

AASB Exposure Draft

ED 263
May 2015

Effective Date of AASB 15 *Revenue from Contracts with Customers*

Proposed amendments to AASB 15

Comments to the AASB by 19 June 2015



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 19 June 2015. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 3 July 2015. Comments should be addressed to:

The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Submissions are to be lodged with the AASB via the 'Submit comments to AASB' button for the proposal document on the 'Work in progress – open for comment' page of the AASB website (www.aasb.gov.au). Please lodge your submission as a PDF document. The AASB prefers that a Word document also be lodged, for internal use only.

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

Enquiries

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AASB REQUEST FOR COMMENTS

Deferral of Effective Date of IFRS 15

The International Accounting Standards Board (IASB) has proposed amendments to IFRS 15 *Revenue from Contracts with Customers* of changing the effective date of IFRS 15. Entities would be required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018 instead of applying IFRS 15 for annual reporting periods beginning on or after 1 January 2017. 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.

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.

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

- (a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and
- (b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Relationship to Other AASB Projects

Part A of ED 260 *Income of Not-for-Profit Entities* proposes to add implementation guidance to AASB 15 *Revenue from Contracts with Customers* for application by Australian not-for-profit entities in the private and public sectors. 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. The proposals in ED 260 interact with the requirements of AASB 15. ED 260 is based on the principles of AASB 15. Accordingly, a deferral of the application date for AASB 15 would also likely require deferral of the proposed application date of ED 260.

Further, ED 261 *Service Concession Arrangements: Grantor* 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 in ED 261 is not necessarily dependent on the application of the requirements in 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.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 19 June 2015. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether the application dates of other AASB proposals such as ED 260 and ED 261 should also be aligned with the AASB 15 application date;
2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities, including GAAP/GFS implications;
3. whether, overall, the proposals would result in financial statements that would be useful to users;
4. whether the proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

May 2015

Exposure Draft ED/2015/2

Effective Date of IFRS 15

Proposed amendments to IFRS 15

Comments to be received by 3 July 2015

IASB[®]

 IFRS[®]

Effective Date of IFRS 15

(Proposed amendments to IFRS 15)

Comments to be received by 3 July 2015

Exposure Draft ED/2015/2 *Effective Date of IFRS 15* (Proposed amendments to IFRS 15) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **3 July 2015** and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Comment on a proposal' page.

All comments will be on the public record and posted on our website unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft of proposed amendments to IFRS 15 *Revenue from Contracts with Customers* to propose changing the effective date of IFRS 15. Accordingly, entities would be required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018 rather than being required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2017. Earlier application of IFRS 15 would continue to be permitted. Entities would also continue to be permitted 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.

The IASB also plans to propose targeted amendments to IFRS 15 to clarify aspects of the requirements. Those proposed amendments will be included in a further Exposure Draft to be published later in 2015.

Next steps

The IASB will consider the comments it receives on the proposal and plans to decide whether to proceed with an amendment to IFRS 15 regarding the effective date at its July 2015 meeting.

Invitation to comment

The IASB invites comments on the proposal in this Exposure Draft, particularly on the question set out below. Comments are most helpful if they:

- (a) comment on the question as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters in IFRS 15 that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **3 July 2015**.

Question on the effective date

Question
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?

[Draft] Amendments to IFRS 15 Revenue from Contracts with Customers

In Appendix C, paragraphs C1 and C7 are amended. Deleted text is struck through and new text is underlined.

Effective date

- C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January ~~2017~~ 2018. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.

Transition

- ...
- C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January ~~2017~~ 2018 for an entity with a 31 December year-end).

Approval by the Board of *Effective Date of IFRS 15* (Proposed amendments to IFRS 15) published in May 2015

The Exposure Draft *Effective Date of IFRS 15* was approved for publication by the fourteen members of the International Accounting Standards Board.

Hans Hoogervorst

Chairman

Ian Mackintosh

Vice-Chairman

Stephen Cooper

Philippe Danjou

Amaro Luiz De Oliveira Gomes

Martin Edelmann

Patrick Finnegan

Gary Kabureck

Suzanne Lloyd

Takatsugu Ochi

Darrel Scott

Chungwoo Suh

Mary Tokar

Wei-Guo Zhang

Basis for Conclusions on the Exposure Draft Effective Date of IFRS 15 (Proposed amendments to IFRS 15)

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Effective date (paragraph C1)

- BC1 In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* with an effective date of 1 January 2017; earlier application is permitted. At the same time, the US national standard-setter, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (Topic 606) with an effective date of 15 December 2016. IFRS 15 and Topic 606 include requirements that are substantially the same.
- BC2 After issuing IFRS 15 and Topic 606, the IASB and the FASB formed a joint Transition Resource Group (TRG) for Revenue Recognition to support the implementation of the Standard. The substantial majority of the issues discussed by the TRG have been resolved without the need for standard-setting activity. However, at the date of publication of this Exposure Draft, the IASB had tentatively decided to propose targeted amendments to IFRS 15, which include clarifying the guidance on licences and adding examples illustrating the guidance on identifying performance obligations. The IASB also plans to discuss possible clarifications to the guidance on principal versus agent considerations.
- BC3 In the light of those proposed amendments, the IASB discussed whether it should propose to defer the effective date of IFRS 15. At the time of the IASB's discussion, the FASB had already decided to propose to defer the effective date of Topic 606 for public entities by one year to 15 December 2017, with earlier application permitted for annual reporting periods beginning after the original effective date of 15 December 2016. The IASB had also received a number of unsolicited comment letters from stakeholders supporting a deferral of the effective date of IFRS 15. Those stakeholders indicated that, in their view, a one-year deferral would improve the quality of implementation, particularly in the light of the availability (or lack thereof) of information technology systems.
- BC4 Changing the effective date of a Standard shortly after its issuance creates uncertainty for stakeholders and has the potential to set a bad precedent. The effective date is set after careful consideration of information obtained in the exposure process about the time needed to implement the requirements. Accordingly, the IASB would consider doing so only in exceptional circumstances. The IASB noted that it had already provided a considerable amount of time between issuing IFRS 15 and the effective date, anticipating that some entities would be required to change information technology systems and processes when adopting the Standard. The IASB has also provided substantive relief on transition to IFRS 15 by giving entities a choice of transition methods, one of which does not involve the restatement of comparative financial information. In addition, the IASB observed that the proposed targeted amendments to IFRS 15 are expected to clarify, instead of change, the requirements of the Standard.

- BC5 Some stakeholders had requested a deferral of the effective date because the time required to implement the Standard is longer than they had initially anticipated. However, the IASB observed that deferring the effective date for this reason could potentially penalise those who start the implementation process early and reward those who delay, which the IASB does not view as appropriate. In addition, although retaining an aligned effective date between IFRS 15 and Topic 606 is desirable, the IASB observed that it is not the only factor that it should consider.
- BC6 Nonetheless, despite those concerns, the IASB decided to propose a one-year deferral of the effective date of IFRS 15 to 1 January 2018 because of the combination of the following factors that result in the current situation regarding IFRS 15 being exceptional:
- (a) the IASB acknowledged that, although intended to provide clarity, the proposed amendments to IFRS 15 noted in paragraph BC2 may affect some entities that would wish to apply the amendments at the same time as they first apply IFRS 15—those entities are likely to wish to avoid reporting changes to revenue when first implementing the Standard and then, within a year or two, potentially reporting further changes to revenue as a result of applying any amendments to the Standard. For those entities, a deferral of the effective date by one year would provide additional time to implement any amendments to the Standard.
 - (b) IFRS 15 was issued later than had been anticipated when the IASB set the effective date of the Standard, which absorbed some of the implementation time that entities were expecting to have.
 - (c) IFRS 15 is a converged Standard with Topic 606—although not the only consideration, the IASB thinks that there are benefits for a broad range of stakeholders of retaining an effective date that is aligned with the effective date of Topic 606.
- BC7 In reaching this decision, the IASB concluded that a one-year deferral is sufficient in terms of providing additional time to implement IFRS 15. IASB members noted that a number of stakeholders had indicated that a deferral of the effective date of IFRS 15 is not needed while those supporting a deferral had requested only a one-year deferral. IASB members also observed that the issuance of IFRS 15 in May 2014 had been later than anticipated by some months, not years. Accordingly, a deferral of the effective date of IFRS 15 for anything longer than one year would unnecessarily prolong the period of uncertainty regarding the Standard, which would not be beneficial for stakeholders. It would also delay transition by many entities to a new Standard that the IASB views as a substantial improvement to financial reporting.
- BC8 At the date of publication of this Exposure Draft, the IASB had not yet decided upon the effective date of the proposed amendments to IFRS 15 noted in paragraph BC2, which it plans to consider at a future IASB meeting.

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