AGENDA

IFRS Foundation Trustees meeting – Due Process Oversight Committee

Kuala Lumpur	January 2019	**Agenda Ref 1F**
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Due Process Handbook Review: Agenda Decisions

Purpose

1. This paper proposes amendments to the description of Agenda Decisions in the *Due Process Handbook* to:

    (a) clarify the status of Agenda Decisions; and

    (b) explain that entities are expected to be entitled to sufficient time to prepare for any accounting policy change that they determine is needed as a result of an Agenda Decision.

Questions for the DPOC
Do members of the DPOC agree: (a) that the current status and role of Agenda Decisions is appropriate? (b) to amend the Due Process Handbook to explicitly specify: (i) the objective of including explanatory material in an Agenda Decision; (ii) the nature of explanatory material in an Agenda Decision; and (iii) that an entity is expected to be entitled to sufficient time to (1) determine whether it needs to change an accounting policy as a result of an Agenda Decision and (2) implement any change?

Background

2. The DPOC considered the IFRS Interpretations Committee's (Committee) process and use of Agenda Decisions at its June 2018 meeting (see Agenda Paper 1C from that meeting).

3. The work of the Committee is outlined in the Due Process Handbook. For each question submitted, the Committee is required to consider at a public meeting whether to add a project to its standard-setting agenda (which might include issuing an Interpretation). If the Committee decides not to recommend standard-setting in response to a submitted question, it publishes an Agenda Decision to explain its decision. In many cases, the Committee publishes an Agenda Decision because, in the Committee's view, IFRS Standards provide enough information for an entity to determine its accounting.

4. Agenda Decisions do not add or change requirements in IFRS Standards and therefore do not have the same (mandatory) status of IFRS Standards. However, the Committee may decide to include information in Agenda Decisions to help entities apply the Standards. This information explains how the applicable principles and requirements in the Standards apply to the question submitted.

5. Agenda Decisions are part of the non-mandatory materials that the Board or Committee publishes. Those non-mandatory materials also include:

   (a) material that accompanies an IFRS Standard, such as Illustrative Examples, Basis for Conclusions, Guidance on Implementing an IFRS Standard and IFRS Practice Statements; and

   (b) other educative material in various formats including, for example, Effects Analysis, Project Summaries, Webcasts and Articles.

6. Saying that materials published by the Board or Committee have non-mandatory status does not mean that they have no authority and should be ignored. The reason that the Board and the Committee publish Agenda Decisions and the other non-mandatory material listed in paragraph 5 of this paper is to meet the Foundation's strategic goal of supporting high-quality consistent application and implementation of

IFRS Standards globally.[1] We would expect explanatory material in an Agenda Decision to be considered by stakeholders and thus influence the application of the Standards. The explanatory material might provide new information that is 'helpful, informative and persuasive'[2] and, thus, could result in an entity changing its previous accounting policy. In this way, Agenda Decisions promote a broader common understanding and consistent application of IFRS Standards without undermining the principle-based nature of those Standards.

7. At its October 2018 meeting, the DPOC decided to propose amending the Due Process Handbook to give the Board the ability to publish Agenda Decisions subject to the same due process requirements as the Committee's Agenda Decisions. This proposal is not intended to change the way the Committee deals with submitted questions. Rather, it is intended to serve a different (albeit related) purpose by enhancing the Board's ability to support high-quality consistent application of IFRS Standards to better enable the Foundation to meet its strategic goal.

Status and role of Agenda Decisions

Background

8. At the October 2018 DPOC meeting, we explained that the Board had received some feedback on the status and role of Agenda Decisions.[3] This feedback was in response to the Board's March 2018 Exposure Draft proposing amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Exposure Draft). The status of Agenda Decisions was not the subject of the Exposure Draft and most respondents did not comment on it. However, some respondents said the proposed amendments raise questions about the status of Agenda Decisions and their role in the application of IFRS Standards. These respondents suggested reconsidering the status of, and due process requirements for, Agenda Decisions. In particular, some

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[1] https://www.ifrs.org/-/media/project/2015-trustees-review/request-for-views/educational-materials/feedback-statement-request-for-views.pdf

[2] Paragraph 5.22 of the Due Process Handbook explains that Agenda Decisions should be seen as 'helpful, informative and persuasive'.

[3] Paragraph 11 of Agenda Paper 1G(i) of the DPOC's October 2018 meeting.

respondents suggested that Agenda Decisions should have the same mandatory status as IFRS Standards.

9. A summary of this feedback was presented to the Board at its December 2018 meeting.[4] For ease of reference, Appendix B to this paper reproduces paragraphs from Agenda Paper 12B of the Board's December 2018 meeting, which summarise the feedback.

Why the current status and role of Agenda Decisions is appropriate

10. The Committee publishes an Agenda Decision with explanatory material only after it has considered whether, and concluded not, to undertake standard-setting to address a particular matter (ie when it has concluded it is inappropriate or unnecessary to change or add to the mandatory requirements). It would therefore appear illogical if those Agenda Decisions were to be viewed as mandatory. As explained in paragraph 4 of this paper, Agenda Decisions do not add or change requirements in IFRS Standards.

11. The content and style of explanatory material in Agenda Decisions also means that they need to have the same (non-mandatory) status as the Basis for Conclusions and Illustrative Examples that accompany IFRS Standards. In explaining how the principles and requirements in the Standards apply to particular fact patterns, the content and style of explanatory material is often similar to that of (non-mandatory) Illustrative Examples. Further, the explanatory material refers to (or reproduces) the applicable (mandatory) requirements and also links those requirements to relevant explanations provided by the Board in the (non-mandatory) Basis for Conclusions or other accompanying material. If Agenda Decisions were to have the same (mandatory) status as the Standards:

    (a) the material quoted from the (mandatory) Standards would create duplication in our literature and potential confusion (this material is mandatory irrespective of the status of Agenda Decisions); and

[4] See Agenda Paper 12B of the Board's December 2018 meeting.

(b) the status of any quoted non-mandatory material (eg Basis for Conclusions and Illustrative Examples that accompany IFRS Standards) would, in effect, be changed.

12. Accordingly, we think (a) the current status and role of Agenda Decisions are appropriate, and (b) changes to the due process for publishing Agenda Decisions are unnecessary and could, in fact, be confusing and harmful.

13. Appendix A to this paper reproduces an Agenda Decision published by the Committee in March 2018. We have annotated this Agenda Decision to illustrate references to the applicable (mandatory) requirements and to relevant explanations in the (non-mandatory) Basis for Conclusions and Illustrative Examples.

The consequences of changing the status of Agenda Decisions

14. Changing the status of Agenda Decisions could have significant consequences. In particular, we think doing so would:

(a) change IFRS Standards

(i) create a rules-based regime and imbalance in the Standards

Adding mandatory requirements to address particular fact patterns would undermine a fundamental principle underlying IFRS Standards—ie that they are principle-based. If the Committee addresses specific fact patterns in explanatory material to facilitate consistent application but leaves it to entities to evaluate that material and determine whether they need to change their accounting, then we remain within a principle-based ecosystem. However we would move towards a rules-based regime if detailed mandatory requirements for particular fact patterns were added as a result of, and thus determined by, questions submitted to the Committee. This would compromise the principle-based nature of the Standards. Further and perhaps illogically, it could also lead to situations in which there are detailed requirements on particular aspects of a Standard while other (and potentially more important) aspects of that Standard would not have similar detailed requirements, just because a question has not been asked.

(ii) *change the nature of IFRS Standards*

Changing the status of Agenda Decisions could not be done in isolation. As highlighted in paragraph 11(b) of this paper, the status of other (non-mandatory) material accompanying the Standards, such as Basis for Conclusions and Illustrative Examples, would also need to be reconsidered. In other words, changing the status of Agenda Decisions would require a broader reconsideration of what is the totality of materials that constitutes IFRS Standards. This would, in turn, raise (1) broader strategic considerations that go beyond due process requirements, and (2) practical considerations, such as the Foundation's licensing arrangements with jurisdictions and the endorsement processes for IFRS Standards around the world. Consequently, if contrary to the approach recommended in this paper the DPOC wishes to explore this further, we think this is a broader matter that the Trustees would need to consider outside of the current review of the Due Process Handbook.

(b) *reduce the Committee's effectiveness in supporting consistent application*

Changing the status of Agenda Decisions could reduce the Committee's effectiveness in supporting consistent application of IFRS Standards. This is because doing so could:

(i) *reduce the responsiveness of the Committee*

The Committee published nine Agenda Decisions with explanatory material in 2018, 11 in 2017 and 13 in 2016 (and has a further 12 tentative Agenda Decisions with explanatory material in its work in progress at 30 November 2018). If Agenda Decisions were to have the (mandatory) status of IFRS Standards, this level of activity would lead to constant amendments to the Standards. Based on the feedback to the 2015 Trustees' Review of Structure and Effectiveness, this outcome would in all likelihood be unacceptable to most of our stakeholders.[5] As a consequence, we would expect

[5] Respondents to the consultation on the 2015 Trustees' Review of Structure and Effectiveness said the Board should remain focussed on setting principles-based standards and should avoid introducing too many rules just

the number of Agenda Decisions published to reduce significantly—this would in turn have a detrimental effect on the Foundation's strategic goal of supporting consistent application and implementation of IFRS Standards globally.

(ii) *due process*

If the status of Agenda Decisions were changed, we would expect stakeholders to request the same due process for Agenda Decisions as for any other form of standard-setting—this would delay providing clarity to stakeholders on known application questions. Such an outcome would be counter to the request we received in the 2015 Trustees' Review of Structure and Effectiveness for the Committee to become more responsive and timely in dealing with questions submitted to it.[6]

(c) *impose unnecessary costs on stakeholders*

Standard-setting results in costs for stakeholders (for example, because of endorsement processes around the world). Frequent standard-setting in the form of issuing Agenda Decisions would require stakeholders to incur these costs each time an Agenda Decision is issued.

Board discussion

15. At its meeting in December 2018, the Board considered feedback on the status of Agenda Decisions as part of its consideration of feedback on its March 2018 Exposure Draft proposing amendments to IAS 8. The Board's unanimous view is that the current status and role of Agenda Decisions is appropriate and should be maintained.

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for the sake of consistent application or attempting to solve local or regional problems. They also said the Board should 'make amendments to standards only when those amendments are strictly necessary and should not attempt to provide accounting [requirements] for every possible transaction'. [paragraph F49 of the Trustees' Review of Structure and Effectiveness: Feedback Statement on the July 2015 Request for Views].

[6] Respondents to the consultation on the 2015 Trustees' Review of Structure and Effectiveness said generally supported the enhancements made to the Committee's process in 2012 (to introduce the inclusion of explanatory material in Agenda Decisions and the due process supporting Agenda Decisions). However, a number of respondents recommended that the effectiveness and efficiency of the Committee be improved, ie that the Committee become more responsive in dealing with questions submitted to it.

Due process for Agenda Decisions

16. Some respondents to the Board's March 2018 Exposure Draft (who did not suggest changing the status of Agenda Decisions) nonetheless suggested amending the due process for Agenda Decisions.[7] We think those suggestions would be relevant only if Agenda Decisions were given the same (mandatory) status of IFRS Standards. These include the suggestion to (a) introduce a higher threshold for approving Agenda Decisions, (b) require the Board to ratify Agenda Decisions, and (c) follow the same due process as that followed when developing or amending a Standard. Consistent with our view that the current status of Agenda Decisions is appropriate, we think introducing these requirements is unnecessary and would hamper the Committee's ability to respond to application questions on a timely basis. For example, the requirement for a simple majority of Committee members to approve an Agenda Decision—a decision not to add a matter to its standard-setting agenda—is consistent with the requirements that apply when the Board decides whether to add an agenda item to its workplan.[8]

17. Nonetheless, the Due Process Handbook provides limited information about Agenda Decisions. We recommend that the DPOC propose modifying the existing requirements in the Due Process Handbook to explicitly specify:

    (a) the objective of including explanatory material in Agenda Decisions—ie to improve consistency in the application of IFRS Standards; and

    (b) the nature of explanatory material in an Agenda Decision—ie

        (i) explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the Agenda Decision; and

        (ii) while explanatory material often provides additional information, it cannot add or change requirements in IFRS Standards.

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[7] See paragraphs 19–20 of Agenda Paper 12B of the Board's December 2018 meeting—Appendix B to this paper reproduces those paragraphs for ease of reference.

[8] Paragraph 5.6 of the Due Process Handbook says that '…The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting'. Similarly, paragraph 5.18 of the Due Process Handbook says 'A simple majority of Interpretations Committee members present can decide, after a debate in a public meeting, whether to add any issue to its work programme'.

18. We think this could be done by amending the description of Agenda Decisions in the Due Process Handbook to state:

> In addition to explaining why the Committee decides not to add a project to the standard-setting agenda, in many cases an agenda decision includes explanatory material. The objective of such explanatory material is to improve the consistency of application of IFRS Standards. An agenda decision typically includes explanatory material when the reason for not adding a project to the standard-setting agenda is that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting. Explanatory material is subject to comment as part of a tentative agenda decision.
>
> Explanatory material explains how the applicable principles and requirements in the Standards apply to the transaction or fact pattern described in the agenda decision. Agenda decisions (including any explanatory material contained within them) do not have the status of the Standards and therefore cannot add or change requirements in the Standards. However, such explanatory material should be seen as helpful, informative and persuasive.

Timing of application of Agenda Decisions

19. Even though it cannot add or change requirements in IFRS Standards, explanatory material in an Agenda Decision might provide new information by, for example, linking together relevant information in different parts of the Standards and accompanying material. Consideration of that new information could result in an entity deciding to change its previous accounting policy, and some might view that new information as coming into effect immediately upon publication of the Agenda Decision. If so, an entity could find it difficult in some circumstances to (a) consider the new information and determine whether it needs to change its accounting, and (b) implement any resulting change. For example, assume the Committee publishes an agenda decision with explanatory material in December. Depending on the topic, it

could be difficult for an entity with a reporting date of 31 December to apply any change it considers necessary in its financial reports as at 31 December.

20. In developing the March 2018 Exposure Draft, the Board considered whether and how it might address when an entity applies an accounting policy change that the entity determines is needed as a result of an Agenda Decision. The Board noted that there is no obvious way for it to address the matter because of the non-mandatory status of Agenda Decisions. Therefore, the Board decided not to propose amending IAS 8 in this respect. Instead, the Board outlined in the Basis for Conclusions to the Exposure Draft its views on the timing of implementing such changes as a means of helping entities apply any change that results from an Agenda Decision. The Board's view is that an entity should be entitled to sufficient time to prepare for any accounting policy change that it determines is needed as a result of an Agenda Decision. Determining what 'sufficient time' to implement a change is requires judgement, and will depend on the nature of the change. However, in the Board's view, it would generally be unreasonable to expect an entity to determine whether it needs to change its accounting and implement any resulting change immediately upon publication of an Agenda Decision.

21. A majority of respondents to the Exposure Draft who commented on this matter agreed with the Board's decision not to amend IAS 8 in this respect. Respondents also said documentation of the Board's view on this matter is helpful and would assist entities in determining when to apply any change that results from an Agenda Decision. Some respondents also suggested documenting the Board's view in materials other than the Basis for Conclusions, including the Due Process Handbook. In December 2018, having considered this feedback the Board confirmed its decision not to undertake standard-setting to address the matter. However, the Board thought consideration should now be given, including in the review of the Due Process Handbook, to how its view about the timing of application of any accounting policy change could be made sufficiently visible for preparers of financial statements.

22. Accordingly, we recommend the DPOC propose amending the description of Agenda Decisions in the Due Process Handbook to explain the expectation about the timing of application of accounting policy changes that result from an Agenda Decision. This is because the Due Process Handbook provides the authoritative explanation about

Agenda Decisions. We think this could be done by amending the description of Agenda Decisions in the Due Process Handbook to state:

> The process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).

23. Because preparers are not necessarily familiar with the Due Process Handbook, we envisage that this description could then serve as the basis for documenting expectations about the timing of application of accounting policy changes that result from an Agenda Decision in other more readily accessible materials.

Questions for the DPOC
Do members of the DPOC agree: (a) that the current status and role of Agenda Decisions is appropriate? (b) to amend the Due Process Handbook to explicitly specify: (i) the objective of including explanatory material in an Agenda Decision; (ii) the nature of explanatory material in an Agenda Decision; and (iii) that an entity is expected to be entitled to sufficient time to (1) determine whether it needs to change an accounting policy as a result of an Agenda Decision and (2) implement any change?

Appendix A—Agenda Decision: Example

A1. This appendix reproduces an Agenda Decision published by the Committee in March 2018. We have annotated this Agenda Decision to illustrate references to the applicable (mandatory) requirements [highlighted in yellow] and to the relevant explanations in the (non-mandatory) Basis for Conclusions or other accompanying material [highlighted in grey].

Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15 *Revenue from Contracts with Customers*)

The Committee received a request about revenue recognition in a contract for the sale of land and a building to be constructed on the land. Specifically, the request asked (a) about the identification of performance obligations in the contract and (b) for each performance obligation identified, whether the real estate developer (entity) recognises revenue over time or at a point in time.

Identifying performance obligations in the contract

Applying paragraphs 22–30, an entity identifies as a performance obligation each promise to transfer to the customer a good or service (or a bundle of goods or services) that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Paragraph 27 specifies that a good or service promised to a customer is distinct if:

a. the customer can benefit from the good or service on its own or together with other resources readily available to the customer (ie the good or service is capable of being distinct); and
b. the entity's promise to transfer the good or service is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).

The assessment of the criteria in paragraph 27 requires judgement [paragraph BC105].

Paragraph BC100 notes that an entity assesses the criterion in paragraph 27(a) based on the characteristics of the goods or services themselves. Accordingly, an entity disregards any contractual limitations that might preclude the customer from obtaining readily available resources from a source other than the entity.

Paragraph 29 explains that the objective underlying the criterion in paragraph 27(b) is to determine whether the nature of the promise, within the context of the contract, is to transfer each of the promised goods or services individually or, instead, to transfer a combined item to which those goods or services are inputs. Paragraph 29 also specifies some factors that indicate that two or more promises to transfer goods or services are not separately identifiable.

Paragraphs BC105, BC116J and BC116K note that the notion of 'separately identifiable' in paragraph 27(b) is influenced by the notion of separable risks (ie whether the risk an entity assumes to fulfil its obligation to transfer one of those promised goods or services to the customer is a risk that is inseparable from the risk relating to the transfer of the other promised goods or services). The evaluation of whether an entity's promise is separately identifiable considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. Therefore, an entity considers the level of integration, interrelation or interdependence among the promises to transfer goods or services. Rather than considering whether one item, by its nature, depends on the other (ie whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract.

A real estate contract for the transfer of land and a building

The following paragraphs outline factors an entity considers in assessing whether, for a contract that involves the transfer of land and a building that the entity constructs on the land, the promise to transfer land is a separate performance obligation. The land represents all of the area on which the building will be constructed and the contract is for the entire building. Those paragraphs do not consider whether the entity identifies one or more performance obligations in relation to the transfer of the building.

When assessing the criterion in paragraph 27(a), the entity assesses whether the customer could benefit from the land on its own or together with other resources readily available to it. For example, could the customer hire another developer to construct a building on the land? Similarly, the entity assesses whether the customer could benefit from the construction of the building on its own or together with other resources readily available to it. For example, could the customer obtain the construction services from the entity or another developer without any transfer of land? In a contract for the transfer of an area of land and of an entire building to be constructed on the land, the Committee concluded that the land and the building are each capable of being distinct.

The entity then assesses the criterion in paragraph 27(b) and its underlying objective explained in paragraph 29 (ie determining whether the nature of the promise, within the context of the contract, is to transfer the land and the building individually or, instead, to transfer a combined item to which the land and building are inputs). In assessing the criterion in paragraph 27(b), the Committee observed that the entity considers, among other factors, the following:

a. whether the entity provides a significant service of integrating the land and the building into a combined output as described in paragraph 29(a)—for example, is there a transformative relationship between the transfer of the land and the construction of the building in the process of fulfilling the contract [paragraph BC116K]? Would the entity's performance in constructing the building be any different if it did not also transfer the land and vice versa? There is a functional relationship between the land and the building [paragraph BC116K]—the building cannot exist without the land; its foundations will be built into the land. However, this does not necessarily mean that the risks the entity assumes in transferring the land to the customer are inseparable from the risks it assumes in constructing the building [paragraph BC116K].
b. whether the land and the building are highly interdependent or highly interrelated as described in paragraph 29(c)—for example, would the entity be able to fulfil its promise to transfer the land even if it did not construct the building, and would it be able to fulfil its promise to construct the building even if it did not transfer the land? [Paragraphs IE51, IE58I and IE61A]

The Committee concluded that the promise to transfer the land would be separately identifiable from the promise to construct the building on that land if the entity concluded that (a) its performance in constructing the building would be the same regardless of whether it also transferred the land; and (b) it would be able to fulfil its promise to construct the building even if it did not also transfer the land, and would be able to fulfil its promise to transfer the land even if it did not also construct the building [application of paragraph 29(c)].

In assessing the criterion in paragraph 27(b), paragraph BC116N notes that the factors in paragraph 29 are not intended to be criteria that an entity evaluates independently of the 'separately identifiable' principle in paragraph 27(b). In some instances, one or more of the factors may be less relevant to the evaluation of that principle.

Applying paragraph 35 of IFRS 15

Paragraph 35 specifies that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if any one (or more) of the three criteria in paragraph 35 is met. Paragraph 32 states that if an entity does not satisfy a performance obligation over time, it satisfies the performance obligation at a point in time. Accordingly, the Committee observed that, at contract inception for each performance obligation, an entity applies the criteria in paragraph 35 to determine whether it recognises revenue over time.

The Committee has included explanatory information about the application of paragraph 35 to real estate contracts in its agenda decision '*Revenue recognition in a real estate contract*' published in March 2018.

Application of paragraph 35 to the fact pattern in the request

The assessment of whether to recognise revenue over time or at a point in time requires an assessment of the particular facts and circumstances of the contract, taking into account the legal environment within which the contract is enforceable. Accordingly, the outcome of an entity's assessment depends on those particular facts and circumstances.

In the fact pattern described in the request, the contract includes the following features:

a. *the entity and the customer enter into a non-cancellable contract for the sale of a building yet to be constructed by the entity that will comprise residential units. The contract is for the sale of the entire building.*
b. *at contract inception, the entity irrevocably transfers to the customer legal title to the land on which the entity will construct the building. The contract specifies a price for the land, which the customer pays on signing the contract.*
c. *the entity and the customer agree upon the structural design and specification of the building before the contract is signed. As the building is being constructed:*
    i. *if the customer requests changes to the structural design or specification, the entity prices the proposed changes based on a methodology specified in the contract; the customer then decides whether to proceed with the changes. The entity can reject the customer's request for changes for only a limited number of reasons, such as if the change would breach planning permission.*
    ii. *the entity can request changes to the structural design or specification only if not doing so would lead to an unreasonable increase in costs or delay to construction. The customer must approve those changes.*
d. *the customer is required to make milestone payments throughout the construction period. However, these payments do not necessarily correspond to the amount of work completed to date.*

It is assumed that (i) all the criteria in paragraph 9 are met and (ii) the entity identifies two performance obligations applying paragraphs 22–30—a promise to transfer the land to the customer and a promise to construct the building on that land.

Application of paragraph 35 to the promise to transfer land

The entity's performance transfers the land to the customer. The land is not consumed immediately and, thus, the criterion in paragraph 35(a) is not met. Nor does the entity's performance create or enhance the land and, thus, the criteria in paragraphs 35(b) and 35(c) are not met.

Consequently, the entity recognises revenue for the transfer of the land to the customer at a point in time applying paragraph 38 of IFRS 15.

Application of paragraph 35 to the promise to construct the building

The criterion in paragraph 35(a) is not met because the entity's performance creates an asset that is not consumed immediately.

Paragraph 35(b)

In assessing the criterion in paragraph 35(b), the entity assesses whether, as the building is being constructed, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the part-constructed building [paragraph 32].

The customer controls the part-constructed building as it is being constructed because the customer has the following:

a. the ability to direct the use of the building as it is being constructed. The customer has this ability through its control of the land, and by being able to change the structural design and specification of the building as it is being constructed. The contract also enables the customer to prevent the entity or others from directing the use of the building [paragraph 33].
b. the ability to obtain substantially all of the remaining economic benefits from the building [paragraph 33]. The entity cannot redirect the building for another use or to another entity [paragraph B6]. Accordingly, on signing the contract, the customer has the ability to obtain substantially all of the remaining benefits from the building. The contract also enables the customer to prevent the entity or others from obtaining the benefits from the building [paragraph 33].

Accordingly, the criterion in paragraph 35(b) is met. The Board observed in paragraph BC129 that 'in the case of a construction contract in which the entity is building on the customer's land, the customer generally controls any work in progress arising from the entity's performance'.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to recognise revenue in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Appendix B—Excerpt from Board's December 2018 paper

B1. For ease of reference, this Appendix reproduces paragraphs 14–20 of Agenda Paper 12B of the Board's December 2018 meeting. These paragraphs summarise the feedback received by the Board on the status and role of Agenda Decisions.

Feedback on the status of Agenda Decisions

14. The status of Agenda Decisions was not the subject of the Exposure Draft. Accordingly, most respondents to the Exposure Draft did not comment on their status. However, some respondents said the proposed amendments raise questions about the status of Agenda Decisions and their role in the application of IFRS Standards. These respondents suggested reconsidering the status of, and due process requirements for, Agenda Decisions. Some said the challenges the Board were trying to address in the Exposure Draft arise from the status of Agenda Decisions, and not from the requirements in IAS 8.

Same status as IFRS Standards or undertake standard-setting

15. Some respondents suggested that, when questions are submitted to the Committee, either (a) the Board should undertake standard-setting to clarify the matters raised, or (b) Agenda Decisions published should have the same (mandatory) status as IFRS Standards. For example, one respondent said:

> …If the IFRS Interpretations Committee observes in its work that mandatory guidance lead to inconsistent application or inappropriate accounting, the IASB should fix this unclear guidance through proper standard-setting procedure and transitional guidance... [Accounting Standards Committee of Germany [CL21]]

16. Similarly, another respondent[9] suggested that the Board should (a) undertake standard-setting (either amend the Standards through the annual improvements process or issue an IFRIC Interpretation) for any Agenda Decision that might lead to a

[9] Hong Kong Institute of Certified Public Accountants [CL100].

significant and pervasive change in practice, and (b) incorporate other Agenda Decisions into educational materials.

17. Another respondent said:

> We believe the status of Agenda Decisions and the practical issues of their application will continue to be problematic until this fundamental conflict is resolved and, as such, recommend that the IFRS Foundation amend the Due Process Handbook, the definition of 'IFRSs' in paragraph 5 of IAS 8 and the process required for the finalisation of an Agenda Decision to grant them the authoritative status they already enjoy in practice…[Deloitte [CL85]]

18. One respondent[10] suggested either (a) giving Agenda Decisions the same status as IFRS Standards, or (b) clarifying that application of the explanatory material is 'completely optional'.

Due process for Agenda Decisions

19. Some respondents who did not suggest changing the status of Agenda Decisions suggested revisiting the due process requirements for Agenda Decisions—particularly if entities are expected to change their accounting policies to reflect explanatory material. Those respondents suggested:

(a) that Agenda Decisions follow the same due process as IFRS Standards. A few respondents said the existing 60-day comment period is not enough[11].

(b) recognising the 'quasi-authoritative' status of Agenda Decisions by making changes to the [Due Process] Handbook, such as (i) introducing a higher threshold for the Committee to approve an Agenda Decision (for example, requiring a super-majority for approval); or (ii) requiring the Board to ratify or approve Agenda Decisions on a 'do not object' basis. [12]

(c) distinguishing between different types of Agenda Decisions (for example, those that provide explanatory material and those that do not), or providing a

[10] Accounting Standards Board of Japan [CL82].

[11] For example, The Swedish Financial Reporting Board [CL87].

[12] For example, BDO [CL99].

diagram that sets out where Agenda Decisions fit with IFRS Standards and other material (webcasts, etc) published by the IFRS Foundation. This diagram could then be used to determine the appropriate level of due process for Agenda Decisions and other materials.[13]

(d) amending the [Due Process] Handbook to address the timing of application. Paragraphs 53–54 of this paper discuss the comments raised in this respect.

Other comments

20. A few respondents said the Committee should not publish Agenda Decisions that prescribe an accounting treatment or are like an IFRIC Interpretation. This is because Agenda Decisions are not subject to the same due process as changes to IFRS Standards.[14] Another respondent said Agenda Decisions should be used only to confirm the correct application of existing requirements in the Standards.[15]

…

Amend due process

53. A few respondents suggested amending the due process requirements for Agenda Decisions. One respondent suggested allowing more time for entities to prepare for the application of Agenda Decisions. This could be done by considering the timing of finalising Agenda Decisions—for example, if the Board were to ratify Agenda Decisions, such ratification could be carried out at its first meeting in each calendar quarter. This would allow entities some time to apply any resulting change.[16] Similarly, another respondent suggested the introduction of an official publication date for Agenda Decisions (for example, three or six months after the Committee completes its discussion on a particular matter).

54. A few respondents suggested providing guidance on the effective date and transition in the Handbook, or alternatively amending the Handbook to allow the Committee to specify an effective date and transition in each Agenda Decision.[17]

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[13] Autorite des Normes Comptables (French national standard-setter) [CL40].

[14] For example, the European Financial Reporting Advisory Group [CL104].

[15] Financial Reporting Council, UK [CL39].

[16] For example, BDO [CL99].

[17] For example, the Israel Accounting Standards Board [CL56].