This paper has been prepared for discussion at a public meeting of the Capital Markets Advisory Committee (CMAC). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB Update.
Purpose of this session

Ask CMAC members to share their views on the application of IFRS 15 *Revenue from Contracts with Customers*, as well as matters that members think the IASB should consider for the Post-implementation Review (PIR) of the Standard.

Questions for CMAC members

- Slide 3 sets out focus questions

Information for CMAC members

- Slides 4–9 provide PIR reminders
- Slides 10–12 provide background to IFRS 15
- Slides 13–27 provide supporting information on changes introduced by IFRS 15 and more detailed questions to consider in answering the focus questions on slide 3
# Questions for CMAC members

1. **Effects on timing and amount of revenue** (slides 14–19)
   - Do financial statements prepared applying IFRS 15 provide information useful for your analysis of the timing and amount of companies’ revenue?

2. **Disclosures** (slides 20–22)
   - Have you found disclosures provided under IFRS 15 more informative than under the previous revenue requirements?

3. **Comparability** (slides 23–24)
   - Is revenue information comparable between different companies within an industry and between different industries?

4. **Transition** (slides 25–27)
   - Did you find the information provided in the first set of IFRS 15 financial statements useful in understanding the changes in revenue recognition?
PIR reminders
**PIR – the objective**

**OBJECTIVE**

To **assess** whether the **effects** of applying new requirements on users of financial statements, preparers, auditors and regulators are **as intended** when the IASB developed those requirements.

<table>
<thead>
<tr>
<th>Overall, are the requirements working as intended?</th>
<th><strong>Fundamental questions</strong> (ie ‘fatal flaws’) about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there specific application questions?</td>
<td><strong>Specific application questions</strong> would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for whether the IASB would take further action.</td>
</tr>
</tbody>
</table>
PIR – what is the process?

**Implementation**
- New Standard issued
- Standard is effective
- Few years of application
- Post-implementation review

**Phase 1**
- Identify matters to be examined
  - Start when sufficient information is available

**Phase 2**
- Consider feedback
  - Publish public request for information (RFI)
- Publish report summarising identified matters and next steps

**Possible next steps**
- Take no action
- Monitoring or further research
- Provide education
- Agenda decision
- Consider standard-setting
PIR – prioritising identified matters

To what extent are prioritisation characteristics present?

- substantial consequences
- pervasiveness
- financial reporting issue can be addressed by the IASB or IFRS Interpretations Committee
- the benefits of any action would be expected to outweigh the costs

High priority: to be addressed as soon as possible
- Relate to core objective or principles
- Solution needed urgently

Medium priority: to be added to the IASB research pipeline or the Interpretation Committee pipeline

Low priority: to be considered in the next agenda consultation

No action: not explored
IASB activities since IFRS 15 was issued

A solid foundation for the PIR
The IASB has put significant efforts into monitoring and supporting the implementation and application of IFRS 15

Established with the FASB a joint Transition Resource Group (TRG) to support implementation of IFRS 15

Provided educational materials such as articles and webcasts

Issued clarifications to IFRS 15 to address some of the matters discussed by the TRG

Analysed application questions at the IFRS Interpretations Committee
Where are we now?

- **September 2022**: IASB started PIR of IFRS 15
- **Q4 2022 – Q1 2023**: Phase 1 outreach and information gathering
- **H1 2023**: Publish request for information
Background to IFRS 15
IFRS 15 at a glance

Comprehensive principle-based framework for the recognition, measurement and disclosure of revenue

- Greater rigour in revenue accounting
- More useful information through improved disclosure requirements
- Reduced need for interpretive guidance to be developed on a case-by-case basis
- Enhanced comparability across companies

Substantially converged with US GAAP (Topic 606)

Effective from 1 January 2018
Five-step revenue recognition model

Core principle
Recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) the entity satisfies a performance obligation

A performance obligation (PO) is a promise in a contract with a customer to transfer a good or service to the customer.

Application guidance for each step
Changes introduced by IFRS 15 and questions for CMAC members
Effects on timing and amount of revenue – who would be affected?

Changes to recognised revenue would broadly depend on starting point (previously applied judgements) and nature of contracts.

More significant effect

Contracts

Straightforward: • cash collected at point-of-sale and customer obtains immediate control

Retail, food and beverage, consumer products

Complex features: • multiple deliverables • variable consideration • long-term contracts • licensing transactions • principle vs agent • significant financing element

Construction, airspace, defence, telcos, media, pharma, software

See slides 17–18 for more detail
### Effects on timing and amount of revenue – main changes from previous requirements (1/2)

<table>
<thead>
<tr>
<th>Change</th>
<th>Clarifications and added guidance</th>
<th>Expected effect</th>
</tr>
</thead>
</table>
| **New concept of performance obligation** | • Criteria and factors for identifying POs in multiple-element arrangements | ✓ Information provided on individual margins for each PO not contract-wide margins  
  *Example: revenue recognised separately for a handset and network service sold as a bundle*  
  ✓ May affect pattern of revenue recognition |
| **Timing of revenue recognition** | • Specified criteria for recognising revenue over time  
  • More guidance for using costs to measure progress on contracts  
  • Control as the basis for recognising revenue | ✓ More accurate reflection of the transfer of value to the customer  
  *Example: a software development company recognises revenue:*  
  • over time – for unique software developed to meet specific customer specifications;  
  • at a point in time (when control is transferred) – for software that could be sold to multiple clients  
  ✓ More discipline in amounts of revenue recognised over time |
1 Effects on timing and amount of revenue – main changes from previous requirements (2/2)

<table>
<thead>
<tr>
<th>Change</th>
<th>Clarifications and added guidance</th>
<th>Expected effect</th>
</tr>
</thead>
</table>
| **Measurement** | Guidance on:  
  • allocation of the transaction price to POs based on relative stand-alone selling prices  
  • variable consideration, including constraint on estimates  
  • significant financing components  
  • non-cash cash consideration  
  • consideration payable to a customer | ✓ Better reflection of revenue over the duration of the contract  
  For example, variable consideration such as performance bonuses would be recognised as revenue to the extent that it is highly probably that a significant reversal in the amount of cumulative revenue recognised will not occur |
| **Application guidance for some types of transactions** | Revenue recognition from licences, including licences of intellectual property  
  • Agent vs principal—based on the control of the good or service before its transfer to a customer | ✓ Economically similar contracts accounted for on a consistent basis |
## Effects on timing and amount of revenue – expected effects on key industries (1/2)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Expected effects</th>
</tr>
</thead>
</table>
| **Construction/Aerospace & Defence** | • Revenue may be recognised over time but ‘PO over time’ criteria must be met  
• More discipline in cost-to-cost measures of performance  
• Costs capitalised if result in resources to be used in fulfilling contract, not to normalise margin |
| Telcos                          | • Revenue recognised for ‘free’ handset, as well as for airtime contract                                                                                                                                             |
| Consumer products               | • Revenue recognition deferred for some sales incentives and incidental obligations  
• Revenue recognition deferred for some implicit product warranties                                                                                   |
## Effects on timing and amount of revenue – expected effects on key industries (2/2)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Expected effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software</strong></td>
<td>• VSOE (vendor-specific objective evidence) not used, so revenue can be recognised when license transferred</td>
</tr>
<tr>
<td></td>
<td>• Revenue recognition for software development only if ‘PO over time’ criteria met</td>
</tr>
<tr>
<td><strong>Media/ pharma</strong></td>
<td>• Revenue may be recognised on transfer of licence, but will need to consider if licence is right to use or right to access</td>
</tr>
<tr>
<td></td>
<td>• Sales-based royalties recognised as sales occur</td>
</tr>
<tr>
<td><strong>Asset management</strong></td>
<td>• Contingent fees based on index recognised only if highly probable will not be reversed</td>
</tr>
</tbody>
</table>
Main question: Do financial statements prepared applying IFRS 15 provide information useful for your analysis of the timing and amount of companies’ revenue?

Detailed questions to consider:

- Based on your observations, were the effects of IFRS 15 on key industries as expected (see slides 17–18)? Were there other industries that experienced significant changes in revenue recognition and measurement?

- Have you encountered any difficulties analysing information on revenue provided by companies? For example, have some of the new requirements (slides 15–16):
  - been applied by companies differently and so resulted in the lack of comparability of revenue information between companies; or
  - produced results that are seen as not reflecting the economics of a transaction?
# 2 Disclosures (1/2)

**Enhanced disclosure requirements** – information to help investors understand the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers

| Disaggregation of revenue | • Categories that depict how revenue and cash flows are affected by economic factors  
  • Explain relationship with segment disclosures (see illustration 1 on slide 29) |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Performance obligations (POs) | • When POs are typically satisfied  
  • Significant payment terms  
  • The nature of the promised goods or services  
  • Obligations for returns, refunds and similar obligations  
  • Types or warranties and related obligations  
  • Information about remaining POs (see illustration 3 on slide 31) |
| Contract balances | • Opening and closing balances of receivables, contract assets and contract liabilities (see illustration 4 on slide 32)  
  • Revenue recognised from contract liabilities (see illustration 5 on slide 33)  
  • Explanation of significant changes in contract balances |

see illustration 2 on slide 30
2 Disclosures (2/2)

Significant judgements

• Determining the timing of satisfaction of POs:
  ➢ for POs satisfied over time - methods used to recognise revenue and an explanation of why the methods used provide a faithful depiction
  ➢ for POs satisfied at a point in time – evaluating when a customer obtains control of promised goods or services

• Methods, inputs and assumptions used for:
  ➢ determining the transaction price (see illustration 2 on slide 30)
  ➢ assessing whether estimates of variable consideration are constrained
  ➢ allocating the transaction price to POs
  ➢ measuring obligations for returns, refunds and similar

Assets recognised from costs to obtain or fulfil contracts with customers

• Closing balances by main category of asset (for example, costs to obtain contracts, pre-contract costs and setup costs)
• Amount of amortisation and impairment losses in the reporting period
Disclosures – questions for CMAC

Main question
Have you found disclosures provided under IFRS 15 more informative than under the previous revenue requirements?

Detailed questions to consider

• Slides 20–21 provide an overview of disclosures required by IFRS 15 and slides 29–33 provide illustrations of how the IASB expected companies could provide specific disclosures. Which disclosures do you find most useful for your analysis and why? In contrast, are there disclosures that are less useful and why?

• Do you see significant variation in the quality of disclosures between various companies within the same industry or across industries? Where do you see most variation?

• Is there information you expected to see which is not being provided?
Comparability

Inconsistencies and weaknesses in IFRS Accounting Standards and US GAAP

- Economically similar transactions accounted for differently
- Diversity in practice between entities, industries and jurisdictions

*After IFRS 15 – expected effects*

Global comprehensive revenue recognition framework

- Economically similar transactions accounted for on a consistent basis
- Comparable revenue information in financial statements based on IFRS Standards and US GAAP
Comparability – questions for CMAC

Main question
Is revenue information comparable between different companies within an industry and between different industries?

Detailed questions to consider
Compared to pre-IFRS 15:
• Is it easier to compare revenue information between companies? Are there industries where comparisons are more difficult and why?
• Do you find that having converged standards makes it easier to compare revenue information between companies applying IFRS Standards and US GAAP?
4 Transition to IFRS 15 – available methods

Choice of two methods – both provide some comparative information

**Full retrospective**
- Revenue recognised and measured applying IFRS 15 from the beginning of the earliest comparative period provided
- Same basis for revenue figures in the current period and in the comparative periods
- Some optional practical expedients, for example, for completed contracts

**Modified retrospective**
- Revenue recognised and measured applying IFRS 15 from the date of initial application
- No restatement of comparative periods
- Cumulative adjustment to the opening balance of retained earnings
- Disclosures to illustrate the effect of IFRS 15 on the current period figures relative to previous revenue requirements
## Transition to IFRS 15 – illustration

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018 (year of initial application)</th>
<th>2018 notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full retrospective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Revenue <strong>restated</strong> applying IFRS 15</td>
<td></td>
<td></td>
<td>Revenue applying IFRS 15</td>
<td></td>
</tr>
<tr>
<td>• Opening retained earnings adjusted to reflect transition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Modified retrospective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Revenue applying previous requirements</td>
<td></td>
<td></td>
<td>Revenue applying IFRS 15</td>
<td>How 2018 figures would have looked applying previous requirements</td>
</tr>
<tr>
<td>• Revenue applying previous requirements</td>
<td></td>
<td></td>
<td></td>
<td>Explanation of significant changes</td>
</tr>
<tr>
<td>• Revenue applying IFRS 15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Opening retained earnings adjusted to reflect transition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4 Transition – questions for CMAC

Main question
Did you find the information provided in the first set of IFRS 15 financial statements useful in understanding the changes in revenue recognition?

Detailed questions to consider
• Was it clear from the companies’ financial statements which transition method they used?
• Did you see many companies use the modified retrospective transition method? Were related disclosures sufficient to help you understand revenue trends?
• On implementing IFRS 15, the IASB expected investors to incur educational costs as well as costs related to modifying their processes and analyses. Did you incur any unexpected costs related to implementation of IFRS 15? Are any of those costs ongoing? Have the benefits from IFRS 15, including a better depiction of companies’ performance and improved disclosures, justified the costs related to implementing the Standard?
Appendix – Illustrations of disclosures required by IFRS 15
### Illustration 1: Linking disaggregated revenue to segments

<table>
<thead>
<tr>
<th>Segments – primary geographical markets (CU mln)</th>
<th>Consumer products</th>
<th>Transport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>990</td>
<td>2,250</td>
<td>3,240</td>
</tr>
<tr>
<td>Europe</td>
<td>300</td>
<td>750</td>
<td>1,050</td>
</tr>
<tr>
<td>North America</td>
<td>700</td>
<td>260</td>
<td>960</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>1,990</strong></td>
<td><strong>3,260</strong></td>
<td><strong>5,250</strong></td>
</tr>
</tbody>
</table>

### Major goods/services

<table>
<thead>
<tr>
<th></th>
<th>Consumer products</th>
<th>Transport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office supplies</td>
<td>1,000</td>
<td>-</td>
<td>1,000</td>
</tr>
<tr>
<td>Appliances</td>
<td>990</td>
<td>-</td>
<td>990</td>
</tr>
<tr>
<td>Automobiles</td>
<td>-</td>
<td>2,760</td>
<td>2,760</td>
</tr>
<tr>
<td>Support services</td>
<td>-</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>1,990</strong></td>
<td><strong>3,260</strong></td>
<td><strong>5,250</strong></td>
</tr>
</tbody>
</table>

### Timing of revenue recognition

<table>
<thead>
<tr>
<th></th>
<th>Consumer products</th>
<th>Transport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods transferred at a point in time</td>
<td>1,990</td>
<td>2,860</td>
<td>4,850</td>
</tr>
<tr>
<td>Services transferred over time</td>
<td>-</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>1,990</strong></td>
<td><strong>3,260</strong></td>
<td><strong>5,250</strong></td>
</tr>
</tbody>
</table>
Illustration 2: Performance obligations and related judgements

<table>
<thead>
<tr>
<th>Performance obligation (PO)</th>
<th>When PO is satisfied</th>
<th>Typical payment terms</th>
<th>How standalone selling price is typically estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software and Product revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software licenses</td>
<td>When made available to the customer</td>
<td>Within 90 days of shipment</td>
<td>Residual approach</td>
</tr>
<tr>
<td>Appliances</td>
<td>When control of appliance passes to customer (typically on delivery)</td>
<td>Within 90 days of shipment</td>
<td>Observable price</td>
</tr>
<tr>
<td><strong>Customer service revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support service</td>
<td>Over the course of the support contract term (over-time)</td>
<td>At the beginning of the contract period</td>
<td>Observable price from renewal transactions</td>
</tr>
<tr>
<td>Software updates</td>
<td>Over the course of the support contract term (over-time)</td>
<td>At the beginning of the contract period</td>
<td>Observable price from renewal transactions</td>
</tr>
</tbody>
</table>
Illustration 3: Remaining performance obligations

IFRS 15 requires companies to:
• disclose aggregate transaction price allocated to remaining performance obligations (ie. order book type or equivalent information that is audited)
• explain when this is expected to be recognised as revenue

<table>
<thead>
<tr>
<th>Order book (CU mln)</th>
<th>Segment A</th>
<th>Segment B</th>
<th>Segment C</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1 year</td>
<td>30</td>
<td>45</td>
<td>12</td>
</tr>
<tr>
<td>1-3 years</td>
<td>180</td>
<td>90</td>
<td>210</td>
</tr>
<tr>
<td>&gt;3 years</td>
<td>225</td>
<td>150</td>
<td>95</td>
</tr>
</tbody>
</table>
Illustration 4: Contract assets*

<table>
<thead>
<tr>
<th>Contract assets</th>
<th>201X, CU mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of period</td>
<td>150</td>
</tr>
<tr>
<td>Net additions arising from operations</td>
<td>30</td>
</tr>
<tr>
<td>Amounts billed in period and thus reclassified to accounts receivable</td>
<td>(50)</td>
</tr>
<tr>
<td>Changes in impairment allowances</td>
<td>(1)</td>
</tr>
<tr>
<td>Balance, end of period</td>
<td>129</td>
</tr>
</tbody>
</table>

*Contract asset – a company’s right to consideration in exchange for goods or services that the company has transferred to a customer when that right is conditioned on something other than the passage of time (for example, on the company’s future performance)
Illustration 5: Revenue recognised in the reporting period

<table>
<thead>
<tr>
<th>Illustration of disclosure</th>
<th>201X</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognised in the period from:</td>
<td></td>
<td>CU mln</td>
</tr>
<tr>
<td>Amounts included in the contract liabilities at the beginning of the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>period:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance obligations satisfied</td>
<td>335</td>
<td></td>
</tr>
<tr>
<td>New activities in the period:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in the estimated transaction price allocated to performance</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>obligations satisfied in prior periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance obligations satisfied from new activities in the current</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>period - contract revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>395</td>
<td></td>
</tr>
</tbody>
</table>

- Improved insights into revenue recognition
- Reflects revenue (satisfaction of POs) recognised in period that was included in opening contract liability
- Reflects changes to revenues recognised in previous periods from changes in estimates
Thank you