to its shareholders and the public by making available to the listed company the disclosures facility of the Exchange, monitors the disclosures of, and news concerning, listed companies, allows the listed companies to participate in road shows and investment forums,

and performs regulatory oversight over listed companies to make sure they comply with the regulations of the Exchange and the securities regulator. These are the services received by listed companies from PSE in exchange for the payment of the continuing listing fee, or in the case of PSE, the Annual Listing Maintenance Fee ("ALMF").

Even the PSE's Listing Rules highlight that initial listing is a distinct service from continuing listing, as shown by the different compliance requirements for initial listing and continuing listing. The admission of a company to listing does not guarantee the maintenance of its listing status; hence, initial listing and continuing listing cannot be bundled into one service.

The foregoing differences justify the application of different accounting treatment of the fees for initial listing, which takes place at a specific point in time and therefore, warrants the upfront recognition of revenues, and continuing listing, which can be considered to be received over a period of time.

We also subscribe to View 1, as discussed in Appendix B of the Staff Paper, that if a stock exchange were to defer the recognition of the entire admission fee, there would be a disconnect in that it would be recognizing revenues in periods in which the exchange is not actually providing an admission service.

Moreover, assuming, for the sake of argument, that initial listing and continuing listing are not distinct services and that listing is counted as one performance obligation, we maintain that it is not feasible to apply a single measure of progress to said obligation (*e.g.*, daily service of being listed) and spread the listing fees evenly over all the days that the company will remain listed because unlike other service contracts which have fixed terms, the listing of a company's shares is revocable at any time, if any of the grounds specified in the Delisting Rules of the Exchange exists. As pointed out in the Staff Paper, applying a single measure of progress to a performance obligation might not be applicable if the contract is cancellable at any time.

In sum, we agree that IFRS 15 provides sufficient guidance for stock exchanges to assess the goods and services promised or rendered to listed companies; hence, there is no need to add this matter to its standard-setting agenda. However, we take a strong exception to the conclusion that admission service and ongoing or continuing listing service are not separate and distinct services and that stock exchanges only promise to transfer one service of being listed on the exchange. Stock exchanges should be allowed to independently assess their services and apply the proper revenue recognition measure, in accordance with IFRS 15.

Thank you for your kind attention and we hope you can consider our comments in the resolution of this matter.

Very truly yours,



**Ramon S. Monzon**  
*President and CEO*

17 November 2018

IFRS Interpretations Committee  
IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD  
United Kingdom

The Global Financial Reporting Collective is pleased to offer its comments on the Tentative Agenda Decision— Assessment of Promised Goods or Services (IFRS 15).

Overall we think that the Interpretations Committee is interpreting the correct part of IFRS 15. Our concern is that if this is how this Tentative Agenda Decision says we should think about the transfer of services or benefits more generally we could get some outcomes that are not intuitive.

In the current case it looks like a non-refundable upfront fee has to be spread over the expected contract period. In this case the period the company expects to be listed? That could be to be an indefinite period. Such a requirement is burdensome from a record keeping perspective and does not seem to provide much information to users. We think a more intuitive treatment would be that once the listing is completed the fee could be recognised. Similarly, if the application is withdrawn (or a defined time period causes the application to lapse) then the revenue is recognised. However, as we read the tentative Agenda Decision that fee can never be revenue from a contract with a customer in its own right. It can only be considered as a payment towards the service they receive later.

What does this mean for a failed or withdrawn application? Presumably you would recognise it as other revenue or other income if you know it has been withdrawn, but not revenue from contracts with customers. This seems like an artificial divide.

We have been thinking about other examples. You have to pay a fee to be placed in the draw to run some marathons (London for example). It is not refundable. You have to pay additional amounts to actually run. Following this agenda decision it seems that the fee to enter the draw doesn't look like the transfer of a service (you could argue that it is but the Agenda Decision shows that much more active support to the fee payer does not constitute a benefit). We would assume that amounts received from the unsuccessful applicants are some sort of income. You could argue that all of the deposits should be deferred and recognised when the marathon is run but the people who paid and did not get to run are not getting any benefit. It seems that the deposits paid by those that do run are recognised as benefits (revenue from contracts with customers) whereas the deposits of the unsuccessful people are not benefits and therefore not revenue from contracts with customers.

If our interpretation is correct then the outcome does not give consistent accounting. In the marathon example we can see an argument for saying that the upfront fee is for the right to

participate in the draw and that is the service being provided. The Agenda Decision suggests that this is not how we should interpret IFRS 15.

It also made us think about the situation in which a provider sells a software solution to a customer that will be delivered over time (a right to access). The customer has to pay the provider for interfaces that connect the customer's system to the software. The interfaces serve no other purpose than to connect to the software. Example 11 of the IFRS 15 IE says that the revenue from the interface and the license to use the software are indistinguishable and presumably the combined revenue is spread over the contract period. It also seems to mean that if the customer cancels before completion then any amounts paid by the customer cannot be revenue from contracts with customers of the provider because no benefits have ever transferred. Would this be other income? Presumably if the customer had paid someone else to provide the interface that provider would have recognised revenue from contracts with customers. Example 11 even states that the customisation, in that case, could be carried out by another entity. This seems to mean that the software provider recognises revenue over the license period whereas a third-party provider recognises revenue over the period they deliver the interface (or on completion). It seems strange that the timing is so different.

You could argue that the benefit the customer receives is the connection (they can now use the software) and that this connection has been delivered but this Agenda Decision and Example 11 say that is the wrong way to think about it.

Maybe we are thinking about IFRS 15 the wrong way, but in the early days of application we want the examples we use in our teaching to be robust and intuitive.

The Committee clearly thinks the Tentative Agenda Decision reflects the requirements in IFRS 15. We are simply curious to know whether the Committee also thinks this is the best information for users or whether IFRS 15 is generating some outcomes that might not have been anticipated.

Thank you for considering our comments.



**Global Financial Reporting Collective**

**17 November 2018**

21 November 2018

Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom  
E14 4HD

Dear Ms Lloyd

**Tentative agenda decision – IFRS 15 Revenue from Contracts with Customers: Assessment of promised goods or services**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the recognition of revenue by a stock exchange that provides a listing service to a customer.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



**Veronica Poole**  
Global IFRS Leader

**Organismo Italiano di Contabilità – OIC  
(The Italian Standard Setter)**

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23 November 2018

**Re: IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update**

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee (“the Committee”) tentative agenda decisions included in the September 2018 IFRIC Update.

Our comments refer to the following tentative agenda decisions:

- Assessment of promised goods or services (IFRS 15 – Revenue from Contracts with Customers);
- Liabilities in relation to a joint operator’s interest in a joint operation (IFRS 11 – Joint Arrangements);
- Investment in a subsidiary accounted for at cost: step acquisition (IAS 27 - Separate Financial Statements);
- Deposits relating to taxes other than income tax (IAS 37 – Provisions, Contingent Liabilities and Contingent Assets);
- Load following swap (IFRS 9/IAS 39 Financial Instruments).

### *Assessment of promised goods or services (IFRS 15)*

As mentioned in our comment letters on the September 2017 and November 2017 IFRIC Update, we think that the Committee should not discuss the application of IFRS Standards to specific fact patterns, because this may have unintended consequences (ie an entity might apply the Committee's conclusion to a similar fact pattern that should be accounted for in a different way).

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.

We agree with this statement, but we think that the admission service may be considered as a distinct service, because a customer can benefit from that service separately from ongoing listing service. Indeed, the admission service can be provided without providing the ongoing listing service and vice versa, the ongoing listing service can be provided without having provided the admission service. This depends on national laws and regulations and on how the stock exchanges are organised.

We also think that, in some cases, the up-front fee may be considered by the stock exchange as a refund for the incurred costs. In this case, it is not clear whether IFRS 15 is applicable.

Finally, the Committee's decision implies that the stock exchange should assess the period over which the up-front fee should be recognised. In our view, this assessment would be judgemental, costly and would not provide reliable information to users.

[...]

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò  
(Chairman)

Mrs Sue Lloyd

IFRS Interpretations Committee  
Columbus Building,  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

Paris, November 23, 2018

### **Tentative Agenda Decisions – IFRIC Update September 2018**

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We note that the Tentative Agenda Decisions are sometimes based on a strict reading of existing IFRSs without considering the relevance of the financial information resulting from the decision. In our opinion, this is especially the case for the step acquisition issue (IAS 27, see Appendix 4) and the cash flow hedge relationship (IFRS 9 and IAS 39, see Appendix 6). We consider it key to question the relevance of the accounting consequences of an Agenda Decision before finalizing it, to avoid some counterintuitive accounting and to enhance at the same time the credibility of the work undertaken by the Interpretations Committee.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



**Michel Barbet-Massin**

*Financial Reporting Advisory*



**Edouard Fossat**

## **Appendix 1**

### ***Assessment of promised goods or services (IFRS 15 Revenue from Contracts with Customers) — Agenda Paper 2***

We agree with the tentative IFRS IC decision not to add this matter to its standard-setting agenda. We welcome the guidance provided by the agenda decision on how to assess whether activities undertaken by an entity at or near contract inception actually transfer a service to the customer.

Nevertheless, we note that the outcome of the Committee's conclusion is that the admission fee cannot be recognised as revenue when invoiced, and shall therefore be recognised as revenue over the listing period, being the period over which the services are provided by the stock exchange.

Applied to the fact pattern, this conclusion raises the question of the length of that service period, considering that delisting is not common in practice and that statistics might be insufficient to assess the length of the period over which an entity remains listed.

27 November 2018

Ms. Sue Lloyd  
Chair  
IFRS Interpretations Committee (Committee)  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Ms. Lloyd

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

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the above Tentative Agenda Decision.

Although we support the Committee's decision not to take this issue onto its agenda, we however, disagree with the Tentative Agenda Decision conclusion because the fact pattern provided by our Bursa Malaysia Berhad ("the Exchange" or "Bursa") the Malaysian Stock Exchange warrants further deliberation by the Committee. Appendix 1 provides an overview of the services provided by our Bursa Malaysia Berhad for your consideration as it may impact the conclusion.

We are of the view that IFRS 15 already provides sufficient guidance and therefore stock exchanges should be able to recognise revenue in accordance with the Standard vis-à-vis the services that they provide.

If you need further clarification, please contact Ms. Tan Bee Leng at [beeleng@masb.org.my](mailto:beeleng@masb.org.my) or at +603 2273 3100.

Thank you.

Yours sincerely,



**MOHAMED RASLAN ABDUL RAHMAN**  
*Chairman*

Bursa Malaysia Berhad (“Bursa” or “the Exchange”) is an Exchange Holding Company approved under Section 15 of the Capital Market and Services Act 2007. Bursa and its subsidiaries (“Bursa Group”) operates and regulates a fully integrated exchange which offers investors a diverse range of investment choices in securities, derivatives, offshore, bonds, conventional and Shariah compliant products whilst providing issuers with an avenue for fundraising. As an end-to-end facilitator of investment and fundraising, Bursa Group provides technology infrastructure and services, post-trade services, information and other exchange-related services.

For discussion purposes, Bursa Group charges the following fees relating to listing of securities on its exchange:

Services	Description	Fees
1	<p>Processing/ pre-listing services</p> <p>Services provided - processing and approval of listing applications which include the following:</p> <ul style="list-style-type: none"> <li>a. Review of a customer’s listing application, forms, including checking all relevant documentation is correctly in place.</li> <li>b. Internal risk assessment and due diligence for new application.</li> <li>c. Submitting applications to the appropriate committee for assessment and approval.</li> <li>d. Assessment and approval of application by relevant committee.</li> </ul> <p><i>Note: For Main Market listing application, the processing and approval services are undertaken by the Securities Commission Malaysia (“SC”). The processing fee will be earned by SC.</i></p>	<p>Upfront processing fees based on prescribed flat rate. This fee is non-refundable.</p>
2	<p>Initial listing</p> <p>Services provided include the following:</p> <ul style="list-style-type: none"> <li>a. Processing of the listing and admission to the market.</li> <li>b. Issuing reference numbers and tickers for the new security.</li> <li>c. Allocation of shares.</li> </ul>	<p>Upfront initial listing fee based on the total market value of share capital or flat fee. This fee is refundable.</p>

Services	Description	Fees
	d. Issuing dealing notice on the admission date. e. Provision of technology, operation and regulatory support.	
3	Annual listing Services provided - provision of ongoing services for listed securities on the Exchange which includes: a. Ongoing market access. b. Provision of technology and general operation support c. Regulatory oversight.	Annual listing fee based on the total market value of share capital or flat fee.

The benefits derive by the PLCs when listed on the Exchange are as follows:

- a. Access to funds (*i.e. IPO and post-listing through secondary share issuances*).
- b. Higher profile (*i.e. greater attention from media and analysts*).
- c. Strengthen company's status (*i.e. passed corporate governance tests, transparent material information*).
- d. Unlock value of the company (*i.e. performance reflected in share price and market capitalisation*).
- e. Share incentives (*i.e. retain key employees*).
- f. Merger and acquisition (*i.e. shares as consideration for acquisitions*).
- g. Allow certain investors to exit.

### **Admission service fees**

In Bursa's view, admission service fees (*i.e. processing and initial listing services fees*) should be recognised upon fulfilment of the performance obligations due to the following:

- (1) As the upfront processing fees are directly attributable/linked to the pre-listing processing services, these fees are charged accordingly to reflect the pre-listing services rendered by the Exchange. These pre-listing services are separate and distinct from the initial listing services and the on-going listing services. In this respect, the Exchange's performance obligation is fulfilled to the issuer upon the approval of the listing application. This fee is non-refundable.
- (2) The initial listing fees directly relate to services rendered by the Exchange from the approval of the application up till the listing of the securities. These services are distinct and separate from the pre-listing services and the on-going listing services. The performance obligation of the Exchange is fulfilled upon the listing

of the securities. If the listing does not materialise the initial listing fees will be refunded to the issuer.

- (3) If "View 2" in the Tentative Agenda Decision were to be implemented (*i.e. recognised over the life span of a PLC on the Exchange*), it is not possible to reliably measure the estimated listing period of listed companies in Malaysia. Based on Bursa's data from 2005 to October 2018, on average only 6% of companies are delisted from our exchange during this period.
- (4) Assuming Bursa's processing and initial listing services fees were to be amortised and assuming the amortisation period is based on Bursa's recent 10 years' historical trend of PLCs delisted from Bursa, these fees may need to be amortised over a period of approximately 18 years. This would not reflect the true picture of the Exchange's financial performance.

In addition to the above, "View 1" in Appendix B of IFRIC's Agenda Paper 2 (*from pages 20 to 22*) reflects closely of the underlying business activities of Bursa as below:

- (5) Admission service (*pre-listing and initial listing services*) is a separate promise to the issuer from the ongoing listing service to the issuer. In addition, it is also separately identifiable from the ongoing listing services. This is supported by the fact that the admission or initial listing fee is paid solely and exclusively in respect of the admission services. The admission services are not highly inter-related to ongoing listing service, as admission service can be provided without continuous listing commitment provided by the stock exchange.
- (6) The recognition of the admission service upon listing faithfully represents the effects of the transactions in the financial statements of the stock exchange. The rationale is as below:
  - (a) If the Exchange were to defer the recognition of upfront fees, it would result in recognising revenue in the reporting periods in which the Exchange is not actually providing an admission service and incurring no costs in relation to the initial admission.
  - (b) If Bursa were to defer and amortise the upfront fees over the estimated listing period, assuming approximately 18 years (see paragraph (4) above), hypothetically it would lead to a situation where, there would be a significant revenue growth in a year when the underlying business is performing badly (*i.e. if a large number of issuers were delisted and would result in a large deferred income being released in that year*). This could mean that a reader of the Exchange's financial statements could be presented with a misleading view of performance for that year.

Accordingly, recognising the admission services fees upon listing should provide more meaningful information reflecting the IPO and initial listing activities in a particular financial period of the stock exchange. Bursa would only recognise these fees when obligations to be performed are fulfilled / delivered upon successful listing of the prospective issuers / companies. In addition, this would also better reflect the financial performance of Bursa as well, as it is aligned with Bursa's certain key performance indicators - number of new initial public offerings (IPOs) and funds raised.