

## STAFF PAPER

September 2019

## IFRS® Interpretations Committee meeting

Project	Compensation for Delays or Cancellations (IFRS 15)		
Paper topic	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. In June 2019 the IFRS Interpretations Committee (Committee) published a tentative agenda decision about the accounting for an airline's obligation to compensate customers for delayed or cancelled flights.
2. In the fact pattern described in the submission:
  - (a) legislation gives a flight passenger (customer) the right to be compensated by the flight provider (entity) for delays and cancellations subject to specified conditions in the legislation. The legislation stipulates the amount of compensation, which is unrelated to the amount the customer pays for a flight.
  - (b) the legislation creates enforceable rights and obligations, and forms part of the terms of a contract between the entity and a customer.
  - (c) applying IFRS 15 *Revenue from Contracts with Customers* to a contract with a customer, the entity identifies as a performance obligation its promise to transfer a flight service to the customer.
3. The submission asked whether the entity accounts for its obligation to compensate customers either: (a) as variable consideration applying paragraphs 50–59 of IFRS 15; or (b) applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, separately from its performance obligation to transfer a flight 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**

6. We received 12 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our [website](#)<sup>1</sup>. This agenda paper includes analysis of only the comment letters received by the comment letter deadline. These are reproduced in Appendix B to this paper.
  
7. Eight respondents (David Hardidge, Deloitte, the European Securities and Markets Authority (ESMA), the Institute of Chartered Accountants of Nigeria (ICAN), the Institute of Indonesia Chartered Accountants (IAI), the Malaysian Accounting Standards Board (MASB), Mazars and Peter Herzog) 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, ESMA, David Hardidge, ICAN, MASB, Mazars and Peter Herzog comment on one aspect of the tentative agenda decision.
  
8. The International Air Transport Association (IATA) disagrees with the Committee’s technical analysis.
  
9. Petrobras disagrees with the Committee’s decision not to add the matter to its standard-setting agenda.

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<sup>1</sup> At the date of finalising this agenda paper, there were no late comment letters.

10. The Accounting Standards Committee of Germany (ASCG) and the Institute of Chartered Accountants of India (ICAI) comment on aspects of the Committee’s analysis.
11. Further details about the matters raised by respondents, together with our analysis, are presented below.

## **Staff analysis**

### ***The performance obligation in the contract***

#### *Matter raised by respondent*

12. IATA disagrees with the description in the tentative agenda decision of the entity’s promise to the customer—the tentative agenda decision described it as follows: ‘the entity promises to transport the customer from one specified location to another within a specified time period after the scheduled flight time’.
13. IATA agrees that the legislation referred to in the fact pattern forms part of the contract with the customer. However, IATA says at no time does the entity promise to transport the customer within a specified time period. Instead, the entity has promised to ‘make its best effort to transport the customer as provided in the itinerary. Failing to do that, the customer may choose a refund, the next available flight or a flight at a future date when certain conditions are met’. IATA also note that ‘the airline agreed to pay compensation to the customer or was legally compelled by legislation when a delay of a certain duration or cancellation could have been avoided by the airline’.

#### *Staff analysis*

14. We agree with IATA that, in the fact pattern described in the submission, the legislation forms part of the contract with the customer. The entity, therefore, considers both the contract and the applicable legislation in determining its performance obligation in the contract with the customer. Together, these items define the enforceable rights and obligations that arise from the contract with the customer.

15. However, we disagree with IATA’s description of the promised service in the contract. In considering what the entity has promised to transfer to the customer, the entity considers both the terms and conditions specified in the contract as well as the legislation. Even if the contract with the customer states only that the entity will ‘make its best effort’ to transport the customer as prescribed, the existence of the legislation means that the entity has promised to transport the customer from one specified location to another within a specified time period after the scheduled flight time. This is because the legislation creates an enforceable obligation for the entity on signing the contract with the customer—the entity has therefore in effect agreed to transport the customer to a specified location within a specified time period after the scheduled flight time; if it fails to do, it has agreed to pay the customer compensation.
16. If we were to conclude that, in the fact pattern described in the submission, the entity promises only to make its best efforts to transport the customer, then we think that this conclusion would also hold for many other revenue contracts that have some form of variable consideration. For example, in a service contract that includes the payment of a rebate to the customer if specified efficiency targets are not achieved, using this rationale the entity would conclude that it has promised only to make its best efforts to provide a service that achieves the efficiency targets. In our view, such a conclusion would not accurately describe the promise made by the entity. In that example, we would conclude that the entity has promised to provide a service that achieves the specified efficiency targets, and if it fails to do so it has agreed to pay a rebate to the customer.
17. Accordingly, we conclude that the promised service in the contract is the entity’s promise to transport the customer from one specified location to another within a specified time period after the scheduled flight time. The compensation is payable when the entity fails to transfer that promised service.

### ***The Committee’s technical conclusion***

#### *Matter raised by respondent*

18. IATA disagrees with the Committee’s technical analysis. It provides a number of reasons why, in its view, the compensation payable to the customer is compensation

for harm or damage as described in paragraph B33 of IFRS 15, and is not therefore variable consideration. IATA says:

- (a) the compensation payable to flight customers is consistently referred to as ‘compensation’ in the relevant legislation and contracts with customers, and as part of some customers’ travel insurance.
  - (b) the compensation in question is different from the penalty described in Illustrative Example 20 accompanying IFRS 15 (and referenced in the tentative agenda decision)—that example illustrates a contract with a customer to build an asset; the terms of the contract include a penalty of a fixed amount if the construction is not completed within three months of a specified date. IATA says the penalty in that example is more akin to an incentive payment to complete work by a specified time, rather than a penalty. The penalty in that example is not compensation for harm or damage because the amount does not increase over the period of delay nor are any damages specified. IATA says Illustrative Example 20 is therefore not relevant to the fact pattern described in the submission.
  - (c) the compensation in question represents compensation for customers’ inconvenience (loss of time and opportunity) and possible monetary losses, and is therefore similar to liquidated damages. In its view, such payments for loss or damages are within the scope of paragraph B33 of IFRS 15.
  - (d) the compensation payable is unrelated to the ticket price, and therefore does not represent an adjustment to the price of the service.
19. IATA agrees that the compensation relates directly to the entity’s performance obligation, but says this does not necessarily mean that it is variable consideration. In its view, all payments to customers (whether variable consideration or compensation for harm or damages caused) relate directly to the entity’s performance obligation.

*Staff analysis*

20. We continue to agree with the Committee’s analysis that the compensation payable to flight customers represents variable consideration that forms part of the transaction

price. In our view, it does not represent compensation for harm or damage caused by the entity's products as described in paragraph B33 of IFRS 15.

21. As noted above, a flight customer is entitled to compensation when the entity fails to transfer the promised service to the customer. If the entity fails to transport the customer as promised (such that compensation is payable), it follows that the amount of consideration to which the entity expects to be entitled is different from that to which it would have been entitled if the flight had not been delayed or cancelled.
22. Accordingly, that compensation forms part of 'the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer...' (the definition of the transaction price in IFRS 15). This aligns with the core principle of IFRS 15, which is to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
23. We continue to consider the compensation in question to be similar to the penalty in Illustrative Example 20 accompanying IFRS 15. In that example, a penalty is payable by a construction entity for failure to transfer the constructed asset promised in the contract by a specified date—the example concludes that the penalty represents variable consideration. Therefore, we think it is helpful to retain the reference to this example in the agenda decision.
24. The compensation payable to flight customers may increase in increments whereas the penalty in Illustrative Example 20 is a fixed amount—however, we think fixed versus increasing does not change the nature of the payments. In our view, it is nature of the payment that is relevant to the assessment—ie whether the payment relates to the transfer of the promised good or service in the contract and, thus, is part of the consideration to which the entity is entitled in exchange for transferring that good or service. The label attached to a payment (eg 'compensation'), how the amount of the payment is determined (eg whether related or unrelated to the ticket price) and whether the payment is fixed or variable do not affect the assessment of whether the payment represents variable consideration.

25. Paragraph B33 of IFRS 15 specifies requirements for compensation payable by an entity only ‘if its products cause harm or damage’; we note that paragraph B33 does not refer to compensation for any loss or damages. In a situation in which an entity’s products have caused harm or damage, the entity may have transferred the promised good or service to the customer but, in doing so, its products have caused incidental harm or damage (for example, to the personal property of the customer). If a flight is delayed or cancelled (such that a customer would be entitled to compensation), the entity’s products have not caused harm or damage. Instead, the entity has failed to transfer the promised service, and the customer is compensated because it did not obtain what was promised in the contract. Accordingly, the compensation payable to flight customers is not compensation for harm or damage caused by the entity’s products as described in paragraph B33 of IFRS 15.

#### Drafting of the agenda decision

26. Although we continue to agree with the Committee’s conclusion in the tentative agenda decision, we think we could improve the drafting of that decision. The tentative agenda decision said the compensation ‘relates directly to the entity’s performance obligation’. We think this drafting could be improved if we changed it to reflect the definition of the transaction price in IFRS 15. Appendix A to this paper sets out our recommended change to the drafting in this respect: ‘compensation for delays or cancellations forms part of the consideration to which the entity expects to be entitled in exchange for transferring the promised service to the customer’.

### ***Publishing an agenda decision***

#### *Matter raised by respondent*

27. The ASCG suggests that the Committee reconsider whether publishing an agenda decision on this matter is appropriate because of the broad relevance and complexity of the matter and in the light of proposed amendments to the *Due Process Handbook*.
28. Petrobras suggests that the Committee add the matter to its standard-setting agenda. It says if divergence in practice exists for the matter, it would assume that the principles

and requirements in IFRS Standards do not provide an adequate basis for an entity to determine the appropriate accounting treatment.

*Staff analysis*

29. Paragraph 35 of [Agenda Paper 8](#) to the Committee’s June 2019 meeting discusses whether this matter meets the criteria in paragraphs 5.16–5.17 of the *Due Process Handbook* for the Committee to add a project to its standard-setting agenda. In that paragraph we note our view that the requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for an obligation to compensate customers for delays and cancellations.
30. We think the existence of different reporting methods does not, alone, indicate that the requirements in IFRS 15 are inadequate to address the matter. We note that stakeholders generally submit questions to the Committee because of differences in existing reporting methods, or because such differences are expected to arise. If this were to be considered evidence that the requirements in IFRS Standards provide an inadequate basis for an entity to determine its accounting, we think virtually all questions submitted to the Committee would fail this criterion, making the criterion irrelevant. We think the fact that this criterion (and others) exists in the *Due Process Handbook* is evidence that diversity in reporting methods is not, in itself, sufficient to add a matter to the standard-setting agenda.
31. Having considered the criteria in paragraphs 5.16–5.17 of the *Due Process Handbook*, we continue to conclude that the requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for an obligation to compensate customers for delays and cancellations. Accordingly, in our view the matter does not meet the Committee’s agenda criteria and we recommend publishing an agenda decision.
32. We note that the amendments proposed to the *Due Process Handbook* in 2019 have not yet been finalised, and thus do not (as yet) form part of the Committee’s due process. That said, the DPOC did not propose any changes to the Committee’s agenda criteria, other than wording changes of an editorial nature.

## **Compensation for cancellations and negative revenue**

### *Matter raised by respondent*

33. ASCG, David Hardidge, ESMA, ICAN, ICAI, MASB, Mazars and Perter Herzog suggest that the Committee consider addressing the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.
34. Mazars explains its view that any compensation payment beyond the ticket price should be recognised as an expense because it represents compensation for damage suffered by the customer. Mazars also distinguishes cancellations for which the customer is ultimately transported to the specified destination by the entity and those for which it is not—in its view, if the flight is cancelled and the customer does not take another flight with the entity, no service is rendered and the entity should account for any compensation paid as the settlement of a contract liability. If the customer is ultimately transported by the entity, the entity should treat the cancellation similarly to a delay.
35. IATA says, in its view, the recognition of negative revenue would not reflect economic reality. Peter Herzog says, applying the requirements in IFRS Standards, he would conclude that an entity presents any compensation payments as part of revenue—in some circumstances, the entity may present negative revenue.
36. ESMA says this was one aspect of its submission to the Committee and expected that the Committee would have considered this question and documented its discussion in the agenda decision. ESMA says it accepts that the Committee may be unable to address this question and suggests the Committee could refer the matter to the Board for consideration as part of the future post-implementation review (PIR) of IFRS 15.

### *Staff analysis*

37. At its meeting in June 2019, the Committee discussed whether to address this matter in the tentative agenda decision. The Committee decided not to address it on the grounds that there would be nothing useful that it could add in this respect. However, it concluded that it would be helpful to explicitly state in the tentative agenda decision that it had not considered the matter.

38. Negative revenue is a topic that goes beyond the question in the submission about compensation for delayed or cancelled flights, and is potentially applicable across many different revenue contracts. We have no evidence to suggest that immediate standard setting is required in this respect. In our view, if the topic were to be addressed, it should form part of the PIR of IFRS 15.
39. At this stage, we would not necessarily recommend referring the topic to the Board for its consideration as part of the PIR. This is because 2019 is only the second year that entities are applying IFRS 15 and so we have no evidence of the significance of the amounts involved for entities affected. We note that the Board’s process for PIRs is thorough in identifying topics for its consideration.

**Other comments**

40. The following table summarises respondents’ other comments together with our analysis and conclusions.

<b>Matter raised by respondent</b>	<b>Staff analysis</b>
<p><i>1. Other fact patterns</i></p> <p>The ASCG says it would have preferred a more holistic discussion—that would have included other fact patterns—to help stakeholders distinguish between payments that are considered variable consideration or those that give rise to a separate obligation subject to IAS 37. It says the tentative agenda decision could affect service contracts in different industries, not just the airline industry.</p> <p>David Hardidge refers to other fact patterns in his comment letter, including</p>	<p>At its meeting in June 2019, the Committee discussed the distinction between variable consideration and an IAS 37 obligation in reaching its conclusion regarding compensation for delayed and cancelled flights. A number of Committee members raised different fact patterns during that discussion. Paragraphs 20–25 of this paper also set out our analysis of that distinction in the context of compensation payable to flight customers.</p> <p>In order to thoroughly discuss other fact patterns, the Committee would need to</p>

<p>compensation for loss of service in the telecoms industry.</p>	<p>know details about those fact patterns—for example, the promises in the contract, the terms of any possible payments to the customer, etc. We think this goes beyond addressing the question submitted and would require further research and analysis to identify and consider those fact patterns.</p> <p>We recommend no change to the tentative agenda decision in this respect.</p>
<p><i>2. Definition of a penalty</i></p> <p>The ICAI suggests that the Committee define ‘penalty’. It says the tentative agenda decision implies that all penalties are variable consideration, unless they compensate the customer for harm or damage caused by the entity’s products as described in paragraph B33. In its view, only penalties that are inherent in the determination of the transaction price should form part of variable consideration.</p>	<p>Paragraph 51 of IFRS 15 states that ‘consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items’.</p> <p>These are examples of common types of variable consideration, but IFRS 15 does not require that everything with these labels are variable consideration.</p> <p>As noted earlier in the paper, it is the nature of a payment that is relevant in assessing whether the payment represents variable consideration, and not the label. For this reason, we would see no benefit in defining penalty. We note that the tentative agenda decision refers specifically to the penalty described and illustrated in Example 20 accompanying IFRS 15—it does not refer generally to ‘penalty’. Consequently, in our</p>

	view, the implication noted by the ICAI does not arise.
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**Staff recommendation**

41. On the basis of our analysis, we recommend finalising the agenda decision as published in *IFRIC Update* in June 2019 with some 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).

### **Compensation for Delays or Cancellations (IFRS 15 *Revenue from Contracts with Customers*)**

The Committee received a request about an airline’s obligation to compensate customers for delayed or cancelled flights. In the fact pattern described in the request:

- a) legislation gives a flight passenger (customer) the right to be compensated by the flight provider (entity) for delays and cancellations subject to specified conditions in the legislation. The legislation stipulates the amount of compensation, which is unrelated to the amount the customer pays for a flight.
- b) the legislation creates enforceable rights and obligations, and forms part of the terms of a contract between the entity and a customer.
- c) applying IFRS 15 to a contract with a customer, the entity identifies as a performance obligation its promise to transfer a flight service to the customer.

The request asked whether the entity accounts for its obligation to compensate customers either: (a) as variable consideration applying paragraphs 50–59 of IFRS 15; or (b) applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, separately from its performance obligation to transfer a flight service to the customer.

Paragraph 47 of IFRS 15 requires an entity to ‘consider the terms of the contract and its customary business practices in determining the transaction price. 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...The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both’. Paragraph 51 of IFRS 15 lists examples of common types of variable consideration—‘discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items’.

Paragraph B33 of IFRS 15 specifies requirements for an entity’s obligation to pay compensation to a customer if its products cause harm or damage. An entity accounts for such

an obligation applying IAS 37, separately from its performance obligation in the contract with the customer.

The Committee observed that, in the fact pattern described in the request, the entity promises to transport the customer from one specified location to another within a specified time period after the scheduled flight time. If the entity fails to do so, the customer is entitled to compensation. Accordingly, any compensation for delays or cancellations forms part of the consideration to which the entity expects to be entitled in exchange for transferring the promised service to the customer ~~relates directly to the entity's performance obligation~~; it does not represent compensation for harm or damage caused by the entity's products as described in paragraph B33. The fact that legislation, rather than the contract, stipulates the compensation payable does not affect the entity's determination of the transaction price—the compensation gives rise to variable consideration in the same way that penalties for delayed transfer of an asset gives rise to variable consideration as illustrated in Example 20 of the Illustrative Examples accompanying IFRS 15.

Consequently, the Committee concluded that compensation for delays or cancellations, as described in the request, is variable consideration in the contract. Accordingly, the entity applies the requirements in paragraphs 50–59 of IFRS 15 in accounting for its obligation to compensate customers for delays or cancellations. The Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations. Consequently, the Committee {decided} not to add the matter to its standard-setting agenda.

## Appendix B—Comment letters

20 August 2019

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

Dear Ms Lloyd

**Tentative agenda decision – Compensation for delays or cancellations (IFRS 15 *Revenue from Contracts with Customers*)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on compensation for delays or cancellations.

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

Mrs Sue Lloyd

**IFRS Interpretations Committee**

Columbus Building,  
7 Westferry Circus, Canary Wharf

London E14 4HD  
United Kingdom

Paris, 1 August 2019

**Tentative Agenda Decisions – IFRIC Update November 2018**

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the June 2019 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 would like to draw your attention to three issues that we think are worth considering:

- The Tentative Agenda Decision on the Lessee’s Incremental Borrowing Rate is not conclusive as to whether IBR should reflect the payment profile of the lease. We believe that sufficient guidance exists in the standard and the basis for conclusions for the Committee to reach the conclusion that IBR should be consistent with the payment profile of the lease.
- The assessment of the lease term is the most important area of judgement in applying IFRS 16, and we observe that significant diversity exists in practice on that matter. This is a strong indicator that the standard needs clarifications, and we believe these clarifications cannot be provided through a simple agenda decision considering the interactions of the different paragraphs of the standard and inconsistencies between the standard itself and the corresponding basis for conclusions. That is why we urge

~~the Committee and/or the Board to undertake a narrow-scope standard-setting project on the lease term. In the meantime, we believe the Committee should not issue any agenda decision because its conclusions would preempt the outcome of the debate to be held during the standard-setting process.~~

- By not considering the question of whether the amount of airline compensation for delays or cancellations recognised as a reduction of revenue should be limited to reducing the transaction price to nil, the Committee fails to address an area of significant diversity in practice. A conclusion on that issue would be of great help.

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**



**Edouard Fossat**

*Financial Reporting Advisory*

## Appendix 2

### ***Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers) — Agenda Paper 8***

While we agree with the Interpretations Committee that compensation for delays, irrespective of whether stipulated by legislation or the contract, is variable consideration for the transportation service, we have concerns about the fact that the Committee:

- extends that conclusion to cancellations, and
- does not address situations where the compensation exceeds the initial amount of revenue charged to the customer.

Whenever a flight is cancelled (and the passenger is finally not transported by the airline to the promised destination), no service is rendered to the customer. Therefore, no revenue should be recognised, and any reimbursement made to the customer should be accounted for as a settlement of a contract liability. If payment made to the customer exceeds the initial ticket price, we believe it cannot be considered as negative revenue because it is obviously compensation for the damage suffered by the passenger who was unable to reach his destination. As such, any compensation should be recognised as an expense.

If the passenger is moved to another flight operated by the airline, then the situation is similar to that of a delay.

Regarding compensation for delay, it should be seen as a reduction of the selling price, because the airline failed to perform as promised. Nevertheless, we strongly believe that this should not lead to a negative selling price because the airline has, in effect, rendered a service, even if its quality is below expectations. Any compensation beyond the selling price is indemnification for a damage suffered by the passenger.

When writing *“The Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.”*, the Committee fails to address situations where diversity in practice exists and maintains uncertainty on how to account for these amounts. We therefore recommend that the Committee also considers the case of compensation that exceeds the initial selling price and includes that analysis in its Agenda Decision.



**IKATAN AKUNTAN INDONESIA**  
**(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

Jakarta, 8<sup>th</sup> August 2019

Ref.: 1221/DSAK/IAI/VIII/2019

**Ms. Sue Lloyd, Chair,**  
IFRS Interpretations Committee,  
IFRS Foundation,  
London, UK

DSAK IAI Comments on the Tentative Agenda Decision – Compensation for Delays or Cancellations (IFRS 15)

Dear Ms. Sue Lloyd,

The Indonesian Financial Accounting Standards Board (DSAK IAI), as part of the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to comment on the tentative agenda decision – compensation for delays or cancellations (IFRS 15).

Our detailed responses to the questions are attached in the Appendix to this letter below.

We hope that our comments could contribute to the IFRS Interpretations Committee's future deliberations. Should you have further concerns regarding our comments, please do not hesitate to contact us at [dsak@iaiglobal.or.id](mailto:dsak@iaiglobal.or.id).

Thank you.

Best Regards,

  
**IKATAN AKUNTAN INDONESIA**  
(Institute of Indonesia Chartered Accountants)

**Djohan Pinnarwan**

Chairman

The Indonesian Financial Accounting Standards Board  
Institute of Indonesia Chartered Accountants



**IKATAN AKUNTAN INDONESIA**  
**(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

**APPENDIX**

We agree with the IFRIC's tentative agenda decision. Based on the fact pattern, the entity's performance obligation is promise to provide flight services for customers to transport the customer from a specified location (at a specified time) to another specified location (at a specified time).

Therefore, compensation for delays or cancellations relates directly to the entity's performance obligation in the contract. Compensation for flight delays or cancellations is a part of the transaction price and creates a variable consideration in the contract.

Accordingly, the entity recognises income (by considering the amount of variable considerations for this fact pattern) to describe the transfer of goods or services promised to the customer in amounts that reflect the expected consideration in the exchange for the goods or services.



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
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**Registrar/Chief Executive**

JOHN I. EVBODAGHE, MBA, FCA

19 August 2019

ICAN/ED/R&T/AUG/2019

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

Dear Sir,

**RE: IFRS INTERPRETATIONS COMMITTEE TENTATIVE AGENDA  
DECISION**

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above requests for comments on the Tentative Agenda Decisions and hereby submit comments as follows:

**Presentation of Liabilities or Assets related to Uncertain Tax Treatments  
(IAS 1)**

*We agree with the position of the Committee not to make the presentation of liabilities or assets related to uncertain tax treatments a standard-setting agenda. The provisions of par. 54 (n) and 54 (o) as considered, are adequate guidance on their presentation. However, the committee may need to emphasize that entities clarify their presentation in their accounting policy.*

## **Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)**

*Adequate Provisions are already made in the standards and the Committee's decision not to add the matter to its standard-setting agenda is supported but to include more illustrative examples on the determination of lease term of cancellable and renewable leases.*

## **Disclosure of Changes in Liabilities arising from Financing Activities (IAS 7)**

*We agree with the decision of the Committee that the disclosure requirements in Par. 44B-44E of IAS 7, together with the requirements in IAS 1 are adequate to meet the information needs of investors.*

## **Subsequent Expenditure on Biological Assets (IAS 41)**

*We agree with the Committee's decision not to make subsequent expenditure on biological assets a matter to its standard-setting agenda. As relied upon by the Committee, Par. B62 of IAS 41 and the clarity in applying Par. 117-124 of IAS 1 are adequate on the reporting to by an entity.*

## **Compensation for Delays or Cancellations (IFRS 15)**

*We agree with the position of the Committee that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations. However, we believe that the Committee should provide necessary guidance where the variable compensation (example- penalty imposed by legislation with respect to the contract) is higher than the purchase consideration or price.*

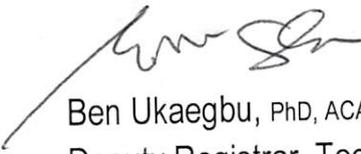


## ~~Lessee's Incremental Borrowing Rate (IFRS 16)~~

~~We agree with the position of the Committee not to include the determination of incremental borrowing rate to its standard-setting agenda because the principles and requirements for this item are adequately spelt out in IFRS 16.~~

Yours faithfully,

for: Registrar/Chief Executive



Ben Ukaegbu, PhD, ACA

Deputy Registrar, Technical Services





ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd  
Chair of the IFRS Interpretations Committee  
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United Kingdom

**IFRS Technical Committee**

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Berlin, 19 August 2019

Dear Sue,

### **IFRS IC's tentative agenda decisions in its June 2019 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2019 *IFRIC Update*.

We agree with most of the tentative agenda decisions. However, we do not agree with the conclusion and/or the reasons behind three of these.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große ([grosse@drsc.de](mailto:grosse@drsc.de)) or me.

Yours sincerely,

*Andreas Barckow*

President

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Prof. Dr. Andreas Barckow  
**Executive Director:**  
Prof. Dr. Sven Morich

## Appendix – Detailed Comments

### ~~Tentative decision on IFRS 9 – Fair value hedge of FX risk on non-financial assets~~

We are not convinced that the IFRS IC's discussion and its findings help appropriately addressing the questions raised.

We have concerns with the IFRS IC's description where the FX volatility arises from in the different fact patterns (PPE, inventory, etc.). As per the tentative agenda decision, the (potentially designated) FX risk arises from pricing a non-financial asset "in one particular currency at a global level". In contrast, as per the Agenda Paper the non-financial assets are "routinely [be] denominated in a particular currency" or "purchased in an established market". As these are different, nonetheless precise, descriptions of FX market circumstances under which assets are to be translated into the functional currency, it remains unclear whether the condition in IFRS 9.6.5.2(a) is considered met under any of these circumstances. Depending on this, the wording might inadvertently narrow the fact patterns to which the IFRS IC's tentative decision would apply.

### ~~Tentative decision on IFRS 15 – Compensation for delays or cancellations~~

We do not fully agree with the tentative decision and conclusion in respect of the submitted fact pattern. Specifically, we would have appreciated a more holistic discussion that included variations of the fact pattern submitted or modified circumstances in order to better distinguish between situations where something is indeed a reduction of the selling price per IFRS 15 or separate obligations provided for under IAS 37. Without this, the tentative decision is not as helpful as it could be, as it does not illustrate potential legal or contractual rights and obligations that could distinguish between (a) compensations "still" being a variable consideration of the very same performance obligation and (b) those being a separate obligation, thus in the scope of IAS 37. Examples are distinguishing primary services vs. collateral services/obligations, low or non-performance vs. (penalty for) harm/damage, legal warranties vs. contractual guarantees, service-type warranties, product liabilities, etc. This said, we suggest the IFRS IC extend its discussion in this regard. This is of particular interest, as an agenda decision by the IFRS IC could affect service contracts in many different industries and not merely affect the airline sector concerned in the specific agenda item request.

Further, we question the appropriateness of not addressing the very important question of how to account for compensations that exceed the transaction price as we do believe this to be important in the fact patterns concerned, which is why it should not be ignored. Therefore, we request the IFRS IC to continue its discussion by considering and answering this follow-up question.

Given the broad relevance and complexity of this issue, we also suggest the IFRS IC re-consider whether clarifying IFRS 15 by way of an agenda decision is appropriate, esp. against the proposals in the revised Due Process Handbook.

### ~~Tentative decision on IFRS 16 – Lessee's incremental borrowing rate~~

We believe that the tentative decision and the explanation should be clarified. As the IFRS IC only states that "IFRS 16 does not **explicitly** require..." to determine the implicit borrowing rate based on a loan with a similar payment profile, it remains unclear whether, or under which circumstances, this is still implicitly required or not.

Since we understand IFRS 16 not to require an entity to revert to a loan with a similar payment profile, and in this respect agree with the tentative decision, we suggest that the word "explicitly" in the agenda's wording be deleted.



Ms Sue Lloyd,  
Chair, IFRS Interpretations committee,  
IFRS Foundation,  
London, UK

August 20, 2019

Dear Ms Sue,

**Subject: Tentative Agenda Decision (TAD) – Public Comments by August 20, 2019**

Thank you for giving us an opportunity to comment on the seven tentative agenda decisions of IFRS Interpretation Committee published in June 2019. We have comments on following TADs:

- Fair Value Hedge of Foreign Currency Risk on Non- Financial Assets (IFRS 9)
- Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)
- Compensation for Delays or Cancellations (IFRS 15)

The comments are given in the Annexure A. We hope you will find the same useful and relevant.

With kind regards,

CA. M.P Vijay Kumar  
Chairman  
Accounting Standards Board  
Institute of Chartered Accountants of India



Annexure A

**Comments on TAD- ‘Fair Value Hedge of Foreign Currency Risk on Non- Financial Assets (IFRS 9)’**

We have reviewed TAD and related IFRS Interpretations Committee (IFRS IC) agenda papers. Our concerns are as follows:

- a) Considering fact pattern and examples of non-financial assets, like Property, Plant and Equipment, mentioned in the agenda papers, we believe use of hedge accounting appears to be very rare and unusual in such cases. We were also not sure whether it meets the fundamental objective of hedge accounting that particular risk could affect profit or loss. We are concerned that interpretation of words ‘that could affect profit or loss’ stated in paragraph 6.1.1 of IFRS 9 appears to be very liberal and may have unintended consequences.
- b) Secondly, in view of the fact pattern, whether cash flow hedge accounting would be more consistent with the entity’s risk management strategy rather than fair value hedge accounting. For example, where the entity’s strategy is to use the non-financial asset for a period of time to generate cash flows from its use and then only to sell it in foreign currency, in such cases, entity’s risk management strategy is to hedge the foreign currency risk from the sale of the non-financial asset and application of fair value hedge accounting may not be appropriate and consistent with the entity’s risk management strategy.

**Comments on TAD- Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)**

The Committee has concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the enforceable period and lease term of cancellable and renewable leases. The Committee reached the conclusion on the basis of the paragraphs 18, 19, B34, B37, BC 156 of IFRS 16 referred in the TAD.

*IFRS 16.B34: “In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty”*

*IFRS 16.B37: “.....The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any*



*expected changes in facts and circumstances from the commencement date until the exercise date of the option.....”*

*IFRS 16.BC 156: “In the IASB’s view, the lease term should reflect an entity’s reasonable expectation of the period during which the underlying asset will be used because that approach provides the most useful information.”*

We are of the view that with regard to determination of Lease Term, while the IFRS 16 does provide guidance, however, there appears to be lot of confusion in determining the lease term and non-cancellable period of a lease by applying paragraphs 18, B34, B37 and BC156.

Paragraph B34 indicates that contractual provisions are to be considered but paragraphs 19 & B37 indicate non-contractual aspects, such as, economic incentives and compulsions should also be part of the analysis. Further, paragraph BC 156 indicates that lease term should reflect an entity’s reasonable expectation of the period during which the underlying asset will be used. However, these paragraphs do not deal with the determination of the enforceable period of the lease.

The term ‘enforceable’ usually denotes ‘legal enforceability’ and arises out of contractual provisions, whereas evaluation of term ‘reasonably certain’ is based on judgement and even if it has a high threshold, it cannot be termed as ‘enforceable’. We believe that combining these two terms which are based on different premises is a challenging one.

We have also noted that the Committee concluded that penalty has to be assessed considering the broader economics of the contract and not only the contractual terms. However, the term ‘penalty’ is not defined in the standard. We believe the term ‘penalty’ may be defined.

In view of the above, we are of the view that the issue in the TAD is linked to one of the fundamental principle of the Standard, i.e., lease term and the Committee should add the matter to its standard setting activity.

## **Comments on TAD- Compensation for Delays or Cancellations (IFRS 15)**

Following are our concerns on the Tentative Agenda Decision (TAD) - Compensation for Delays or Cancellations (IFRS 15):

1. **Definition of penalty and its accounting:** From the TAD it appears that all the penalties are in the nature of variable consideration unless paid for causing harm or damage as prescribed in paragraph B 33. Moreover, there is no clear definition. We believe that only the penalties that are inherent in determination of transaction price should form part of variable consideration. Accordingly the term ‘penalty’ shall be defined. This definition will provide better clarity to determine the applicable IFRS Standard.



2. **Whether the amount of deduction/compensation recognised as a reduction of revenue can lead to a negative transaction price or not:** The aforementioned **TAD does not** deal with the situation where the **transaction price becomes negative** because of deduction/compensation recognised as reduction of revenue. The TAD does not prescribe accounting for negative transaction price in such cases. It may be noted that the lack of clarity in this regard may lead to diversity in practices.

The committee may provide appropriate accounting guidance on the aforesaid issue considering that the deduction/compensation may exceed the amount of consideration received and thus revenue of that particular individual transaction may become negative.

20 August 2019

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

Dear Ms. Lloyd

**IFRS Interpretations Committee Tentative Agenda Decisions**

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Tentative Agenda Decisions published in IFRIC Update June 2019.

Our detailed responses are enclosed in the Appendix to this letter.

If you need further clarification, please contact the undersigned by email at [beeleng@masb.org.my](mailto:beeleng@masb.org.my) or at +603 2273 3100.

Thank you.

Yours sincerely,



**TAN BEE LENG**  
*Executive Director*

**Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers) - Agenda Paper 8**

We agree with the Interpretations Committee's conclusion that compensation for delays or cancellations, as described in the request, is a variable consideration and an entity applies IFRS 15 paragraphs 50-59 accordingly.

However, we would like to request the Interpretations Committee to clarify whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. Without such clarification an accounting policy would have to be developed for compensation exceeding the consideration received, either as reduction of revenue or separate expense. In this regard, the clarification would improve financial reporting as entities would be applying the requirement consistently and therefore comparable financial results are provided to users of financial statements.

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- ~~Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9 Financial Instruments) - Agenda Paper 4~~
  - ~~Lessee's Incremental Borrowing Rate (IFRS 16 Leases) - Agenda Paper 2~~
  - ~~Lease Term and Useful Life of Leasehold Improvements (IFRS 16 Leases and IAS 16 Property, Plant and Equipment) - Agenda Paper 3~~
  - ~~Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1 Presentation of Financial Statements) - Agenda Paper 7~~
  - ~~Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 Statement of Cash Flows) - Agenda Paper 5-5A~~
  - ~~Subsequent Expenditure on Biological Assets (IAS 41 Agriculture) - Agenda Paper 9~~

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decision for not adding these items onto its agenda.

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

**Ref: The IFRS Interpretations Committee's June 2019 tentative agenda decisions**

Dear Mrs Lloyd,

The European Securities and Markets Authority (ESMA) would like to thank you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication of three tentative agenda decisions in the June 2019 IFRIC Update. One relates to the application of IFRS 15 *Revenue from Contracts with Customers* and two to IFRS 16 *Leases*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

Compensation for Delays and Cancellations – IFRS 15

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an airline accounts for its obligation to compensate customers for delayed or cancelled flights through lump-sum payments. ESMA notes that the IFRS IC concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for such obligation. ESMA agrees with the Committee's conclusion that the compensation for delays or cancellations described in the request is a variable consideration. Consequently, entities need to apply paragraphs 50–59 of IFRS 15 when accounting for its obligation related to such compensation.

However, ESMA regrets that the Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. ESMA notes that this was one aspect of its submission to the IFRS IC<sup>1</sup> and would have expected that the IFRS IC considered this question and documented its discussion in the agenda decision.

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<sup>1</sup> Letter, Agenda Item Request: Presentation of lump-sum compensation payments in the airline industry (IFRS 15), ESMA32-63-711, 17 April 2019, (cf paragraph 10 of the Appendix)

While ESMA understands that this aspect might relate to fundamental aspects of application of IFRS and thus IFRS IC might not be able to address the issue, ESMA would have expected that the IFRS IC considered the issue, e.g. by referring this matter to the Board in order to be addressed in the future post-implementation review of IFRS 15. Therefore, ESMA suggests that the final agenda decision mentions how the IFRS IC considered the issue.

#### Lessee's Incremental Borrowing Rate – IFRS 16

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify the definition of a lessee's incremental borrowing rate in IFRS 16. ESMA notes that the IFRS IC concluded that the principles and requirements in IFRS 16 provide an adequate basis for a lessee to determine its incremental borrowing rate.

While ESMA acknowledges that the definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments, ESMA considers that the underlying economic principles on which the IFRS 16 model is based would require the presence of such similarity.

From its initial observation of the implementation activity, ESMA notes that most issuers reflect the payment profile of the cash flows in the determination of the incremental borrowing rate. This is because they consider that the proper reflection of the payment profile is necessary to faithfully represent the economic characteristics of the lease contract. Furthermore, they argue that this is in accordance with the Board's decision to take into account the terms and conditions of the lease to define the lessee's incremental borrowing rate (paragraph BC 162 to IFRS 16).

Additionally, ESMA notes that the objective of IFRS 16 is to ensure that lessees provide relevant information in a manner that faithfully represent lease transactions (paragraph 1 of IFRS 16). ESMA considers that from this perspective, the agenda decision might lead to a conceptual flaw in the application of the standard. Indeed, it appears inconsistent to require the use of the rate implicit in the lease which reflects the payment profile of the lease payments, while, if that rate cannot be readily determined, to allow the use of an incremental borrowing rate without the need to consider the payment profile of the lease payments.

Furthermore, ESMA notes that the US Financial Accounting Standards Board (FASB) reached the conclusion under the US GAAP that payment profile of the cash flows need to be considered when determining the incremental borrowing rate. As such, ESMA considers that it would be unfortunate that an unnecessary future divergence between IFRS and US GAAP would be introduced in this area.

Consequently, ESMA considers that the IFRS IC could have gone further in the agenda decision by explaining that readily observable rate for a loan with a similar payment profile to that of the lease need to be considered in the determination of the incremental borrowing rate rather than stating that '*a lessee might often refer [to such rate] as a starting point*'.

Should the IFRS IC believe that reaching such conclusion in the agenda decision is impossible without undertaking a standard-setting activity, ESMA considers that the IFRS IC should recommend to the Board to amend the standard in this respect and explicitly require consideration of the payment profile in the definition of a lessee's incremental borrowing rate. ESMA considers that such conclusion is necessary to prevent diversity in practice and ensure consistent application and enforceability of IFRS 16 requirements.

If the IFRS IC or the Board maintain the current position, ESMA encourages the Board to reach out to the FASB to understand why different conclusions have been reached on a part of the standard previously considered as converged.

#### Lease term and useful life of leasehold improvements – IFRS 16

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how to determine the lease term of a cancellable lease or a renewable lease. Specifically, the request asked whether, when applying paragraph B34 of IFRS 16 and assessing 'no more than an insignificant penalty', an entity considers the broader economics of the contract, and not only contractual termination payments.

ESMA agrees with the conclusion reached by the IFRS IC that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases. Especially, ESMA agrees that in determining the lease term and assessing the length of the non-cancellable period of a lease (including cancellable or tacitly renewable leases), paragraph B34 of IFRS 16 requires an entity to determine the period for which the contract is enforceable. ESMA welcomes the emphasis in the agenda decision that if only one party has the right to terminate the lease without the permission of the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

ESMA equally welcomes the conclusion that in applying paragraph B34 and determining the enforceable period of the lease, an entity considers the broader economics of the contract, and not only contractual termination payments.

However, ESMA considers that the Committee could have further explained in the agenda decision what is meant by 'more than an insignificant penalty'. This would be consistent with the insight on the application of IFRS 16 requirements on lease term provided by the October 2017 IASB webcast.<sup>2</sup> Consequently, in order to improve consistent application and enforceability of IFRS 16, ESMA considers that the IFRS IC could include in the final agenda decision specific explanations and considerations that were included in the webcast.<sup>3</sup>

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<sup>2</sup> Webcast, Lease term Q&A by Darell Scott (Board member), October 2017, <https://www.ifrs.org/webcast/?webcastid=1163617>. See also Letter, Agenda Item Request: Determination of the lease term, ESMA32-63-697, 29 March 2019, [https://www.esma.europa.eu/sites/default/files/library/esma32-63-697\\_ifrs\\_ic\\_on\\_ifrs\\_16\\_lease\\_term\\_cancellable\\_lease.pdf](https://www.esma.europa.eu/sites/default/files/library/esma32-63-697_ifrs_ic_on_ifrs_16_lease_term_cancellable_lease.pdf).

<sup>3</sup> These might include examples of possible economic outflows related to termination that need to be assessed as well as other considerations to be taken into account where relevant (such as past practice in using the termination (or extension) options).

Finally, ESMA also welcomes and agrees with the conclusion made by the Committee on the useful life of the non-removable leasehold improvements stating that the useful life of the non-removable leasehold improvements is the same as the lease term if the entity does not expect to use the leasehold improvements beyond the lease term.

In case you have any questions or comments regarding this letter, please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S/M' with a flourish.

Steven Maijor



IFRS Interpretations Committee  
IFRS Foundation  
Columbus Building  
7 Westferry Circus  
London  
E14 4HD

Date 20/08/2019

**Subject: Tentative Agenda Decision — Compensation for Delays or Cancellations (IFRS 15)**

Dear IFRS Interpretations Committee:

On behalf of the International Air Transport Association's ("IATA") Industry Accounting Working Group ("IAWG"), we are writing to comment on the Tentative Agenda Decision – Compensation for Delays or Cancellations (IFRS 15) issued on June 21, 2019. IAWG is made up of senior finance professionals of major airlines and represents over 290 IATA member airlines.

IAWG does not agree that payments made to compensate passengers for delays and cancellations represent a penalty and should be treated as a reduction in revenue rather than as a cost as they: (1) are consistently referred to as compensation and not a penalty in the legislation, Montreal Convention and contract for carriage; (2) are insurable losses commonly included in most travel insurance indicating that these are losses and not a penalty; (3) vary based upon the loss of time incurred by the customer suggesting that the payment is to compensate for a loss of time; and (4) have no relationship to the price paid by the customer and therefore do not represent an adjustment to the price of the service to be provided.

IAWG agrees that the compensation relates directly to the performance obligation and notes as this is true for all payments to customers whether they are variable payments or payments for loss and damages therefore, this should not be a determining factor in the accounting treatment for payment.

Our detailed response follows.

**What is the promise in the contract?**

IAWG agrees that legislation, such as EC261 in the EU, is referenced in the contract for carriage and forms part of that contract with the customer. This would also be true with regard to the terms imposed by the Montreal Convention. We also agree that the issue is whether these payments are in substance variable consideration or compensation for loss and damages incurred by the customer.

The Committee observed that, in the fact pattern described in the request, the entity promises to transport the customer from one specified location to another within a specified time period after the scheduled flight time. If the entity fails to do so, the customer is entitled to compensation.



At no time does an airline promise to transport a passenger within a specified time period. The contract for carriage explicitly states that no such promise is being made by the airline.

As previously agreed, relevant legislation and international convention does form part of the contract, but not as part of the promise of services as the Committee has constructed the agreement.

The contract for carriage promises that the airline will make its best effort to transport the customer as provided in the itinerary. Failing to do that, the customer may choose a refund, the next available flight or a flight at a future date when certain conditions are met. That is the promise made by the airline to the customer.

The airline agreed to pay compensation to the customer or was legally compelled by legislation when a delay of a certain duration or cancellation could have been avoided by the airline. This is without regard to whether the passenger cancels the contract and obtains a refund, therefore this is not a promise or part of a promise, as the payment of compensation is not a good or service transferred to a customer and the airline need not provide a service to a customer. Nevertheless, it may still be a variable payment.

**Is the payment for delay or cancellation a variable payment?**

Regardless of how the promise is perceived, the real issue here is whether this compensation is a variable payment or compensation for the loss or damage of the customer.

IFRS 15.51 lists examples of common types of variable consideration—'discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items'. The Committee concluded that compensation for delays or cancellations, as described in the request, is variable consideration in the contract and equated it to a penalty in a construction contract.

IFRS 15.B33 specifies requirements for an entity's obligation to pay compensation to a customer if its products cause harm or damage. An entity accounts for such an obligation applying IAS 37, separately from its performance obligation in the contract with the customer. The Committee views the compensation for delays or cancellations relates directly to the entity's performance obligation and does not represent compensation for harm or damage caused by the entity's products as described in paragraph B33.

IAWG agrees that the compensation relates directly to the performance obligation and notes that this is true for all payments to customers whether they are variable payments or payments for loss and damages. For example, payments for medical malpractice are directly related to the promise to provide skilled care, but these would clearly be payments for loss and damages. Likewise, if a performer failed to perform, the payments for consequential losses incurred by the promoter would relate directly to the promise to perform, but these payments would also be for loss and damages.

Therefore, what is critical is whether this is a payment for harm or damages to the customer caused by the airline or a modification of the price charged for the service promised. Below we



will present a number of reasons why we believe that the payment is in fact to compensate the passenger for loss and not a penalty.

### **What is a penalty?**

The Committee has equated payments for delays and cancellations to the penalties in a construction contract and those penalties, if enforceable, are liquidated damages. The purpose of a liquidated damages clause is to compensate the innocent party when there is a breach of the terms of an agreement without the difficulty and expense of having to prove the actual loss. That is what the payments for delays and cancellations payable to passengers that have been inconvenienced and may have suffered monetary losses represent. These payments would fall under IFRS 15.B33, as they are payments for loss or damages.

### **What is the purpose of the payment?**

The passenger on a significantly delayed or cancelled flight incurs the loss of time and opportunity, and may incur other loss related to booked cars, hotels, tours, etc. These losses are not only actual, they are insurable losses.

It is unclear why the Committee would categorize payments made to liquidate these damages as a penalty when the contract for carriage, legislation, Montreal Convention and the insurance industry all characterize these payments as compensation to the customers.

IAWG notes that the preliminary agenda decision included the payments to customers for delayed, lost and damaged bags, and drew the same conclusion that these payments were variable payments related to the breach of promise to transport the bags on time and in good condition. That has now been removed as these obviously would be compensation for loss or damages.

### **Is Example 20 in the IFRS 15 Illustrative Examples relevant?**

The Committee has cited Example 20 in IFRS 15 Illustrative Examples as part of the basis for their determination that payments for delays and cancellations are a penalty and not compensation for loss. IAWG would view this as an example of an incentive payment and not a penalty and do not believe it is relevant to this issue. The example follows:

#### **Example 20—Penalty gives rise to variable consideration**

IE102 An entity enters into a contract with a customer to build an asset for CU1 million. In addition, the terms of the contract include a penalty of CU100,000 if the construction is not completed within three months of a date specified in the contract.

IE103 The entity concludes that the consideration promised in the contract includes a fixed amount of CU900,000 and a variable amount of CU100,000 (arising from the penalty).



IE104 The entity estimates the variable consideration in accordance with paragraphs 50–54 of IFRS 15 and considers the requirements in paragraphs 56–58 of IFRS 15 on constraining estimates of variable consideration.

While the standard characterizes this as a penalty, it equally could be viewed as an incentive payment. In this example, the “penalty” payment does not appear to reflect compensation for damages as the amount does not increase over the period of delay nor are any damages specified. Instead, it incentivizes the vendor to deliver the work prior to a specified date to obtain a higher amount of compensation. The example does not appear to have any relevance to this fact pattern where the customer suffers a known loss of opportunity in terms of their time and perhaps monetary losses in relation to rental cars, hotels, event tickets, etc.

### **Negative compensation**

The Committee did not consider the question of whether the amount of compensation recognized as a reduction of revenue is limited to reducing the transaction price to nil. One member of the Committee suggested that the issue would be the unit of measure. We do not agree that this is the case as IFRS 15 is clear that the unit of measure is the contract, leaving many scenarios where airlines would pay the person to fly. Certainly negative compensation could not reflect economic reality and would strongly suggest that the payment to the customer is not an adjustment to compensation, but rather a liquidation of loss and damages.

### **Are payments for loss and damages warranties?**

IFRS 15 includes a single heading of “Warranties” for the concepts covered in paragraphs B28 and B33, as shown below:

#### IFRS 15.B28

It is common for an entity to provide (in accordance with the contract, the law or the entity’s customary business practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

#### IFRS 15.B33

A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer might sell products in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a consumer using a product for its intended purpose. Similarly, an entity’s promise to indemnify the customer for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity’s products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IAS 37.



It is clear that the first concept relates to a warranty or guarantee in relation to the goods or services provided, but the second relates to compensation for consequential damages caused by the use of those goods or services. That is not a warranty. It is compensation for a product liability obligation. While payments for delays and cancellations do not fall within the common concept of a warranty, they do fall within the broadened concept created by the structure of this standard that includes consequential loss and damages.

**Are the principles and requirements in IFRS 15 adequate to address this issue?**

IAWG agrees that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations.

If you would like to discuss our comments further, please do not hesitate to contact Thomas Egan, IAWG Accounting Technical Expert at [egant@iata.org](mailto:egant@iata.org). The IAWG would be interested in engaging in a dialogue with the IFRIC staff to clarify any issues related to our submission or the broader issues related to aircraft financing, valuation and transactions related to aircraft.

Yours sincerely,

A blue ink signature consisting of a series of loops and a long horizontal stroke extending to the right.

Oran Har Nevo  
Chairman  
IATA IAWG

A blue ink signature in a cursive style, clearly legible as "Donal Cahalan".

Donal Cahalan  
Vice-Chairman  
IATA IAWG

Rio de Janeiro, August 19, 2019

CONTRIB 0054/2019

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

Subject: Compensation for Delays or Cancellations (IFRS 15)

Reference: Tentative Agenda Decision

Dear Ms Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision - Compensation for Delays and Cancellations. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

In our view, if it is understood that divergence in practice exists for the issue under discussion, it must be assumed that the principles and requirements found in the current versions of applicable IFRS did not provide an adequate basis for an entity to determine the appropriate accounting treatment. In this case, we believe the issue should be added to the agenda of the IFRS Interpretations Committee.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us ([contrib@petrobras.com.br](mailto:contrib@petrobras.com.br)).

Respectfully,

Rodrigo Araujo Alves  
Chief Accountant and Tax Officer

8 August 2019

Ms Sue Lloyd  
Chair, IFRS Interpretation Committee  
7 Westferry Circus  
London E14 4 HD  
United Kingdom

**Tentative agenda decision – Compensation for Delays or Cancellations (IFRS 15)**

Dear Sue,

I am commenting on the above tentative agenda decision, published in the June 2019 edition of IFRIC Update. The comments below represent my personal views as an auditor.

I agree with the Committee's tentative decision and with the Committee's reasons for reaching that decision, as far as it has been taken.

However, the Committee did not consider the question of whether the amount of compensation recognized as a reduction of revenue is limited to reducing the transaction price to nil. The lack of analysis of this aspect of the compensation means that the diversity observed in practice will be reduced only partially. As revenue is one of the most relevant performance indicators of the financial statements, I strongly recommend that the Committee extend its agenda decision to cover this aspect.

I consider that the IFRS standards provide appropriate guidance the address this issue as following:

- Besides IFRS 15, paragraph 34 of IAS 1 establishes that revenue shall be netted with related deductions or expenses on the same transactions;
- Paragraph 29 of IAS 1 determines that each material class of similar items [such as "revenue"] shall be presented as a separate heading [in the income statement], but that items of dissimilar nature or function shall be presented under another heading (unless they are immaterial); and
- The fact that deductions (compensations) may exceed the amount of consideration received, and thus revenue of the individual transactions may be negative, does not change its nature or function. It still represents revenue, ie the outcome (consideration) from the entity's transaction from its contract with a customer.

If you have any question in relation to this letter, please do not hesitate to contact me.

Yours sincerely,



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PO Box 1411  
Beenleigh QLD 4207  
20 August 2019

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

Online submission: <https://www.ifrs.org/projects/work-plan/compensation-for-delays-or-cancellations-ifrs-15/comment-letters-projects/tad-compensation-for-delays-or-cancellations/>

Dear Sue

**Tentative agenda decision—Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers)**

I am pleased to make this submission on the Tentative Agenda Decision — Compensation for Delays or Cancellations (IFRS 15).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

**Negative revenue**

The submission noted that in a large number of cases, the price of the ticket is lower than the compensation paid based on the legislation (i.e. negative revenue), and identified diversity in how this amount is treated.

Therefore, I believe that the Committee should address the issue raised. Whether the deficit (compensation and penalty payments exceeding ticket price) can be negative revenue or needs to be recognised as an expense can be important. Traditionally, such deficits would be recognised as an expense, for example, as part of an onerous contract. However, if the amount is categorised as negative revenue the amount can be hidden as an offset against total revenue.

The issue is also important for entities using the portfolio approach, and wanting to get close to the same accounting as that based on individual contracts – they also need to know if the compensation payments are offset against total revenue or recognised as an expense.

The submission referred to the EU ‘Flight Compensation Regulation’

[https://europa.eu/youreurope/citizens/travel/passenger-rights/air/index\\_en.htm](https://europa.eu/youreurope/citizens/travel/passenger-rights/air/index_en.htm)

The webpage provides information as to what compensation customers are entitled to. The compensation may be variable, e.g. a set % of ticket prices for downgradings

For the airport train I use, they have a voluntary compensation guarantee, that relates to reimbursement of costs to a maximum. This maximum (AUD 400) is far in excess of the AUD 20 odd cost of the ticket.

Airtrain Passengers who miss their flight as a result of a late running train will be reimbursed the cost of rescheduled flights, accommodation and transfers (up to A\$400), subject to terms and conditions.

<https://www.airtrain.com.au/travel-info/service-information/airtrain-guarantee/>

However, the amount is likely not to be material given the on-time performance of the trains of over 95%. On-time is within 6 minutes of schedule.

<https://www.queenslandrail.com.au/about%20us/Pages/Servicepunctualityandreliability.aspx>

## Similar issues

### *Construction contracts - Liquidated damages*

It is common in Australia for construction contracts to include clauses for liquidated damages to compensate for loss or damage (i.e. harm). These would appear to be variable consideration consistent with Illustrative Example 20.

### *Compensation for loss of service*

The submission focused on “harm”, and whether this was a distinguishing characteristic between variable consideration and an expense. While I agree with the reasoning of the compensation being variable consideration, there should be recognition that delayed flights do cause loss or damage (i.e. harm). After all, people are generally not flying on an aeroplane for a joy ride. They are going somewhere. While a delayed flight may be as simple as minor inconvenience, it can cause harm through missed meetings and opportunities etc.

In Australia, under consumer law, businesses may be liable for compensation for loss of service. For example, telecommunication providers:

<https://accan.org.au/hot-issues/1231-compensation-for-telecommunications-outages>

These situations are likely to lead to negative revenue as the compensation, even of only an AUD 25 credit, is likely to exceed the service revenue for the (say) day or so of outage. Even if the outage exceeds an extended period, like a month, the compensation is likely to exceed the notional billing amount for that period.

There are also provisions for compensation for loss or damage from power failures:

<https://www.wa.gov.au/service/building-utilities-and-essential-services/energy-supply/make-claim-damage-or-loss-due-power-failure>

## **General**

I agree with the remainder of the Tentative Agenda Decision, and believe the treatment will be consistent with Illustrative Example 20 and also liquidated damages.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>