

PREPARATORY WORK ON IFRS 15 PIR

EFRAG TEG-User Panel meeting

12 April 2022

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Agenda papers

- In addition to this presentation, agenda papers for this session are:
 - Agenda paper 05-02: Snapshot IFRS 15 Revenue from Contracts with Customers (for background purposes); and
 - Agenda paper 05-03: Investor Perspectives IFRS 15 (for background purposes).

IFRS 15 BACKGROUND

- IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and applied to an annual reporting period beginning on or after 1 January 2018.
- After issuing IFRS 15, the IASB carried out significant implementation activities. These activities included publication of educational materials, use of the Transition Resource Group for Revenue Recognition and the work of the Committee on seven agenda decisions.
- On 12 April 2016, clarifying amendments were issued and had the same effective date as the standard itself (the amendments clarified the underlying principles of IFRS 15 and provided additional transition relief).
- In November 2021, the IASB decided that it will **begin the Post-implementation Review (PiR) of IFRS 15 in the second half of 2022.**

OBJECTIVES OF IFRS 15 AND PIR

OBJECTIVE OF IFRS 15

- Address the weaknesses and inconsistencies in the revenue guidance
- Provide a comprehensive framework for recognising revenue as IFRS had limited revenue guidance on complex transactions and US GAAP had numerous sector and transaction-specific requirements on revenue that produced inconsistent revenue recognition outcomes

OBJECTIVE OF PIR ON IFRS 15

- Identification and assessment of the matters to be examined.
- Identification of unexpected costs or problems faced by preparers in the implementation of IFRS 15.
- Identification of benefits for users of the implementation of IFRS 15

IASB DUE PROCESS FOR IFRS 15 PIR

- During the PIR, the IASB will assess the effect of IFRS 15 on users, preparers and auditors. More specifically, the IASB will assess whether:
 - the objectives of the standard-setting project have been met;
 - information provided by IFRS 15 is useful to users;
 - the costs arising from IFRS 15 are broadly as expected by the IASB when it developed the Standard; and
 - the requirements are capable of being applied consistently.
- These assessments help the IASB determine what, if any, action it might take relating to IFRS 15. **The PIR is not intended to open up the redeliberation on points of disagreement on the Standard, unless there are new elements to consider.**
- Each PIR has two phases where the IASB
 - Phase 1: identifies matters to be examined (Request for Information).
 - Phase 2: considers the information gathered from the public consultation and publishes a Report and Feedback Statement, including a summary of the finding and outline of next steps

EFRAG's PREPARATORY WORK FOR IFRS 15 PIR

- EFRAG is in the process of undertaking preparatory work in anticipation of the IASB IFRS 15 PIR request for information (RFI) that is expected in the second half of 2022.
- EFRAG's preparatory work will involve researching and an initial identification of issues after assessing IFRS IC questions, ESMA enforcement reports, and outreach to stakeholders including auditors, users, academics, EFRAG working groups, EFRAG FR TEG and EFRAG FR Board. This is expected to occur until the issuance of the RFI.

EFRAG's PREPARATORY WORK FOR IFRS 15 PIR

- Concurrently, EFRAG is supporting an academic study on the implementation of IFRS 15. The results of this study will be one of the inputs for EFRAG's work related to IFRS 15 PIR
- The academic study aims to collect information on the effects IFRS 15 including how its implementation impact the internal production and use of information. It assesses the net benefits (costs) of IFRS 15 adoption
- EFRAG has distributed a survey questionnaire designed by the academics and tailored for users and preparers. A pilot test of the questionnaire was completed late last year.

QUESTIONS IN THE ACADEMIC SURVEY FOR USERS

THE SURVEY INCLUDES QUESTIONS ON:

- The level of impact of the introduction of IFRS 15 on financial statements and disclosures (by industry), including:
 - revenue recognised in the statement of profit or loss
 - amounts recognised in the balance sheet
 - type and information content of disclosures provided in the notes.
- Whether the information in the financial statements is more relevant after the introduction of IFRS 15, including for investors':
 - estimation of future firm performance/ future cash flows
 - assessment of revenue margins
 - assessment of management's stewardship.

QUESTIONS IN THE SURVEY FOR USERS

THE SURVEY INCLUDES QUESTIONS ON:

- Whether the information in the financial statements is more comparable after the introduction of IFRS 15, including for investors':
 - comparability with entities of the same industry using IFRS
 - comparability with entities of different industries using IFRS
 - comparability with entities of the same industry using US GAAP
 - comparability with entities of different industries using US GAAP
- Whether there were changes on how management reported revenue outside the financial statements, including whether the information became more useful.
- Overall assessment of the information received after the introduction of IFRS 15

IFRS 15 ISSUES ADDRESSED BY IFRS IC

- The IFRS Interpretation Committee has received several submissions to clarify IFRS 15 issues. These requests, which are further detailed in Appendix 1, seek clarification on:
 - Recognition of revenue over time or at a point in time in specific real estate transactions.
 - The number of performance obligations identified in a specific contract.
 - whether an upfront fee that a stock exchange charges to its customer give rise to an admission service that is distinct from the listing service.
 - whether an airline accounts for its obligation to compensate customers for delays and cancellations either: (i) as variable consideration (part of the price) or ii) as a provision (applying IAS 37).
 - whether costs incurred to construct a building and training costs incurred to fulfil a contract should be recognised as an asset or as an expense.
 - whether, in applying IFRS 15, a reseller of software licences should recognise its revenues net of related expenses or gross (principal or agent)

QUESTIONS TO MEMBERS

Q1: Did the adoption of IFRS 15 impact the relevance of reported revenue in the financial statements? If so, how and which industries?

Q2: Did the adoption of IFRS 15 impact the comparability of reported revenue?

Q3: Have you noticed any changes on how management reported revenue outside the financial statements after the adoption of IFRS 15? If so, has it become more or less useful?

Q4: What is your initial overall assessment of IFRS 15?

Q5: Slide 11 and Appendix 1 summarises application issues raised before the IFRS Interpretation Committee and in ESMA's enforcement report; from these issues and/or from your review of financial statements, are there any aspects of IFRS 15 requirements that you recommend be considered during the IFRS 15 PIR?

APPENDIX 1: IFRS 15 ISSUES ADDRESSED BY IFRS INTERPRETATION COMMITTEE

- Since the issuance of the IFRS 15, the IFRS Interpretation Committee has received several submissions seeking clarification of various issues. Issues dealt by the Committee are summarised below.

Issue	Agenda decisions
Performance obligation satisfied over time or at a point in time	<ul style="list-style-type: none"> - March 2018 – Right to payment for performance completed to date/ Revenue recognition in a real estate contract. Two request about whether to recognise revenue over time or at a point in time in relation to a contract for the sale of real estate unit in a residential multi-unit complex. - In both requests, the entity retains legal title to the real estate unit until the customer pay (after construction is complete). The customer pays a portion at the beginning and the remainder after construction. In one of the requests the customer has the right to cancel the contract paying the difference between the original purchase price and the resale price, if any, while in the other the customer can't cancel the contract but can resell or pledge its rights. - Impact on the timing of revenue recognition (PL) and contract assets (BS)

APPENDIX 1: IFRS 15 ISSUES ADDRESSED BY IFRS IC

Issue	Agenda decisions
<p>Identification of performance obligations/ Performance obligation satisfied over time or at a point in time</p>	<ul style="list-style-type: none"> - March 2018 – Revenue recognition in a real estate contract that includes the transfer of land (and the construction of the building). The submission sought clarification on the number of performance obligations identified in the contract (one or two) and on whether the related revenue should be recognised over time or at a point in time. - Impact on the timing of revenue recognition (PL) and contract assets (BS)
<p>Identification of performance obligations</p>	<ul style="list-style-type: none"> - January 2019 – Assessment of promised good or services. Recognition of revenue by a stock exchange entity that provides a listing service to a customer. The request asked whether a non-refundable upfront fee that the entity charges to the customer give rise to an admission service that is distinct from the listing service. - Impact on the allocation of the price contract which impacts the timing of of revenue recognition (PL) and contract assets (BS)

APPENDIX 1: IFRS 15 ISSUES ADDRESSED BY IFRS IC

Issue	Agenda decisions
Variable consideration	<ul style="list-style-type: none"> <li data-bbox="498 404 1754 725">- September 2019 – Compensation for delays or cancellations. Request about an airline’s obligation to compensate customers for delayed or cancelled flights. Specifically, it referred to whether the entity accounts for its obligation to compensate customers either: (a) as variable consideration (part of the price) or b) applying IAS 37 separately from its performance obligation to transfer a flight service to the customer. <li data-bbox="498 782 1754 1011">- Some comment letters, while agreeing with the Committee’s conclusion that the compensation should be considered part of the price, regretted that they did not address the question on whether the reduction of revenue is limited to reducing the transaction price to nil. <li data-bbox="498 1025 1754 1108">- Impact on whether the compensation is recognised as part of the revenue (decreasing it) or as an expense.

APPENDIX 1: IFRS 15 ISSUES ADDRESSED BY IFRS IC

Issue	Agenda decisions
<p>Costs to fulfil a contract</p>	<ul style="list-style-type: none"> <li data-bbox="376 392 1754 621">- June 2019 – Costs to fulfil a contract. Request about the recognition of costs incurred to fulfil a contract (construction of a building) as an entity satisfies a performance obligation in the contract over time. The submitting entity asked whether those costs should be recognised as an asset or as an expense. <li data-bbox="376 678 1754 863">- March 2020 – Training costs to fulfil a contract. Request about training costs incurred to fulfil a contract for the supply of outsourced services with a customer (whether the entity recognises the training costs as an asset or an expense when incurred). <li data-bbox="376 921 1754 1092">- Some comment letters noted that capitalising training costs that are incurred to fulfil a specific contract and that the customer agreed to reimburse would be more relevant to users that the recognition of an expense. <li data-bbox="376 1106 1754 1192">- Impact on whether the cost are capitalized or expensed (impact on PL, BS and CF).

APPENDIX 1: IFRS 15 ISSUES ADDRESSED BY IFRS IC

Issue	Agenda decisions
Principal vs Agent	<ul style="list-style-type: none"> <li data-bbox="388 404 1750 539">- Principal versus Agent: Software Reseller. Request asking whether, in applying IFRS 15, a reseller of software licences is a principal or agent - (tentative decision). <li data-bbox="388 596 1750 961">- One comment letter pointed out that if the reseller was an agent, the software manufacturer would need to include the reseller’s margin as part of its revenues and costs. In their view this accounting treatment would be impracticable as they may not know the price billed by the reseller to the end customer. One auditing firm notes in its accounting manual that there is not specific guidance for these cases and that entities should apply judgment and determine the transaction price based on the relevant facts. <li data-bbox="388 975 1750 1061">- Impact on whether the reseller recognizes its fees net or gross (grossing up expenses and revenues)

APPENDIX 1: IFRS 15 APPLICATION ISSUES NOTED BY ESMA

- In the ESMA report [‘Enforcement and regulatory activities of European enforcers in 2020’](#) it is noted that the main issues discussed related to the application of IFRS 15 in the European Enforcers coordination sessions (EECS) were:
 - The assessment of whether an entity acts as an agent or a principal;
 - The allocation of the transaction amount to multiple performance obligations;
 - The timing of recognition of revenue in specific circumstances;
 - The disaggregation of revenue;
 - The impact of certain types of taxes collected from a customer on the measurement of revenue; and
 - The presentation of (unbilled) revenue on the balance sheet and in the income statement.



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THANK YOU

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