IFRS 15 No impact? Now prove it

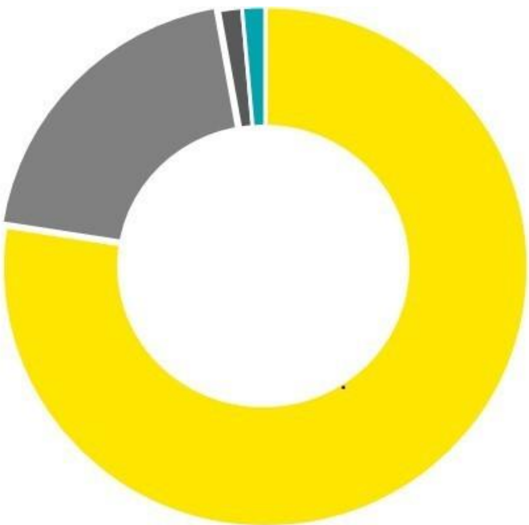
State of play

There is concern about the preparedness of corporate Australia for the new revenue standard. ASIC Commissioner John Price stated in an article published in July 2018 by Pymnts, “The number of companies that quantified the impact of coming new requirements for reporting revenue and financial instruments was disappointing. Directors and preparers should ensure that they understand the impact of new accounting standards and have systems and processes in place to support reporting under these new standards.”

As indicated in the graph on the right, EY research into Australian Stock Exchange Top 100 (ASX100) companies[1] reporting at 30 June 2018 and 30 September 2018 indicates for the majority of Australian companies there is no significant impact anticipated. If this applies to your company, this is reassuring news and indicates you are on top of the key issues and impacts from the new revenue standard. However, the lack of quantification may beg the question – are you able to prove there is no impact on your P&L, your balance sheet, your revenue disclosures, including accounting policies?

Anecdotally, IFRS 15 remains top of agenda for Audit Committees, who continue to look for insights and shared experience. This suggests that there is still work to be done.

Australia Stock Exchange Top 100 Companies – reporting periods 30 June 2018 and 30 September 2018[2]



No significant impact anticipated
Adoption impact quantified
Anticipated impact, no quantification disclosed
In the process of assessing the impact of adopting AASB 15

- 77% disclosed no significant impact anticipated
- 20% provided quantification of the anticipated impact
- 3% were still in the process of assessing or quantifying the impact

[1] As at October 2018

[2] The 29 companies have already adopted and are reporting under AASB 15 are excluded from this analysis

To understand more about the type of language ASX100 companies used in their most recent IFRS 15 disclosures, we spoke with Professor Michael Davern, Professor of Accounting & Business Information Systems, at The University of Melbourne. The University research team employed machine text analysis of the language used in the disclosures. The research found that, "on average, companies that quantified impact used language that suggests a greater degree of authenticity, whereas by contrast those claiming "no significant impact", were, on average, much more guarded and distant in the language they used." Michael also noted, "There was significant variability, even within industry sectors. The fact that such variability is observed suggests that as yet, IFRS 15 disclosures are not simply following boilerplate templates." This is good news.

Professor Davern's noting of "guarded" language is an interesting finding. Such language tends to raise additional questions for the regulators and other stakeholders – *Are some of the underlying assumptions uncertain? Does this mean that the evidence build is still in progress? Are there still residual risks here?* The onus is then on management. How do you prove no impact to yourself, your Board and Audit Committee, your auditors, your investors and regulators?

"Issuers should provide sufficient transparency of the significant judgements made and key assumptions used," European Securities and Markets Authority Press Release October 2018

What proof do you need?

IFRS 15 can be a complicated standard. Stakeholders will query key decisions reached and robust documentation is the best line of defence to explain and justify conclusions.

As we know from our previous publications, contract coverage is the big one. How can you demonstrate that you've covered 100% of contracts in the process? And done so with a pragmatic and cost-effective methodology, that does not compromise on your compliance obligations? Without sufficient documentation, you may find it difficult to demonstrate you have done enough work to be compliant with statutory reporting requirements. At best, you might have to incur additional time and cost to justify your conclusions when questions are asked through to disclosure misstatements in your first IFRS 15 financial statements.
At worst, regulatory, short-selling and class action interest will prevail; we're already advising clients on such matters.

Proving it to your Board and Audit Committee

- Educate them on the new standard, the work effort involved and the likely impacts on/changes to the business (if any)
- Take them on your journey. Anticipate their questions. Step into their shoes. Demonstrate how your robust and rigorous process identified, assessed and documented all issues – we all know that Board and Audit Committees don't like surprises
- Don't underestimate their experiences on other boards, although impacts of IFRS 15 will vary by industry and company. They may have insights and experiences to share and may have their own expectations of "good" documentation

"So far, surprisingly few companies have made disclosures of the impact of these standards. This may indicate that some companies need to give urgent attention to the impact of the standards on reported results, systems, processes and their businesses," ASIC Commissioner John Price.

Proving it to your auditors

If there have been limited communications between you and your auditor on documentation standards and expectations, we recommend that you get on the front foot as soon as possible. Your auditor cannot audit your IFRS 15 transition and revenue numbers if you only provide your final conclusions without sufficient supporting analysis – particularly if that conclusion is "no significant impact." Again, take them on the journey, agree expectations early and share:

- Documentation of your implementation process including:
  - Identification and scoping of your key revenue steams
  - Assessment and calculation of materiality
  - Identification of the various types of customer contracts
  - How you got comfort over contract completeness
- Position papers documenting the depth of your analysis and conclusions reached including key judgements and rationale
- Documentation of your discussions with, and approvals from, your Audit Committee and Board (e.g. on accounting policies adopted, key estimates and judgements)

Involving your auditor throughout the process, not just at the end, will enable you to better manage the risk of them disagreeing with your conclusions. If you use a consultant to assist you with your assessment and/or implementation, bring them to the meetings with your auditor to get everyone on the same page. And remember, while transition and implementation will require increased audit effort, if you don't do the work or you don't do the work well, your auditor will have to undertake even more audit procedures, which will mean significantly higher audit costs. Over-runs are always more expensive than planned scope increases.

"Because no two arrangements are the same, preparers should go beyond benchmarking their peers' accounting policies to fully understand each underlying transaction," SEC Chief Accountant Wesley Bricker

Proving it to ASIC

ASIC, consistent with international regulators, are laser focused on the process of transition and implementation and the quality of disclosures. ASIC have stated they "will be reviewing more than 200 full year financial reports at 30 June 2018 and selected half-year reports." Where disclosures are insufficient, not clear and/or contradictory, this will increase the likelihood of receiving a query from ASIC. Any disparity between impacts within sectors and/or inadequate disclosures could attract additional regulatory scrutiny of your company.

Be prepared to provide and explain your documentation of your implementation process to ASIC. It will need to be sufficient and effective at demonstrating how contracts were identified and analysed, how key issues were identified, where judgements were made, how conclusions were reached and how these were communicated.

Proving it to analysts, investors and the market

Analysts and the market are paying particular attention to the new revenue standard. You know the answer by now - take them on your journey; let disclosure be your friend.

Share your story and the conclusions reached. Investors, analysts and the market will be comparing disclosures with other companies in your sector – where there are different judgements and conclusions reached, will this make sense to them? Is your answer different to your industry counterparts in the US? Get ready for some questions.

Documentation is critical and your first and best line of defence

It can take a while to get IFRS 15 into your business-as-usual operations. Work effort depends on the nature and complexity of your revenue streams. It can require significant judgement. It may result in fundamental differences in the timing and amount of revenue recognised or it may not.

IFRS 15 is a new standard for all companies and, interpretations and practice will be evolving for some time. These developments may challenge your previous conclusions so your process and documentation will need to be able to identify and assess any potential future changes in interpretation.

Our top 3 key triggers for enquires from stakeholders and/or regulators:

- Boilerplate disclosures in the half-year and annual reports
- "No impact" disclosure and limited information on revenue accounting policies
- Where you have disclosed an accounting policy that is inconsistent with peers and sector, and not just in the local market.

Even if there is no impact:

- How are you satisfied you have appropriately managed the risks to avoid surprises later to the Board and Audit Committee?
- What procedures have you undertaken to safeguard the company and to confirm you are comfortable that all contracts have been considered?
- How does your company compare to others in your sector and are your key judgements consistent with your peers – where they are differences, do these make sense? Will it make sense to your auditors and ASIC?

EY Advisors

Oceania Pat McLay Tel: +61 3 9208 8079	Melbourne Tracey Waring Tel: +61 3 9288 8638
Oceania Chantelle Duffy Tel: +61 3 8650 7213	Perth Robert Kirkby Tel: +61 8 9217 1298
Brisbane Kellie McKenzie Tel: +61 7 3243 3643	Sydney Peter Barnikel Tel: +61 2 9248 5243
Canberra Ben Tansley Tel: +61 2 6267 3933	New Zealand Graeme Bennett Tel: +64 9 348 8145

APAC no. AU00003449

ED 12/18