

AASB staff notes from targeted outreach

Implications of applying IFRS 15 *Revenue from Contracts with Customers*

Introduction

- 1 AASB staff conducted a targeted outreach to discuss the staff analysis and recommendation in Agenda Paper 8.3¹ in relation to the implications of applying, by analogy, the licences application guidance of IFRS 15 *Revenue from Contracts with Customers* to account for a government granting an operator in a service concession arrangement a licence for the 'right to charge users' in exchange for a service concession asset and related public services.
- 2 AASB staff reached out to people in government departments, large accounting firms and academia.

High-level summary of findings from targeted outreach

- 3 All respondents to the targeted outreach agree with the staff preliminary views of all five fact patterns, that is, revenue recognition at a point in time or over time depends on facts and circumstances as explained in the staff analysis.
- 4 These respondents also agreed that:
 - (a) significant use of judgement will be required to apply the IFRS 15 licences application guidance to service concession arrangements involving licences;
 - (b) there is potential for diverse outcomes as a result of applying IFRS 15's licences application guidance. Some respondents are also concerned that some arrangements with similar facts and circumstances may be accounted for differently because of the level of subjectivity in the application of the guidance.
- 5 In addition, most of these respondents are concerned about potentially having to recognise revenue at a point in time (that is, when control of the licence has been transferred to the operator) as they are concerned that this outcome may result in structuring of arrangements. These respondents also commented that recognising revenue at a point in time may not be an appropriate representation of the economics of the transaction, and accordingly, they are concerned about user understandability.
- 6 The respondents expressed diverse views in relation to the staff recommendation in Agenda Paper 8.3 (paragraph 18):
 - (a) one respondent supports the principles underpinning the revenue recognition criteria of IFRS 15 despite having similar concerns regarding the significant use of judgement and the potential for diverse outcomes (as expressed in paragraph 4 above), and potentially having to recognise revenue at a point in time. Accordingly, this respondent would prefer to apply the principles

1 [Agenda paper 8.3 of the AASB July 2014 meeting.](#)

underpinning IFRS 15 to service concession arrangements on the basis of having transaction-neutral standards.

- (b) two respondents consider that if the Board were to develop a different set of accounting criteria for recognising revenue from licences, similar challenges or application issues would transpire due to the complexity of service concession arrangements;
- (c) three respondents support the staff recommendation not to apply IFRS 15's licences application guidance by analogy on the basis of significant judgement and diversity of outcomes; and
- (d) one respondent considers the revenue recognition requirements of IPSAS 32 *Service Concession Arrangements: Grantor* (that is, not to recognise revenue immediately and instead, to recognise a liability initially for the portion of revenue that is not yet earned) to be more sensible as compared to the criteria for revenue recognition in the licence guidance of IFRS 15.