IFRS Accounting

Staff paper

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IASB® meeting

Date	**September 2022**
Project	**Post-implementation review of IFRS 15**
Topic	**Project plan**
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Purpose of this paper

1. In November 2021 the International Accounting Standards Board (IASB) decided to begin the post-implementation review (PIR) of IFRS 15 *Revenue from Contracts with Customers* in the second half of 2022. This paper sets out a plan for phase 1 of the PIR project.

2. This paper does not include staff analysis or recommendations and the IASB is not asked to make any decisions based on this paper. The staff welcome questions or comments from IASB members on the plan set out in this paper.

Structure of this paper

3. This paper provides:

   (a) reminders about:

      (i) the objective and the two phases of a PIR (paragraphs 4–9);

      (ii) the IFRS 15 project (paragraphs 10–16); and

      (iii) subsequent amendments to IFRS 15 (paragraphs 17–20); and

   (b) a plan for the PIR of IFRS 15 including:

      (i) the objective of this PIR (paragraphs 21–22);

      (ii) an outline of activities the IASB will carry out in phase 1 (paragraphs 23–32); and

      (iii) an anticipated timeline for phase 1 (paragraphs 33–34).

Reminders

Objective and two phases of a PIR

4. A PIR is one of the mechanisms to raise matters with the IASB. Paragraphs 3.78 and 6.48–6.59 of the Due Process Handbook discuss post-implementation reviews (PIRs). Appendix A of Agenda

Paper 8A *Post-implementation reviews – objective and process* for the September 2022 IASB meeting provides a clarified description of the PIR objective and process. The description of PIRs in this paper is aligned with Agenda Paper 8A.

5. The objective of a PIR is 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 new requirements.

6. A PIR concludes with a determination of whether:

   (a) overall, the new requirements are working as intended. Fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements would indicate that they are not working as intended; and

   (b) there are specific questions about application of the new requirements. If there are specific application questions, the IASB may still conclude that the new requirements are working as intended. However, those specific application questions would be addressed if they meet the criteria for whether the IASB would take further action.

7. The PIR process consists of two phases:

   (a) Phase 1: the IASB identifies matters to be examined, drawing on discussions with the IFRS Interpretations Committee (Interpretations Committee), the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the PIR.

   (b) Phase 2: the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

8. Paragraphs 13–15 of Appendix A of Agenda Paper 8A describe how the IASB will consider whether to take any action on matters identified in a PIR and criteria for prioritising those matters. Specifically, prioritisation will result in:

   (a) matters to be addressed as soon as possible;

   (b) matters to be added to the IASB's research pipeline or the Interpretations Committee's pipeline;

   (c) matters to be considered in the next agenda consultation; or

   (d) no action matters.

9. At the end of a PIR, the IASB publishes a Report and Feedback Statement summarising the matters identified and any actions it plans to take as a result of the PIR.

IFRS 15 project

10. In May 2014, the IASB issued IFRS 15 which replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter*

Transactions Involving Advertising Services. IFRS 15 became effective for annual periods beginning on or after 1 January 2018.

11. At the same time the US Financial Accounting Standards Board (FASB) introduced into its Accounting Standards Codification® Topic 606 *Revenue from Contracts with Customers* substantially converged with IFRS 15.

12. The IASB and the FASB (the boards) initiated a joint project to clarify the principles for recognising revenue and to develop a common revenue standard. The boards' previous requirements needed improvement because:

    (a) the previous IFRS Accounting Standards related to revenue recognition had different principles and were sometimes difficult to understand and apply to transactions other than simple ones. In addition, the Standards had limited guidance on important topics such as revenue recognition for multiple-element arrangements. Consequently, some entities that were applying IFRS Accounting Standards referred to parts of US GAAP to develop an appropriate revenue recognition accounting policy.

    (b) US GAAP comprised broad revenue recognition concepts and detailed guidance for specific industries or transactions, which often resulted in different accounting for economically similar transactions.

    (c) the disclosures required under both IFRS Accounting Standards and US GAAP were inadequate and often did not provide users of financial statements with information to sufficiently understand revenue arising from contracts with customers.

13. IFRS 15 aimed to eliminate those inconsistencies and weaknesses by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue. In particular, IFRS 15 aimed to:

    (a) improve the comparability of revenue recognition across entities, industries, jurisdictions and capital markets;

    (b) reduce the need for interpretive guidance to be developed on a case-by-case basis to address emerging revenue recognition issues; and

    (c) provide more useful information through improved disclosure requirements.

14. IFRS 15 introduced a core principle for revenue recognition—an entity should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Standard also introduced a five-step model for entities to apply when recognising revenue in accordance with the core principle:

    (a) Step1: identify the contract(s) with a customer.

    (b) Step 2: identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

(c) Step 3: determine 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.

(d) Step 4: allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.

(e) Step 5: recognise revenue when (or as) a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

15. IFRS 15 introduced the following main changes from previous requirements:

(a) a comprehensive framework that can be applied to all contracts with customers and that includes requirements for transactions that had not previously been addressed comprehensively, such as transactions for revenue for the provision of services and for revenue resulting from licences of intellectual property.

(b) a new concept of a performance obligation and criteria and factors for identifying performance obligations in multiple-element arrangements.

(c) a customer consideration model and measurement of revenue using the transaction price. IFRS 15 provides additional guidance for estimating consideration when it is variable and for constraining those estimates to ensure revenue is not overstated. In addition, the Standard provides requirements related to other aspects of measuring revenue such as accounting for significant financing components, non-cash consideration and consideration payable to a customer.

(d) the transfer of control as a basis for the timing of revenue recognition. The previous IFRS Standard required an entity to recognise revenue for goods when it transferred risks and rewards associated with those goods and for services as it performed the service.

(e) requirements for contract modifications that were previously addressed only for a particular industry.

(f) requirements for accounting for some costs that are related to a contract with a customer.

(g) comprehensive disclosure requirements that are aimed at improving the information about revenue reported in the financial statements, including disaggregation of revenue, information on contract balances, performance obligations, and assets recognised from the contract costs.

16. During the development of IFRS 15 the boards addressed the following significant matters raised in the comment letters and other outreach activities:

(a) performance obligations satisfied over time;

(b) identifying performance obligations;

(c) collectability (customer credit risk);

(d) constraining estimates of variable consideration;

(e) significant financing components;

(f) disclosure requirements;

(g) transition: retrospective application;

(h) licensing intellectual property; and

(i) onerous performance obligations.

Subsequent amendments to IFRS 15

17. In June 2014, the IASB and FASB announced the formation of a joint Transition Resource Group (TRG) to support implementation of IFRS 15 and Topic 606. The TRG met jointly on six occasions in 2014 and 2015 to discuss potential implementation issues submitted by stakeholders.

18. The matters discussed by the TRG included:

(a) identifying performance obligations;

(b) principal versus agent considerations;

(c) licensing;

(d) practical expedients in respect of the following:

(i) accounting for contract modifications that occurred before transition to IFRS 15;

(ii) accounting for a contract completed under previous revenue Standards before transition to IFRS 15—for entities electing to use the full retrospective transition method; and

(iii) assessing whether a sales tax (or a similar tax) is collected on behalf of a third party;

(e) collectability;

(f) measuring non-cash consideration;

(g) timing of revenue recognition;

(h) accounting for variable consideration;

(i) contract cost assets, their amortisation and impairment;

(j) scope of the Standard; and

(k) disclosure requirements.

19. The TRG determined that the requirements in IFRS 15 sufficiently address most of the topics mentioned in paragraph 18. However, five topics mentioned in paragraphs 18(a)–(c) and 18(d)(i)–(ii)

resulted in the IASB issuing *Clarifications to IFRS 15* Revenue from Contracts with Customers in April 2016. Those clarifications became effective for annual reporting periods beginning on or after 1 January 2018.

20. Following the TRG discussions during 2014-2016, in 2016 the FASB issued a number of clarifications to Topic 606.[1]. Similar to the IASB, the FASB addressed the topics mentioned in paragraphs 18(a)–(c) and 18(d)(i)–(ii). In addition, the FASB's clarifications addressed topics mentioned in paragraphs 18(e)–(g) and 18(d)(iii), for which the IASB decided not to issue clarifications concluding that IFRS 15 provides sufficient guidance.

PIR of IFRS 15

Objective

21. Consistent with the requirements set out in the *Due Process Handbook* and with the objective of PIRs discussed in paragraphs 5–6 of this paper, for the PIR of IFRS 15 the IASB will consider whether:

    (a) there are fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core principle and the five-step revenue recognition model in IFRS 15;

    (b) the benefits to users of financial statements of the information arising from applying the IFRS 15 requirements are broadly as expected (or whether, for example, there is significant diversity in application); and

    (c) the costs of applying some or all of the IFRS 15 requirements and auditing and enforcing their application are broadly as expected (or whether there is a significant market development since IFRS 15 was issued for which it is costly to apply its requirements consistently).[2]

22. This objective will determine the questions to discuss with stakeholders in phase 1 outreach. The objective will also provide the IASB with a framework to analyse feedback for the purpose of determining the scope of the request for information.

Phase 1 activities

Outreach

23. During phase 1 IASB members and staff will consult with preparers, auditors, users of financial statements, regulators and standard-setters. We will do this by meeting with the IASB's advisory groups, as well as by gathering input from meetings with small groups that have a particular interest in the requirements of IFRS 15 (such as users of financial statements, industry groups, regulators and auditors).

24. The purpose of the phase 1 outreach will be to provide the IASB with sufficient information to identify the matters for which it will seek further feedback through the request for information. The IASB will

[1] See Accounting Standards Update (ASU) No. 2016-08 *Principal versus Agent Considerations* (Reporting Revenue Gross vs Net), ASU No. 2016-10 *Identifying Performance Obligations and Licensing*, ASU No. 2016-12 *Narrow-Scope Improvements and Practical Expedients*, and ASU No. 2016-20 *Technical Corrections and Improvements to Topic 606*.

[2] Appendix A of Agenda Paper 8A for the September 2022 IASB meeting clarifies that costs comprise initial and ongoing financial and other costs.

therefore seek to balance the extent of input requested from stakeholders in this phase and the feedback obtained from stakeholders in response to the request for information.

25. Paragraph 6.51 of the *Due Process Handbook* specifies that a PIR considers the issues that were important or contentious during the development of the Accounting Standard, as well as issues that have come to the attention of the IASB after the Accounting Standard was issued. This will include considering:

(a) market developments since IFRS 15 was issued;

(b) issues that the IASB is aware of through, for example, implementation support provided after IFRS 15 was issued;

(c) feedback from meetings with regulators and other stakeholders; and

(d) questions raised to the Interpretations Committee and the TRG.

26. When seeking feedback on such issues, we will ask that stakeholders consider the issues in the context of the objective set out in paragraph 21 of this paper. In our view, focusing phase 1 outreach in this way will provide stakeholders with a clear understanding of the purpose of the outreach. This, in turn, will support stakeholders in the activities they carry out to gather and prepare feedback for the IASB. Furthermore, the framework for prioritising and responding to matters identified in PIRs (paragraph 8 above and paragraphs 13–15 of Appendix A of Agenda Paper 8A) will help stakeholders understand the actions that could result from this PIR.

Review of academic and other research related to the implementation of IFRS 15

27. As noted at the November 2021 IASB meeting, a number of academic studies related to requirements in IFRS 15 have either been completed or will be available soon. These include papers discussing the effects of requirements in IFRS 15, submitted to the joint IASB/FASB/The Accounting Review conference in November 2022.

28. During phase 1 the staff will review academic research and other materials (for example, regulatory reports) relevant to this PIR. We will report our findings to the IASB at a future meeting.

FASB's PIR of Topic 606

29. The FASB's PIR process differs from the IASB's process. The FASB is conducting a PIR of Topic 606 in three stages:[3]

(a) Stage 1 PIR activities started after the issuance of Topic 606 in 2014 with a focus on monitoring and assisting stakeholders with the implementation of the new standard.

(b) In 2018, following the adoption of Topic 606 by public companies, the FASB began stage 2 PIR activities for public companies to evaluate the costs and benefits associated with Topic 606, while also continuing the implementation monitoring activities for non-public

[3] See July 2021 FASB Board Meeting Handout *Post-Implementation Review of Topic 606, Revenue from Contracts with Customers*.

entities. By July 2021 the FASB staff had completed the majority of the stakeholder outreach for public companies and started the outreach for non-public entities.

(c) Stage 3 will conclude the PIR with a Summary of Research and Reporting.

30. The FASB is at a more advanced stage of its PIR. During phase 1 we will review the findings of the FASB's PIR available at that time. Although IFRS 15 and Topic 606 are converged, the FASB's PIR findings may differ from the IASB's findings due to the differences between the previous US GAAP and IFRS revenue recognition requirements (paragraph 12). We will report the FASB's PIR findings to the IASB at a future meeting.

31. Issuing converged revenue requirements was expected to make revenue information comparable between entities that prepare financial statements in accordance with IFRS Accounting Standards and US GAAP, resulting in significant benefit for users of financial statements. Therefore, when deciding whether to take any action on its PIR findings, the IASB will need to consider the effects of any actions on convergence.

IFRS for SMEs Accounting Standard

32. In its *Second Comprehensive Review of the IFRS for SMEs® Accounting Standard* project the IASB is proposing some simplifications to the requirements in IFRS 15 to keep revenue requirements simple for small and medium-sized entities. During phase 1 of the PIR of IFRS 15 the staff will review those simplifications and the reasons for them.

Phase 1 timeline

33. Based on previous PIRs and considering the due process for PIRs, the staff expect the PIR will take around 18–24 months to complete. The anticipated timeline for phase 1 of the PIR can be summarised as follows:

Activity	**Timeline**
Phase 1 outreach As noted in paragraph 23, one way the IASB will gather input is through its advisory groups. They all have at least one public meeting in the fourth quarter of 2022.	October 2022 to Q1 2023
Publication of the request for information	H1 2023
Comment period for the request for information	120 days (subject to future IASB discussion)

34. The staff have considered how this timing would fit with possible timings of consultations on other projects on the IFRS Foundation's work plan. At present, we see no issue with targeting publication of the request for information in the first half of 2023 (that is, we do not anticipate a risk of overburdening stakeholders with too many consultation documents at the same time).

Question for the IASB
Do you have any comments on the project objectives, phase 1 activities or phase 1 timeline?