

## STAFF PAPER

July 2015

## IASB Meeting

<b>Project</b>	<b>Revenue from Contracts with Customers</b>		
<b>Paper topic</b>	Effective date of IFRS 15—comment letter summary, due process and permission to ballot		
<b>CONTACT(S)</b>	Roberta Ravelli	rravelli@ifrs.org	+44 (0)20 7246 6935

This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this paper**

1. This paper summarises the feedback received in response to the Exposure Draft *Effective Date of IFRS 15* (the ‘ED’), which was published by the IASB for public comment in May 2015. The summary of feedback included in this paper is based on the staff’s analysis of comment letters.
2. In this paper, the staff recommend that the IASB finalise the proposed deferral of the effective date of IFRS 15 *Revenue from Contracts with Customers* by one year to 1 January 2018. The paper also seeks the IASB’s permission to ballot that final amendment to IFRS 15.
3. This paper is structured as follows:
  - (a) Background
  - (b) Summary of feedback in comment letters
  - (c) Staff analysis and recommendations
  - (d) Due process steps and permission to ballot
  - (e) Questions for the IASB

## Background

4. On 19 May 2015 the IASB published for consultation a proposal to defer the effective date of IFRS 15 by one year to 1 January 2018. An entity would continue to be permitted to apply IFRS 15 to annual periods beginning before that date.
5. The main reason for the proposed deferral of the effective date of IFRS 15 is that the IASB will propose some targeted amendments to IFRS 15 in the Exposure Draft *Clarifications to IFRS 15*, which is planned for publication in July 2015. These targeted amendments will include clarifying some of the requirements in IFRS 15, adding and amending illustrative examples to aid its implementation and introducing additional practical expedients on transition.
6. IFRS 15 is a converged Standard with Topic 606 *Revenue from Contracts with Customers*. When the IASB decided to proposed a one-year deferral of the effective date of IFRS 15, the IASB also considered the fact that the FASB had already decided to propose to defer the effective date of Topic 606 for public entities by one year. Among the reasons for proposing to defer the effective date of IFRS 15, the IASB noted that there are benefits for a broad range of stakeholders of retaining an effective date that is aligned with the effective date of Topic 606.
7. At its 9 July 2015 meeting, the FASB confirmed its decision to defer the effective date of Topic 606 for public entities by one year to 15 December 2017. The FASB also decided to permit early application for periods beginning from the original effective date of 15 December 2016.

## Summary of feedback in comment letters

### *Overview of the comment letters*

8. The 45-day comment period for the ED ended on 3 July 2015. As of 9 July 2015, the IASB had received 100 comment letters from 113 respondents—a few comment letters had been submitted jointly by a number of respondents.

Appendix A of this paper provides a summary by type of respondent, industry and geographical region.

9. The majority of respondents (54%) are preparers of financial statements and preparer representative bodies—those respondents represent a wide range of industries.
10. Almost all regions are represented in the responses received from 34 countries. Almost half of respondents (44%) are from Europe. Other respondents are mainly from Asia / Pacific (22%), Canada (8%) and Latin America (7%).

### ***One-year deferral of the effective date***

#### *Support*

11. Virtually all respondents supported the IASB's decision to propose a one-year deferral of the effective date of IFRS 15 to 1 January 2018. The majority of respondents agreed with one or more of the reasons for proposing the deferral, set out in the Basis for Conclusions on the ED. Those reasons are summarised as follows:
  - (a) in the coming weeks, the IASB will propose targeted amendments to IFRS 15 that many entities are likely to apply at the same time as they first apply IFRS 15. A few respondents also recommended that the effective date of those amendments should be the same as the effective date of IFRS 15.
  - (b) IFRS 15 was issued some months later than had been anticipated when the effective date was originally set. This delay absorbed some of the implementation time that entities were expected to have. A few respondents noted that they were able to initiate detailed planning for the implementation of IFRS 15 only after IFRS 15 was issued in May 2014.
  - (c) in the light of the FASB's proposal (discussed in paragraph 6 of this paper), a one-year deferral of the effective date would align the effective date of IFRS 15 with that in Topic 606. A few respondents

stated that the continued alignment of the effective date of the respective revenue recognition standards is important to:

- (i) ensure comparability of reporting results between IFRS and US GAAP entities; and
- (ii) reduce costs for entities that have both IFRS and US GAAP reporting requirements within the group.

In contrast, a few other respondents expressed the view that convergence with Topic 606 should not be the main driver of the IASB's decision. Instead, emphasis should be placed on meeting the needs of IFRS stakeholders.

12. Some respondents, notably preparers from the telecommunication industry, reiterated support for a deferral of the effective date of IFRS 15, which they had already expressed in a number of unsolicited comment letters sent to the IASB in late 2014 and early 2015. The main reason cited related to the significant time needed to design, develop, test and implement new information technology systems to apply the requirements of IFRS 15. These respondents stated that more implementation time is required than originally anticipated because of, for example, the lack of (i) suitable information technology solutions in the market and (ii) suitably qualified personnel capable of interpreting the new requirements and applying them to complex transactions. They also noted that the software release timetable is still to be confirmed by the major system solutions providers.
13. Some respondents also noted that a one-year deferral would generally be helpful for entities because it allows additional time to appropriately implement IFRS 15, including updating internal controls and processes. In their view, a one-year deferral would improve the quality of implementation than would otherwise be the case.

### *Concerns*

14. Only two respondents disagreed with the proposal to defer the effective date of IFRS 15 mainly for the following reasons:
  - (a) the forthcoming targeted amendments to IFRS 15 are expected to clarify—not to substantially change—the guidance on licences, identifying performance obligations and principal versus agent

considerations. Consequently, these respondents expect little, if any, change as a result of applying the forthcoming amendments to IFRS 15.

- (b) one of these respondents shared the IASB's concern that changing the effective date of IFRS 15 shortly after its issuance creates uncertainty for stakeholders. This respondent noted that the uncertainty would affect, in particular, the stakeholders in jurisdictions that have already decided to adopt IFRS 15 or an equivalent national standard.

### ***Permitting early application***

- 15. Not all respondents provided comments on the proposal to continue to permit early application of IFRS 15. Among those who provided comments:
  - (a) the majority of respondents agreed without providing any reasons.
  - (b) some respondents agreed, stating that early application will be useful for entities that expect to be ready to implement IFRS 15 on its original effective date.
  - (c) a few respondents noted that continuing to permit early application is crucial for (i) those jurisdictions that have already decided to adopt IFRS 15, and (ii) entities that have decided to adopt IFRS in the coming few months and, as part of their first-time adoption, apply IFRS 15.
  - (d) one user of financial statements reiterated its disagreement with permitting early application, noting that it creates comparability issues for investors. Another respondent noted that a deferral of the effective date would extend that period of non-comparability.

### ***Deferral for more than one year***

- 16. Although the ED did not ask for views on a deferral of the effective date of IFRS 15 for more than one year, a number of respondents provided comments in this respect.
- 17. Some preparers (mainly, but not including all responses, from the telecommunications industry) encouraged the IASB to consider a two-year

deferral. These preparers indicated that more time is needed, in particular, to implement information technology solutions. A few other preparers noted that they would not object to a two-year deferral of the effective date in particular circumstances (for example, in the event that the FASB defers the effective date of Topic 606 by two years or the forthcoming amendments to IFRS 15 are not finalised on a timely basis).

18. In contrast, other respondents agreed with the IASB's view that it would not be helpful to delay the effective date of IFRS 15 for more than one year. These respondents included preparers and preparer representative bodies, accounting firms and accounting bodies, and standard-setters. They mainly noted that deferring the effective date by more than one year:
- (a) might lead to a prolonged period of uncertainty and a lack of comparability as a result of the staggered implementation of the Standard by entities; and
  - (b) might result in a delay in improving financial reporting—these respondents concurred with the IASB's view that IFRS 15 represents a substantial improvement to financial reporting.

### ***Interaction with the effective date of other Standards***

19. A few respondents also commented on the interaction between the effective dates of IFRS 15 and other Standards. Some of those who provided comments noted that a one-year deferral of the effective date of IFRS 15 would align the effective dates of IFRS 15 and IFRS 9 *Financial Instruments*. Those respondents expressed mixed views:
- (a) some preparers welcomed the alignment because some entities' revenue generating activities are within the scope of IFRS 9 rather than within the scope of IFRS 15 (for example, interest and dividend revenue). These respondents expect that such an alignment will avoid accounting changes affecting several accounting periods.
  - (b) other respondents, including preparers, preparer representative bodies and standard-setters, were concerned that entities that are materially

affected by both standards might find it difficult to implement both standards in 2018.

### **Other comments**

20. Some respondents agreed with the IASB's view that changing the effective date of a Standard shortly after its issuance has the potential to set a bad precedent. These respondents agreed with the deferral of the effective date of IFRS 15 because of the exceptional circumstances surrounding it. Nonetheless, to ensure that the IASB's due process is not undermined and to prevent unjustified requests for the deferral of the effective date of another Standard, some of these respondents recommended explaining in the Basis for Conclusions that this deferral is considered exceptional.
21. A few respondents also encouraged the IASB to:
  - (a) continue monitoring the overall implementation efforts to ensure that the revised effective date of IFRS 15 remains appropriate; and
  - (b) improve its due process for setting the effective date of a new Standard (for example, (i) re-deliberating the effective date when the issuance of a Standard is later than originally anticipated, (ii) deferring the effective date decision to immediately before the issuance of a Standard or (iii) setting a formula for determining the implementation lead-time when the IASB decides on the effective date).

### **Staff analysis and recommendations**

22. The summary of feedback received in comment letters discussed in this paper indicates that virtually all respondents to the ED support the IASB's proposal to defer the effective date of IFRS 15 to 1 January 2018. They also support continuing to permit early application.
23. Although some preparers that provided feedback on the proposals encouraged the IASB to consider a two-year deferral of the effective date of IFRS 15, the staff recommend that the IASB should not defer the effective date for more than one year. This is because such a deferral of the effective date would:

- (a) unnecessarily prolong the period of uncertainty regarding the Standard, which would not be beneficial for stakeholders; and
  - (b) delay transition by many entities to a new Standard that the IASB views as a substantial improvement to financial reporting.
24. The staff acknowledge that for some entities a one-year deferral may still be challenging. Nonetheless, the staff think that a one-year deferral is sufficient in terms of providing additional time to implement IFRS 15.
25. Consequently, the staff recommend that the IASB finalise the amendments to IFRS 15 to defer the effective date of the Standard by one year to 1 January 2018 for the reasons noted in the Basis for Conclusions on the ED (and summarised in paragraph 11 of this paper). In the light of the FASB's final decision mentioned in paragraph 7, the staff note that this would also preserve the converged status of the effective dates of IFRS 15 and Topic 606.

## **Due process steps and permission to ballot**

### ***Confirmation of due process steps***

26. The staff note that the proposed amendment to the effective date of IFRS 15 is narrow in scope. Consequently, the extent of the due process performed is more limited than would be performed for a major amendment or a new Standard.
27. The required due process steps for the publication of the amendment to the effective date of IFRS 15 are summarised below:
- (a) *Consultation*—the IASB posted the comment letters received on the ED on the relevant project page on the IASB website. A comment letter summary, which is included in this paper, has been made available on the IASB website for public discussion at the July 2015 IASB's meeting.
  - (b) *Finalisation*—this paper presents the compliance with due process and is to be reviewed during the July 2015 IASB meeting. In the light of the analysis discussed above, the staff have not identified any other issues or additional amendments to the proposals that would need to be



discussed by the IASB at future meetings. Consequently, the staff think that the proposals should not be re-exposed and can be finalised.

- (c) *Drafting*—the Translations team and the XBRL team will be consulted as part of the balloting process.
- (d) *Publication*—the official release of the final amendments is planned to be announced by a press release.

### ***Permission to ballot***

28. The staff think that the IASB has undertaken sufficient due process steps to finalise the amendment to the effective date of IFRS 15. The staff are of the view that the IASB has been provided with sufficient analysis, and has undertaken appropriate consultation, to support the publication of the amendments. Consequently the staff request permission to start the balloting process.

### ***Dissents***

29. No IASB member expressed an alternative view in the ED. Any IASB member who intends to dissent from the final amendments is asked to make his or her intention known at this meeting.

### ***Proposed timetable for balloting and publication***

30. The balloting process of *Effective Date of IFRS 15* is planned to commence in August 2015, with publication of the final amendments expected to follow in September 2015.

## Questions for the IASB

### Amendment to IFRS 15 (Effective date)

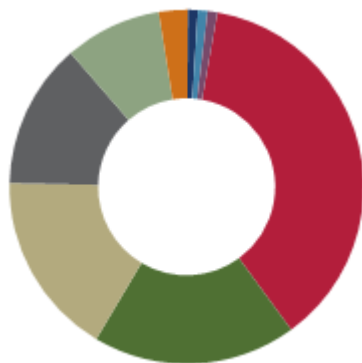
**Question 1—Finalisation:** Does the IASB agree with the staff recommendation to finalise the amendment to IFRS 15 so that entities would be required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018? An entity would continue to be permitted to apply the Standard early.

**Question 2—Due process steps and permission to ballot:** Is the IASB satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to be able to begin the balloting process to amend the effective date of IFRS 15?

**Question 3—Dissents:** Do any members of the IASB plan to dissent from the publication of the amendment to IFRS 15?

## Appendix A—Overview of the comment letters by type of respondent, industry and geographical region

### A1. Overview of the comment letters by type of respondent



Respondent type	Number	Percentage
Preparer	42	37%
Standard-setting body	21	18%
Preparer representative body	19	17%
Accountancy body	15	13%
Auditor / Accounting firm	10	9%
Regulator / Government	3	3%
Academic	1	1%
Individual	1	1%
Investor / Analyst	1	1%
<b>Total</b>	<b>113</b>	<b>100%</b>

### A2. Overview of the comment letters by industry (preparers and preparer representative bodies)



Industry	Number	Percentage
Technology, media and telco	24	39%
Cross sector*	13	21%
Financials	10	17%
Energy and utilities	6	10%
Industrials and transport	4	7%
Consumer goods	2	3%
Pharma and chemicals	2	3%
<b>Total</b>	<b>61</b>	<b>100%</b>

\*Representative bodies of entities from different industries

### A3. Overview of the comment letters by geographical region



Geographical region	Number	Percentage
Europe	49	44%
Asia / Pacific	25	22%
Canada	9	8%
Global	9	8%
Latin America	8	7%
US	7	6%
Africa / Middle East	6	5%
<b>Total</b>	<b>113</b>	<b>100%</b>