

Compensation for Delays or Cancellations (IFRS 15 *Revenue from Contracts with Customers*)— September 2019

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; 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 give 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.