

Staff Issues Paper

IASB Exposure Draft on Effective Date of IFRS 15

Purpose

- 1 The purpose of this paper is to:
 - (a) outline the implications of the International Accounting Standards Board's (IASB) Exposure Draft ED/2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)*¹. The IASB Exposure Draft proposes the amendments to the effective date of IFRS 15 *Revenue from Contracts with Customers*;
 - (b) form tentative views on the IASB proposals in ED/2015/2;
 - (c) decide key comments to be raised in the AASB comment letter to the IASB (subject to feedback received from constituents); and
 - (d) decide on the process for finalising the AASB's comment letter.

Background

- 2 In May 2015, the IASB issued ED/2015/2 proposing entities apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. The AASB issued ED 263 *Effective Date of AASB 15 Revenue from Contracts with Customers (Proposed amendments to AASB 15)* (refer to Agenda Paper 13.8) with comments due by 19 June 2015.
- 3 Earlier application of IFRS 15 would continue to be permitted. Entities can also continue to choose between applying the Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application.
- 4 The IASB also plans to propose targeted amendments to IFRS 15 to clarify aspects of the requirements in the Standard. Those proposed amendments will be included in a further Exposure Draft to be published later in 2015. The amendments include clarifying the guidance on licences and adding examples to illustrate the guidance on identifying performance obligations.

Interaction with other domestic AASB projects

- 5 The deferral of the application date for AASB 15 would impact current AASB projects of ED 260 *Income of Not-for-Profit Entities*² and potentially on ED 261 *Service Concession Arrangements: Grantor*³.
- 6 Part A of ED 260 proposes to add implementation guidance to AASB 15 for application by Australian not-for-profit entities in the private and public sectors.

¹ http://www.ifrs.org/Current-Projects/IASB-Projects/Revenue-Recognition/Documents/IFRS-15/ED_Proposed-Amendments-to-IFRS%2015.pdf

² http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf

³ http://www.aasb.gov.au/admin/file/content105/c9/ACCED261_05-15.pdf

Part B of ED 260 proposes to establish the principles that a not-for-profit entity shall apply in relation to the nature and amount of assets, liabilities, income and cash flows arising from inflows (or net inflows) of resources from donations, grants, taxes and similar transactions and other similar events. ED 260 is based on the principles of AASB 15. Accordingly, a deferral of the application date for AASB 15 would also likely require the deferral of the proposed application date of ED 260.

- 7 Further, ED 261 proposes that a grantor of a service concession arrangement account for certain revenues from the arrangement in accordance with AASB 10XX *Income of Not-for-Profit Entities*. While ED 261 refers to the application of AASB 10XX, the application of the requirements of ED 261 is not necessarily dependent on the application date of AASB 15. Accordingly, a deferral of the application date for AASB 15 may not necessarily require the deferral of the proposed application date of ED 261.

Preliminary staff views on the proposals

ED/2015/2 Question – Deferral of effective date of IFRS 15

The IASB proposes to amend IFRS 15 so that entities would be required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Earlier application would continue to be permitted. Do you agree? Why or why not?

- 8 AASB staff disagree with the IASB's proposal to defer the effective date of IFRS 15 by one year to 1 January 2018. The IASB established the effective date for IFRS 15 after careful consideration and consultation with its constituents as part of its due process. In particular, the IASB acknowledged that "the period of time from which IFRS 15 is issued until its effective date is longer than usual. However, in this case ... a delayed effective date is appropriate because of the unique attribute of IFRS 15, including the wide range of entities that will be affected and the potentially significant effect that a change in revenue recognition has on other financial statement line items" (IFRS 15, paragraph BC450).
- 9 AASB staff are particularly concerned that amending the effective date after the Standard is issued sets a precedent that could result in constituents seeking amendments to the effective date of other Standards that may be considered difficult to implement (for example, leases).
- 10 AASB staff also strongly disagree with the IASB's rationale to defer the effective date of IFRS 15, as follows:
- (a) *the deferral of the effective date would permit entities to apply the proposed targeted amendments to IFRS 15 (refer to paragraph 4 above) at the same time as applying the existing IFRS 15 requirements.*

The targeted amendments relate to three issues: clarifying guidance on licences; adding examples illustrating the guidance on identifying performance obligations; and clarifying guidance on principal versus agent consideration. Staff are of the view that the existence of proposed amendments that *clarify* but do not *change* the requirements of a Standard is not a sufficient basis for a deferral of an effective date. In particular, when the effective date of a Standard

is already longer than the usual 18 month period from the date of the issue. The current effective date for periods beginning on or after 1 January 2017 would mean that most Australian entities will apply AASB 15 four years after the issue of the Standard. A one-year deferral of the effective date will mean the application of AASB 15 five years after the Standard is issued. AASB staff are concerned that this will perpetuate the trend for longer lead times for applying new Standards.

Additionally, staff are unclear as to why the amendments to IFRS 15 cannot be implemented at the current effective date.

- (b) *IFRS 15 was issued later than the IASB had anticipated, thereby reducing the entities' implementation time.*

AASB staff are of the view that this is not a valid reason for deferring the effective date as the IASB acknowledged that it had considered the implementation time frame prior to setting the effective date.

- (c) *it is beneficial to align the effective date of IFRS 15 with the Financial Accounting Standards Board (FASB) Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). Topic 606 and IFRS 15 contain substantially the same requirements.*

Staff are of the view that convergence with FASB on effective date is not a priority, particularly as the effective date of Topic 606, 15 December 2017, is already different to that of IFRS 15.

- 11 Staff are, therefore, of the view that the IASB rationale provided are not sufficiently exceptional for the deferral of the effective date.

Questions to Board Members:

- Q1 Do Board members agree with the comments/concerns noted in paragraphs 8-11 above?
- Q2 Are there any further issues that Board members would like raised in the submission?

AASB Submission

- 12 The IASB is seeking comments on ED/2015/2 by 3 July 2015. Staff are also intending to undertake a targeted outreach to its constituents to seek their views on the issue.
- 13 The finalisation of the AASB submission will be before the next Board meeting in July 2015. Staff propose that the submission is reviewed and finalised through a Board subcommittee (to be established at the May 2015 Board meeting).

Question to Board Members:

- Q3 Does the Board wish to finalise the submission via a Board subcommittee?
- Q4 If so which Board Members would like to be on the Board subcommittee for the submission?