



Project:	Clarifications to AASB 15	Meeting	AASB April 2016 (M151)
		Date	4 April 2016
Topic:	Consider how to finalise ED 267	Agenda Item:	8.1
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		Decision-Making:	High
		Project Status:	Issuance of Standard

Introduction and objective of this paper

- 1 The objective of this paper is to seek the Board's decision as to how to finalise the Board's proposals exposed in ED 267 *Clarifications to AASB 15*.
- 2 ED 267 incorporates IASB ED/2015/6 *Clarifications to IFRS 15*, which proposed to clarify the guidance in IFRS 15 in respect of issues arising from the discussions of the Transition Resource Group for Revenue Recognition (TRG). The proposals in IASB ED/2015/6 are about to be finalised in IFRS *Clarifications to IFRS 15 Revenue from Contracts with Customers*, expected to be issued by the IASB on 12 April 2016. The amendments are expected to apply to annual periods beginning on or after 1 January 2018.
- 3 In its redeliberation and project finalisation, the IASB is expected to clarify further some of the ED's proposals, as outlined below:
 - (a) The ED proposed to amend illustrative examples accompanying IFRS 15 to clarify the application of the concept 'distinct' in identifying performance obligations. In its redeliberation, in addition to confirming these amendments, the IASB indicated its intention to amend IFRS 15 to clarify the factors indicating when two or more promises to transfer goods or services are not separately identifiable.
 - (b) In addition to the ED's proposed amendments to the guidance in IFRS 15 on principal versus agent considerations, the IASB intends to remove 'exposure to credit risk' as an indicator that an entity is a principal.
 - (c) In the ED's proposals, the IASB proposed two practical expedients to use hindsight in specified situations and permitting an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts at the beginning of the earliest period presented. In its redeliberation, the IASB confirmed the proposals in the ED and expressed its intention to

permit an entity using the modified retrospective transition method and electing to apply the contract modifications practical expedient, to apply that expedient either: (a) at the beginning of the earliest period presented in the financial statements in which IFRS 15 is first applied; or (b) at the date of initial application of IFRS 15.

- (d) In the ED's proposals, the IASB decided not to amend the definition of a completed contract. The IASB confirmed its previous decision but intends to permit an entity using the modified retrospective transition method to apply IFRS 15 either to all contracts or to contracts that are not completed at the date of initial application.

Link to IASB project summary

- 4 The IASB project summary below includes links to the IASB ED, board papers, comment letters received, and board decisions from the IASB:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Clarifications-IFRS-15-Issues-from-TRG-discussions/Pages/default.aspx>

ED 267 comment letters received and AASB submission to ED/2015/6

- 5 The AASB received five comment letters¹ to ED 267.² Four of the five comment letters received expressed general support for the proposals. One comment letter expressed strong reservations about the proposals on the basis that the changes proposed are not substantive in nature.
- 6 While there was general support for the proposals, there was some feedback suggesting ways to improve the proposals from Australian constituents. The changes identified in paragraph 3 are consistent with those suggestions. Other concerns are expected to be addressed by the IASB Basis for Conclusions accompanying the IFRS.
- 7 The AASB submission³ itself considered that amending standards prior to their effective date was not an ideal approach to setting standards, and should be avoided unless there are exceptional circumstances, notably fatal flaw issues rather than clarifications. However, the AASB submission noted that feedback from Australian constituents had indicated that the proposed amendments would help reduce diversity in practice that may arise on the adoption of IFRS 15.

Staff views

- 8 Acknowledging the AASB submission and feedback received from Australian constituents, staff recommend the Board finalise the project by making an amending standard incorporating the forthcoming IFRS *Clarifications to IFRS 15 Revenue from Contracts with Customers*, out-of-session, after the IFRS is issued, which we expect to be issued on 12 April 2016 and our Office of Best Practice Regulation process is completed.

1 The comment letters are available on the AASB's website at <http://www.aasb.gov.au/Work-In-Progress/Pending.aspx?id=1893>

2 Comment letters were received from CPA Australia, Deloitte, Ernst & Young, Institute of Public Accountants, and PwC.

3 http://www.aasb.gov.au/admin/file/content106/c2/AASB_Letter_IASB_ED_2015_6_Clarifications_to_IFRS_15_29_10_15.pdf

- 9 The ED 267 proposals did not affect the disclosures required by IFRS 15 and staff expect the same of the final IFRS. Consequently, staff do not expect the amendments to have any implications for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2).

Questions for Board members

- Q1 Do any Board members intend to dissent from the making of an Amending Standard incorporating the forthcoming IFRS *Clarifications to IFRS 15 Revenue from Contracts with Customers*?
- Q2 Do Board members agree with the staff recommendation to finalise an Amending Standard out-of-session?