With you today are...

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IASB Board member

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IASB Board member

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IASB technical staff
We are here for...

**Purpose of webinar**

- Stimulate academic research to support the Post-implementation Review (PIR) of IFRS 15

**Status of PIR**

- Start date to be discussed in second half of 2021
- Allowing time for trend information, academic research, etc to become available
Objectives of a Post-implementation Review
Potential research opportunities
- Expectations in issuing IFRS 15
- Some key topics
- Identifying improvements to standard-setting process
Questions
Objectives of a Post-implementation Review

1. Assess whether Standard has improved financial reporting (without disproportionate cost)
   - Is the Standard working as intended?
   - Are there any significant unexpected effects?
   - Are the requirements capable of being applied consistently?

2. Identify any lessons to improve the standard-setting process
   - For example, are there any learnings for when Board develops disclosure or transition requirements?

⚠️ Not a redeliberation of the Standard—consider new information from its use
Potential research opportunities
Approach to research

Research helpful if it provides evidence to assess whether outcomes in line with expectations

IFRS 15 affected some sectors more than others (see Appendix)

Review of
- Financial statements
- Investor and analyst reports
- Publications of accounting firms
- Academic literature

Interview of
- Preparers and practitioners
- Investors and analysts
Expectations in issuing IFRS 15
IFRS 15 at a glance

- Issued in 2014
- Developed jointly with FASB
- Targeted clarifications issued in 2016
- Effective for annual reporting periods from 1 January 2018
- Replaced IAS 18 and IAS 11 (plus IFRICs 13, 15 & 18, SIC 31)
- Applies to all contracts with customers (with exceptions such as leases)
What did Board set out to achieve (1/2)

What was the problem?
- Limited recognition, measurement and presentation requirements together with limited disclosure requirements often resulted in inadequate information.

What objective did Board set?
- Improve quality of information provided about an entity’s contracts with customers.

How IFRS 15 helps achieve objective?
- 5-step framework leads to more faithful reflection of contracts and risks.
- Disclosure requirements focus on providing better insights into how an entity earns and reports revenue, and key judgements and estimates involved.
What did Board set out to achieve (2/2)

What was the problem?

- Lack of robust objectives in IAS 11 and IAS 18 for recognising revenue together with limited guidance resulted in significant diversity

What objective did Board set?

- Improve comparability of revenue across entities, sectors and jurisdictions

How IFRS 15 helps achieve objective?

- A single, comprehensive, robust, 5-step framework applying to all contracts with customers for goods or services
- Substantially converged IFRS and US GAAP revenue standards
The five steps to apply IFRS 15

1. Identify the contract(s) with a customer
2. Identify performance obligations (POs) in the contract
3. Determine the transaction price
4. Allocate the transaction price to the POs
5. Recognise revenue when (or as) the entity satisfies a PO

Core principle
Recognise revenue to depict transfer of goods or services in an amount of consideration to which an entity expects to be entitled

A more robust framework for addressing revenue recognition questions
What were Board’s expectations about costs

<table>
<thead>
<tr>
<th>To users of financial statements</th>
<th>Non-recurring</th>
<th>Recurring</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Costs to familiarise with the new Standard</td>
<td>• Savings in costs of collecting information because of improved disclosures</td>
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<td></td>
<td>• Costs to modify processes and analyses</td>
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<table>
<thead>
<tr>
<th>To entities</th>
<th>• Costs to implement changes to systems, processes &amp; controls</th>
<th>• Costs to maintain improved systems</th>
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<tr>
<td></td>
<td>• Costs of personnel</td>
<td>• Increased audit costs and personnel costs</td>
</tr>
<tr>
<td></td>
<td>• Costs of educating internal and external stakeholders</td>
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</table>

Non-recurring: Costs to familiarise with the new Standard and to modify processes and analyses.

Recurring: Savings in costs of collecting information due to improved disclosures, costs to maintain improved systems, increased audit costs and personnel costs.
Potential research opportunities

We are looking for evidence to help us assess in the PIR…

**Improved information**

- Is the 5-step framework helping entities make judgements and reach conclusions compared with previous Standards?
- Is information provided by IFRS 15 providing more insights into the business model and the link between goods or services and the reported revenue from a contract?

**Improved comparability**

- Are goods or services with similar characteristics accounted for in a comparable way across entities, sectors and jurisdictions compared with previous Standards?

**Unexpected effects**

- Did any sectors not expected to be affected report significant financial effects?
- Did any sectors expected to be affected report no significant financial effects?
Some key topics
Some key topics

- **Step 2**
  - Identify performance obligation
  - Principal versus agent

- **Step 3**
  - Determine transaction price
  - Variable consideration | Significant financing component

- **Step 5**
  - Satisfying performance obligation
  - Over time or point in time | At what point in time | Measuring progress

- Disclosure
Principal versus agent (1/3)

Identified problem

- Lack of clear principle for an entity to conclude whether to report full revenue from sale of goods or services or just agency fees
- Difficult and sensitive judgements with significant effect on revenue

What did Board set out to achieve

- To provide a clear principle to help entities make judgements
- To align the nature of the performance obligation and the amount of revenue recognised
Principal versus agent (2/3)

Requirements of IFRS 15

- Identify specified good or service to be provided to a customer
- Assess whether entity controls specified good/service before it is transferred to customer

Who are you?
I am a ‘principal’. I control the good or service before the customer gets it. My performance obligation is to provide the good or service...

Who are you?
I am an ‘agent’. I don’t control the good or service before the customer gets it. My performance obligation is to arrange for the good or service to be provided...
Do the new requirements support making better and more consistent judgements by each of entities, auditors and regulators?

- How pervasive is principal versus agent assessment as a significant revenue recognition issue?
- Is the application of the requirements producing information that aligns with how entities describe their contracts and businesses, and vice versa?
Variable consideration (1/3)

**Identified problem**
- Lack of clear requirements for recognising and measuring variable consideration
- Issues because of overstating or prematurely recognising revenue

**What did Board set out to achieve**
- To bring about greater degree of consistency in accounting for variable consideration
- To provide a measure of revenue that is less likely to be subsequently reversed
- To enable users to better predict future revenues
Variable consideration (2/3)

Requirements of IFRS 15

Estimate transaction price

- expected value or
- most likely amount
- update each period

But apply constraint

- highly probable no significant revenue reversal
- 5 indicators

Variable consideration must be assessed—no default to nil
Variable consideration (3/3)

Potential research opportunities

• Are the requirements producing information that users find useful?
  – How consistent is the application of requirements across time, entities and sectors?
  – What kind of insights are being provided in investor and analyst reports on variable consideration?
  – How costly was it for entities to apply the requirements?
Significant financing component (1/3)

**Identified problem**
- Implicit financing in contracts with customers not separated, more so for advance payments by customers
- Not a faithful representation if revenue includes a financing component

**What did Board set out to achieve**
- To provide a measure of revenue that reflects the ‘cash selling price’ of good or service at the time of transfer by separating any significant benefit of financing
Significant financing component (2/3)

Requirements of IFRS 15

- **Cash**
  - More than 12 months
  - Customer pays in advance
  - Entity receives significant benefit of financing
  - Entity satisfies PO
  - Finance expense

- **Revenue**
  - More than 12 months
  - Entity satisfies PO
  - Customer receives significant benefit of financing
  - Finance income

- **Advance**
- **Transfer of g/s**
- **Arrears**
  - Customer pays in arrears

Separating the effects of significant financing received by customer or entity
Significant financing component (3/3)

Potential research opportunities

- Are the requirements producing information that users find useful?
  - How pervasive are significant financing components in contracts with customers?
Satisfying performance obligations (1/3)

Identified problem

- Different requirements for revenue from sale of goods and revenue from services
- Subjectivity in assessing transfer of substantial risks and rewards of ownership of a good
- Measures of progress for service contracts sometimes selected to smooth margin

What did Board set out to achieve

- To develop a cohesive set of requirements for recognising revenue for all contracts
- To align revenue recognised with what a customer receives
A performance obligation is satisfied by transferring good or service (when the customer obtains control of the good or service)

Is PO satisfied over time? (ie does it meet any 1 of ¶35 criteria)

- Yes: Revenue over time
  - Select single measure of progress to depict performance of that PO

- No: Revenue point in time
  - Apply definition of control—direct the use & obtain the benefits

PO satisfied at a point in time

Can result in change in timing of revenue compared to IAS 11 & 18
Satisfying performance obligations (3/3)

Potential research opportunities

• Have revenue recognition practices become comparable across entities, sectors and jurisdictions, and better reflect the transfer of goods or services?
  – To what extent has the introduction of ‘transfer of control’ as the principle for determining satisfaction of a PO changed the timing of revenue recognition?
  – To what extent has there been a change from over-time to point-in-time recognition of revenue (and vice versa) and why?
  – For over-time revenue recognition, to what extent have measures of progress used by entities changed and why?
Disclosure (1/3)

**Identified problem**
- Limited disclosure requirements in IAS 11 & 18
- Users’ dependence on voluntary disclosure by entities

**What did Board set out to achieve**
- To enhance information for users to enable them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers
## Requirements of IFRS 15

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Contracts</th>
<th>Significant judgments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaggregation of revenue</td>
<td>Information about contract balances and changes</td>
<td>Timing of and methods for recognising revenue</td>
</tr>
<tr>
<td>Amounts recognised relating to performance in previous periods</td>
<td>Information about performance obligations</td>
<td>Determining the transaction price and amounts allocated to performance obligations</td>
</tr>
</tbody>
</table>
Disclosure (3/3)

Potential research opportunities

• Are users able to better understand contracts and how amounts of revenue and contract balances relate to those contracts?
  – How do sectors and countries compare in their application of the disclosure requirements?
  – Are entities providing a level of disaggregation/information that depicts how prospects for revenue and cash flows are affected by economic factors?
  – Are entities providing disclosures about judgements that explain the significant judgements affecting the determination of revenue?
Identifying improvements to standard-setting process
Potential research opportunities

- We are looking for information that helps us improve process and product

- Transition—what drove the choice of transition method (e.g., user need and the extent of change; implementation costs; sector)? To what extent were user needs given priority?

- To what extent did entities provide information about the initial effects of applying IFRS 15 in or to accompany the interim financial statements in which IFRS 15 was first applied?

- Were the implementation costs of IFRS 15 as expected?
Questions?
Appendix
## Expected main effects on revenue recognition

<table>
<thead>
<tr>
<th>Sector</th>
<th>Main effects</th>
</tr>
</thead>
</table>
| Aerospace and defence, Construction, Services | • Revenue may still be over time but pattern of revenue (measures of progress) may change  
• More discipline in using costs incurred as a measure of progress  
• Initial costs capitalised if resources created for use in fulfilling a contract, not to normalise margins |
| Asset managers                              | • Contingent fee, eg a fee calculated with reference to an index, is recognised only if highly probable that it will not be reversed |
| Life sciences and Media                     | • Revenue recognised on transfer of licence if the licence is a right to use IP  
• Sales-based royalties recognised as sales occur |
## Expected main effects on revenue recognition (continued)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Main effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>• Revenue recognised point in time rather than over construction period in many residential blocks of apartments</td>
</tr>
<tr>
<td>Software</td>
<td>• No need to establish vendor-specific objective evidence of fair value of a good or service</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>• Revenue recognised for ‘free’ handset</td>
</tr>
<tr>
<td>Retail</td>
<td>• More components of the transaction treated as revenue generating (e.g., more sales incentives and incidental obligations identified as performance obligations)</td>
</tr>
</tbody>
</table>
Relevant materials


- Educational materials
- Webcasts (e.g. IFRS 15 for Investors (February 2019))
- IFRS Interpretations Committee agenda decisions
- Summaries of issues discussed at the IASB and FASB joint Transition Resource Group meeting
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