



Project:	Revenue from Contracts with Customers	Meeting	AASB October 2015 (M148)
Topic:	Clarifications to AASB 15	Agenda Item:	16.1
Contact(s):	Mark Shying mshying@asab.gov.au 03 9617 7645	Project Priority:	High
		Decision-Making:	High
		Project Status:	Comment letter drafting

Introduction and objective of this paper

- 1 The objective of this paper is to:
 - (a) outline the implications of IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15*;
 - (b) report feedback received from constituents; and
 - (c) decide key comments to be raised in the AASB comment letter to the IASB.

Attachments

- Appendix Draft AASB comment letter to IASB ED/2015/6 *Clarifications to IFRS 15*
 Agenda Paper 16.2 AASB ED 267 *Clarifications to AASB 15*

Summary of staff recommendations

- 2 The staff recommend the following. That the AASB comment letter:
 - (a) agrees with the IASB proposal to clarify IFRS and the inclusion of two practical expedients.
 - (b) recommends that the IASB wind up the Transition Resource Group (TRG) for Revenue Recognition; and
 - (c) be approved at this Board meeting.

Background

- 3 In July 2015, the IASB issued ED/2015/6 proposing clarifications to IFRS 15 (AASB ED 267 *Clarifications to AASB 15*). Closing date for comments to the AASB was 2 October 2015, and to the IASB is 28 October 2015.

- 4 After issuing IFRS 15 *Revenue from Contracts with Customers* in 2014, the IASB and the FASB formed the TRG for Revenue Recognition to support implementation of the Standard. One of the objectives of the TRG is to inform the IASB and FASB about any implementation issues, which would help the IASB and FASB determine what, if any, action would be needed to address those issues. Since its formation, the TRG has met and discussed submissions from stakeholders regarding the implementation of the Standard. The next meeting of the TRG is on 9 November 2015. No further meetings are currently scheduled.
- 5 During 2015, and as part of the AASB's considerations of international standard-setting meetings, AASB staff have provided updates to the Board about the topics discussed by the TRG and its recommendations.
- 6 For most of the topics, the TRG members did not recommend any changes to the Standard. However, a number of topics were identified as requiring consideration by the IASB and FASB. Consequently, the IASB decided to expose proposals to:
- (a) clarify the requirements in IFRS 15 with respect to:
 - (i) the identification of performance obligations;
 - (ii) the application of the control principle when assessing whether an entity is a principal or an agent; and
 - (iii) when do an entity's activities significantly affect the intellectual property to which the customer has rights; and
 - (b) include two additional practical expedients on transition to IFRS 15, being to permit:
 - (i) the use of hindsight in specified situations; and
 - (ii) an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts.
- 7 In addition, the IASB concluded that it was not necessary to amend IFRS 15 with respect to collectability and measuring non-cash consideration. In respect of the practical expedients, the IASB decided to propose transition relief for modified contracts and completed contracts.¹

¹The FASB decided to propose more extensive amendments to Topic 606 to clarify the requirements of the above five topics. The FASB also decided to propose transition relief for modified contracts and an accounting policy choice regarding the presentation of sales taxes. Because of the different decisions made, the IASB and the FASB published separate Exposure Drafts. Despite the differences in the amendments proposed to the new Standard, the IASB expects the respective revenue recognition requirements of IFRS 15 and to remain substantively converged if the IASB and FASB decide to finalise their respective proposed amendments to the Standard.

Feedback received

The one comment letter received by the AASB supported the proposed amendments to AASB 15 for the reason that the amendments would help reduce diversity in practice that may arise on its adoption. No issues have been raised to staff.

Staff analysis – Clarifications and practical expedients

- 8 Staff agree with the IASB's proposal to clarify IFRS 15 as the purpose is one of clarification and not amendment and therefore the clarifications would not affect the exercise of professional judgement when applying IFRS 15. Staff agree with the IASB's proposals for practical expedients on transition on cost/benefit grounds.

Staff recommendation

- 9 Staff recommend that the AASB comment letter to the IASB include a statement that the AASB agrees with the IASB proposal to clarify IFRS and the inclusion of two practical expedients.

Question 1 to Board members

Do Board members agree with the staff recommendation?

Staff analysis – TRG for Revenue Recognition

- 10 The development of the proposals for clarifications and practical expedients in ED/2015/6 have benefited from the work of the TRG for Revenue Recognition.
- 11 Nonetheless, AASB staff consider that to help minimise further amendments to IFRS prior to the IASB's post-implementation review of the standard, the TRG should be wound up, and thereby end its focus on implementation issues identified before the effective date of IFRS 15. Without this action by the IASB AASB staff are concerned that it will be difficult for the IASB to avoid making further amendments to IFRS 15 before the effective date.

Staff recommendation

- 12 Staff recommend that the AASB comment letter to the IASB include a statement that the AASB recommends that the IASB wind up the TRG.

Question 2 to Board members

Do Board members agree with the staff recommendation?

Finalising the comment letter

- 13 Staff hope that the Board can finalise the comment letter at the meeting. If not staff recommend it be finalised via the Chair

Question 3 to Board members

Do Board members agree with the staff recommendation?

Appendix: Draft Comment Letter

XX October 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB ED/2015/6 *Clarifications to IFRS 15*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on ED/2015/6 *Clarifications to IFRS 15*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB supports the proposals in ED/2015/6. The AASB's support is based on feedback from Australian constituents that the proposed amendments to IFRS 15 would help reduce diversity in practice that may arise on its adoption.

The AASB acknowledges that the proposals in ED/2015/6 are not identical to the proposals published (or expected to be published) by the Financial Accounting Standards Board. The AASB supports this approach as we consider that the clarifications as proposed by the IASB are satisfactorily constrained and would not inappropriately impinge on the exercise of professional judgement when applying IFRS 15.

The AASB acknowledges that the development of the proposals for clarifications and practical expedients in ED/2015/6 have benefited from the work of the Joint Transition Resource Group (TRG) for Revenue Recognition.

Nonetheless, the AASB consider that to help minimise further amendments to IFRS prior to the IASB's post-implementation review of the standard, the TRG should be wound up, and thereby end its focus on implementation issues identified before the effective date of IFRS 15. Without this action by the IASB the AASB is concerned that it will be difficult for the IASB to avoid making further amendments to IFRS 15 before the effective date.

If you have any queries regarding any matters in this submission, please contact Mark Shying (mshying@asb.gov.au).

Yours sincerely,

Kris Peach
Chair and CEO