

Assessment of promised goods or services (IFRS 15 *Revenue from Contracts with Customers*)— January 2019

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

- a. a good or service (or a bundle of goods or services) that is distinct; or
- b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In paragraph BC87 of IFRS 15, the Board noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract. Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, such as:

- *performing due diligence for new applications;*
- *reviewing the customer's listing application (including assessing whether to accept the application);*
- *issuing reference numbers and tickers for the new security;*
- *processing the listing and admission to the market;*
- *publishing the security on the order book; and*
- *issuing the dealing notice on the admission date.*

The Committee observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted—ie the service of being

listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer.

The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee decided not to add this matter to its standard-setting agenda.