

## STAFF PAPER

December 2015

| Project     | Revenue from Contracts with Customers                                  |  |                     |
|-------------|--|--|---------------------|
| Paper topic | Summary of feedback on Exposure Draft <i>Clarifications to IFRS 15</i> |  |                     |
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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 the paper

1. This paper provides a summary of the feedback received in response to the IASB [Exposure Draft \*Clarifications to IFRS 15\*](#) covering:
  - (a) the high hurdle set by the IASB when considering whether to amend IFRS 15; and
  - (b) the status of convergence of IFRS 15 and Topic 606.
2. The summary and the detailed analysis of the feedback received on the specific proposals in the ED including the staff recommendations are presented in separate agenda papers (Agenda Papers 7B–7G) as explained in the cover paper (Agenda Paper 7).
3. The ED was issued for public comment in July 2015. The 90-day comment period ended on 28 October 2015. The IASB received 74 comment letters. A statistical summary by type of respondent and geographical region is included in the *Appendix* of this paper.
4. This paper does not include any staff recommendations.

## Structure of the paper

5. The summary of the feedback is structured as follows:
  - (a) The high hurdle set by the IASB when considering whether to amend IFRS 15
  - (b) Status of convergence of IFRS 15 and Topic 606
  - (c) Feedback from the ASAF
  - (d) Transition Resource Group (TRG) for Revenue Recognition
  - (e) Other questions raised by respondents

## The high hurdle set by the IASB when considering whether to amend IFRS 15

6. Paragraph BC4 of the ED explains that the IASB decided to apply a high hurdle when considering whether to amend IFRS 15 and, thus, minimise changes to the extent possible. On this basis, the IASB proposed amendments to the Standard only when:
  - (a) it considers those proposed amendments to be essential to clarifying the Boards' intentions when developing the requirements in IFRS 15; or
  - (b) it views the benefits of retaining converged requirements as greater than any potential costs of amending the requirements (for example, in respect of the principal versus agent guidance).
7. The IASB also proposed more extensive changes to some of the Illustrative Examples accompanying IFRS 15 because the IASB concluded that clarifications can often be made more effectively in the examples, rather than by amending the Standard.
8. Most of the respondents generally agreed with the IASB's approach that IFRS 15 should be amended only if the amendments are considered to be essential to clarifying the Boards' intentions when developing the requirements. Most of these respondents agreed that clarifications were needed in respect of the topics for which the IASB has proposed amendments.

9. Only one respondent suggested that the proposed clarifications are not needed because they are not substantive in nature and do not materially expand upon the principles already espoused in the Standard.
10. A few national standard-setters, that support the high hurdle set by the IASB, observed that amending a Standard before its effective date is not an ideal approach to setting standards, and should be ‘significantly discouraged’. This is because (a) it may discourage entities from undertaking the work needed to implement the Standard; and (b) the evidence to conclude that there are incremental benefits of making further changes may not be sufficient.
11. An accountancy body suggested that proposing changes to a Standard shortly after issuance might imply that there was some deficiency in the IASB’s due process. As an example, that respondent highlighted the significant drafting changes made to the requirements on licensing and variable consideration, which the respondent viewed as new concepts that were not proposed in previous Exposure Drafts.
12. In relation to the IASB’s approach to proposing clarifications by amending the Illustrative Examples, a few respondents recommended that the decisions of the IASB should be reflected by amending the Standard itself, rather than amending only the Illustrative Examples or including a discussion in the Basis for Conclusions. They argued that there are jurisdictions in which the Illustrative Examples and Basis for Conclusions are either not subject to endorsement procedures or not translated and hence are not readily available to users of IFRS.

### **Status of convergence of IFRS 15 and Topic 606**

13. Many respondents expressed a general concern about the IASB and the FASB proposing different amendments to clarify the application of originally converged requirements. They noted that the benefits of a converged revenue Standard would be diminished if the final amendments to IFRS 15 and Topic 606 are different. However, the accounting firms and preparers attached greater importance to maintaining convergence whilst other respondents attached greater importance to the IASB maintaining the quality of its Standard to meet the need of its stakeholders over convergence. The feedback by type of respondent follows.

*Preparers*

14. The feedback from preparers was mixed. A few preparers emphasised the importance of convergence, but did not give any suggestions as to the course of action that the IASB should take.
15. Those that specifically commented on the convergence of IFRS 15 and Topic 606 focussed more on the FASB's proposed amendments in respect of shipping and handling activities and promised goods or services that are immaterial in the context of the contract (for which the IASB did not propose any amendments).
16. A few of those preparers recommended that the IASB should make the same amendments as the FASB, citing reasons such as loss of comparability of financial information between entities in the same industry because of accounting policy choices and judgements relating to materiality being questioned by auditors or regulators.
17. A few other preparers recommended that the IASB should update Appendix A *Comparison of IFRS 15 and Topic 606* of the Basis for Conclusions on IFRS 15 for the different amendments, if finalised by the Boards as proposed. Some of those preparers suggested that the IASB should explain whether the differing words in Topic 606 would result in the same (or different) outcomes as applying the words in IFRS 15. A few of those preparers were concerned that without those explanations in the Basis for Conclusions of IFRS 15, there is a risk that regulators and auditors could require IFRS preparers to follow the additional clarifications in Topic 606.
18. One preparer, a multinational entity that has both IFRS and US GAAP financial reporting requirements, emphasised the importance of the Boards remaining converged. Consequently, that preparer preferred the IASB to propose the same amendments as the FASB, especially in respect of shipping and handling activities, definition of a completed contract, the date on which the modified contract practical expedient is applied by an entity using the modified retrospective transition method, collectability, non-cash consideration and presentation of sales taxes.
19. Some preparers did not comment on the different approaches of the Boards when proposing amendments to IFRS 15.

20. One preparer viewed some of the FASB's proposed amendments as overriding the principles in the Standard thereby deviating from the overall objective of the new revenue Standards.

*National and regional standard-setters, accountancy bodies and regulators*

21. A large majority of this group of respondents stated that maintaining quality over convergence is important although they preferred that IFRS 15 and Topic 606 remain as converged as possible. Consequently, they supported the high-hurdle set by the IASB when considering whether to amend IFRS 15 and also the IASB's decision and rationale for not proposing amendments on topics for which the FASB has proposed amendments.
22. One accountancy body acknowledged that they understand that the two Boards were under different pressures from the respective stakeholders and that reaching agreement on some of the issues that have been raised may not have been easy. However, that respondent thought that the benefits of a fully converged revenue Standard outweigh the considerations of each Board.
23. IOSCO stated that its Committee 1 members were disappointed that the IASB and the FASB could not propose fully converged amendments, especially in respect of identifying performance obligations and licensing. They argued that if the Boards finalise their respective amendments largely as proposed, there will be complexities in implementation for those in practice, and complexities in enforcement for securities regulators. They noted that this type of complexity was what the project was set up to try to alleviate. Consequently, the Committee 1 members of IOSCO urged the Boards to maintain their efforts to keep the Standards as converged as possible.
24. Most of the respondents recommended that the IASB should update Appendix A *Comparison of IFRS 15 and Topic 606* of the Basis for Conclusions for the different amendments, if finalised by the Boards as proposed. Some recommended that the IASB should clearly explain whether the differing words in Topic 606 would result in the same outcomes as applying the words in IFRS 15. Others thought that different words could be interpreted differently and, consequently, they recommended that the IASB should acknowledge in the Basis

for Conclusions that outcomes could be different because of different words in IFRS 15 and Topic 606.

25. Some of these respondents stated that it was helpful that the Basis for Conclusions on the ED notes when the IASB has identified circumstances in which differences in outcomes may arise as a consequence of the different decisions reached by both Boards. They recommended that the IASB should incorporate those explanations in the Basis for Conclusions on IFRS 15.
26. In relation to the topics for which the FASB proposed amendments but the IASB did not, one accountancy body asked the IASB to consider explaining in the Basis for Conclusions whether the FASB's proposed amendments to Topic 606 are in accordance with the principles in IFRS 15.
27. Some respondents suggested that if the FASB continues to propose further amendments to Topic 606, the IASB should follow those discussions and continue to update Appendix A of the Basis for Conclusions on IFRS 15 as new differences emerge.

#### *Accounting firms*

28. Almost all accounting firms emphasised the importance of convergence. They stated that using different words to clarify the application of the Standards, especially when the Boards intend the outcomes to be similar, introduces additional complexity. This applies particularly for those organisations that have reporting obligations under both IFRS and US GAAP, as well as for users of financial statements that follow peer companies reporting under both IFRS and US GAAP. This also puts pressure on preparers to consider the guidance in Topic 606 in addition to the requirements in IFRS 15.
29. These respondents cautioned that, in circumstances in which the Boards had explained that they expected the financial reporting outcomes to be largely the same, the outcomes may not be the same in all cases and the risk of divergence over time increases. Consequently, if the Boards expect that the outcomes of applying the different words would be the same, the ideal approach would be to make the same amendments to both IFRS 15 and Topic 606 to maintain convergence. If that is not possible, the IASB should (a) acknowledge in the Basis for Conclusion on IFRS 15 that different words in the Standards could lead

to different conclusions; and (b) clearly explain the areas in which the correct application of the amended Standards will result in different outcomes.

### **Feedback from the ASAF (from ASAF meeting summary)**

30. At their October 2015 meeting, ASAF members were asked:
- (a) to comment on the high hurdle applied by the IASB when considering whether and how to amend IFRS 15; and
  - (b) to provide their preliminary views on the questions in the ‘Invitation to comment’ section of the ED.
31. ASAF members broadly supported the high hurdle applied by the IASB. They agreed with the IASB’s approach of proposing amendments to IFRS 15 only when (a) those proposed amendments are essential to clarifying the Boards’ intentions when developing the requirements in the Standard; or (b) when the benefits of retaining convergence with the US equivalent Topic 606 are considered greater than any potential costs of amending the Standard.
32. Some ASAF members highlighted the importance of retaining convergence between IFRS 15 and Topic 606. They also suggested that, if the amendments to be made by each Board are not the same, it is important to explain in the Basis for Conclusions when the Boards expect the outcomes of applying the differing requirements to be the same and when the outcomes could be different. If the FASB decides to further amend Topic 606, some members suggested that it would be helpful for IFRS stakeholders if the IASB were to explain whether and when those amendments cause differences in outcomes between IFRS 15 and Topic 606.
33. In relation to the specific questions in the ED, one member suggested that the IASB should consider amending IFRS 15 to exempt entities from identifying promised goods or services that are immaterial within the context of the contract. Another member thought that the indicators of control within the guidance on principal versus agent considerations could be articulated to focus on both aspects of control, ie the ability to direct the use of an asset and the ability to obtain substantially all of the remaining benefits from the asset.

## Transition Resource Group for Revenue Recognition

34. The IASB did not ask a specific question in the ED on the TRG process. However, the accounting firms, a few national standard-setters, a regulator, an accountancy body and a preparer commented on the role of the TRG. This section summarises their feedback.
35. A majority of these respondents (mainly most of the accounting firms, the regulator, a national standard-setter and the preparer) supported the continuation of the TRG until the mandatory effective date of the Standard. They think that the TRG can play a valuable role in assessing new implementation issues and in educating stakeholders, without committing the IASB to further standard-setting. A subset of those respondents observed that, by applying a high hurdle when considering whether to amend the Standard, the IASB would always retain the option to amend the Standard only if it becomes clear that an amendment would significantly enhance the implementation process for a large group of stakeholders. The other subset of respondents thought that the TRG process would help identify any significant issues for consideration in the post-implementation review of IFRS 15.
36. Other respondents suggested that the TRG should be wound up immediately. A couple of those respondents expressed a concern that the TRG appeared to have become part of the process of developing amendments to a Standard, when its role should have been only to provide a forum for stakeholders to learn about the new requirements and to discuss implementation issues.

## Other questions raised by respondents

37. In the ED, the IASB explained that it was not requesting comments on matters in IFRS 15 that are not addressed in the ED. However, two respondents highlighted questions relating to the interaction of the scopes of IFRS 15 and IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*):
- (a) One respondent thought that the interaction between IFRS 15 and IFRS 9 in respect of the initial measurement of a receivable is not clear.



- (b) Another respondent, referring to a provisionally priced sales contract that includes an embedded derivative as defined in IAS 39, thought that it is not clear whether that embedded would be excluded from the scope of IFRS 15 and accounted for under IFRS 9.

## Appendix

### Statistical summary of comment letters by type of respondents and geographical region

#### *Summary by type of respondent*

| Type of respondent                     | Number    |             |
|--|-----------|-------------|
| Preparers                              | 18        | 24%         |
| Preparer representative bodies         | 8         | 11%         |
| Accounting firms                       | 10        | 14%         |
| National and regional standard-setters | 20        | 27%         |
| Accountancy bodies                     | 15        | 20%         |
| Regulators                             | 2         | 3%          |
| Individual                             | 1         | 1%          |
| <b>TOTAL</b>                           | <b>74</b> | <b>100%</b> |

#### *Summary by geographical region*

| Region                    | Number    |             |
|---------------------------|-----------|-------------|
| Global                    | 11        | 15%         |
| Asia                      | 19        | 26%         |
| Africa                    | 2         | 3%          |
| North America             | 4         | 5%          |
| Central and South America | 6         | 8%          |
| Europe                    | 28        | 38%         |
| Oceania                   | 4         | 5%          |
| <b>TOTAL</b>              | <b>74</b> | <b>100%</b> |