



IFRS® Foundation

IFRS 15 and research opportunities

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With you today are...

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We are here for...

Purpose of webinar

- Stimulate academic research to support the Post-implementation Review (PIR) of IFRS 15

Status of PIR

- Start date to be discussed in second half of 2021
- Allowing time for trend information, academic research, etc to become available

Agenda

Objectives of a Post-implementation Review

Potential research opportunities

↳ Expectations in issuing IFRS 15

↳ Some key topics

↳ Identifying improvements to standard-setting process

Questions

Objectives of a Post-implementation Review

1 Assess whether Standard has improved financial reporting (without disproportionate cost)

- Is the Standard working as intended?
- Are there any significant unexpected effects?
- Are the requirements capable of being applied consistently?

2 Identify any lessons to improve the standard-setting process

- For example, are there any learnings for when Board develops disclosure or transition requirements?



Not a redeliberation of the Standard—consider new information from its use

A grayscale world map is the background. Overlaid on the left side are several concentric, curved lines, some solid and some dotted, resembling a stylized globe or orbital paths.

Potential research opportunities

Approach to research



Research helpful if it provides evidence to assess whether outcomes in line with expectations



IFRS 15 affected some sectors more than others (see Appendix)



Review of

- Financial statements
- Investor and analyst reports
- Publications of accounting firms
- Academic literature



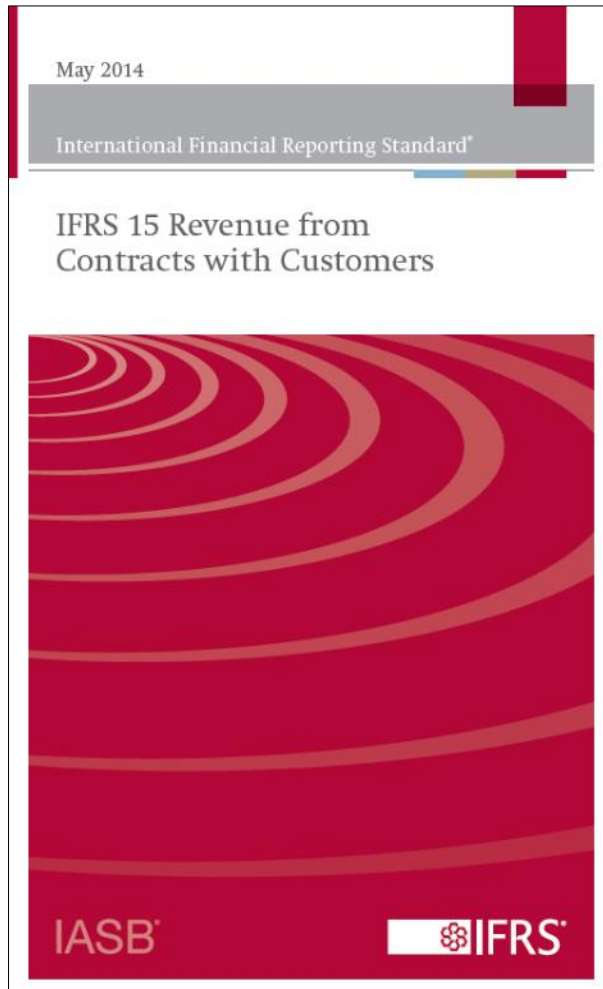
Interview of

- Preparers and practitioners
- Investors and analysts

A grayscale world map serves as the background, with several thick, curved, light-gray lines overlaid on the left side, suggesting a globe or a stylized architectural element. The text "Expectations in issuing IFRS 15" is positioned on the right side of the map.

Expectations in issuing IFRS 15

IFRS 15 at a glance



- Issued in 2014
- Developed jointly with FASB
- Targeted clarifications issued in 2016
- Effective for annual reporting periods from 1 January 2018
- Replaced IAS 18 and IAS 11 (plus IFRICs 13, 15 & 18, SIC 31)
- Applies to all contracts with customers (with exceptions such as leases)

What did Board set out to achieve (1/2)



What was the problem?

- Limited recognition, measurement and presentation requirements together with limited disclosure requirements often resulted in inadequate information



What objective did Board set?

- Improve quality of information provided about an entity's contracts with customers



How IFRS 15 helps achieve objective?

- 5-step framework leads to more faithful reflection of contracts and risks
- Disclosure requirements focus on providing better insights into how an entity earns and reports revenue, and key judgements and estimates involved

What did Board set out to achieve (2/2)



What was the problem?

- Lack of robust objectives in IAS 11 and IAS 18 for recognising revenue together with limited guidance resulted in significant diversity



What objective did Board set?

- Improve comparability of revenue across entities, sectors and jurisdictions



How IFRS 15 helps achieve objective?

- A single, comprehensive, robust, 5-step framework applying to all contracts with customers for goods or services
- Substantially converged IFRS and US GAAP revenue standards

The five steps to apply IFRS 15

Core principle
Recognise revenue to depict transfer of goods or services in an amount of consideration to which an entity expects to be entitled

- 1 Identify the contract(s) with a customer
- 2 Identify performance obligations (POs) in the contract
- 3 Determine the transaction price
- 4 Allocate the transaction price to the POs
- 5 Recognise revenue when (or as) the entity satisfies a PO

A more robust framework for addressing revenue recognition questions

What were Board's expectations about costs

	<i>Non-recurring</i>	<i>Recurring</i>
<i>To users of financial statements</i>	<ul style="list-style-type: none">• Costs to familiarise with the new Standard• Costs to modify processes and analyses	<ul style="list-style-type: none">• Savings in costs of collecting information because of improved disclosures
<i>To entities</i>	<ul style="list-style-type: none">• Costs to implement changes to systems, processes & controls• Costs of personnel• Costs of educating internal and external stakeholders	<ul style="list-style-type: none">• Costs to maintain improved systems• Increased audit costs and personnel costs

Potential research opportunities



We are looking for evidence to help us assess in the PIR...

Improved
information



- Is the 5-step framework helping entities make judgements and reach conclusions compared with previous Standards?
- Is information provided by IFRS 15 providing more insights into the business model and the link between goods or services and the reported revenue from a contract?

Improved
comparability



- Are goods or services with similar characteristics accounted for in a comparable way across entities, sectors and jurisdictions compared with previous Standards?

Unexpected
effects



- Did any sectors not expected to be affected report significant financial effects?
- Did any sectors expected to be affected report no significant financial effects?



Some key topics

Some key topics

Step 2

Identify performance obligation

Principal versus agent

Step 3

Determine transaction price

Variable consideration | Significant financing component

Step 5

Satisfying performance obligation

Over time or point in time | At what point in time | Measuring progress



Disclosure

Principal versus agent (1/3)

Step 2



Identified problem

- Lack of clear principle for an entity to conclude whether to report full revenue from sale of goods or services or just agency fees
- Difficult and sensitive judgements with significant effect on revenue



What did Board set out to achieve

- To provide a clear principle to help entities make judgements
- To align the nature of the performance obligation and the amount of revenue recognised

Principal versus agent (2/3)

Step 2



Requirements of IFRS 15

- Identify specified good or service to be provided to a customer
- Assess whether entity controls specified good/service before it is transferred to customer





Potential research opportunities

- Do the new requirements support making better and more consistent judgements by each of entities, auditors and regulators?
 - How pervasive is principal versus agent assessment as a significant revenue recognition issue?
 - Is the application of the requirements producing information that aligns with how entities describe their contracts and businesses, and vice versa?

Variable consideration (1/3)

Step 3



Identified problem

- Lack of clear requirements for recognising and measuring variable consideration
- Issues because of overstating or prematurely recognising revenue



What did Board set out to achieve

- To bring about greater degree of consistency in accounting for variable consideration
- To provide a measure of revenue that is less likely to be subsequently reversed
- To enable users to better predict future revenues



Requirements of IFRS 15

Estimate transaction price

- expected value or
- most likely amount
- update each period

But apply constraint

- highly probable no significant revenue reversal
- 5 indicators

Variable consideration must be assessed—no default to nil



Potential research opportunities

- Are the requirements producing information that users find useful?
 - How consistent is the application of requirements across time, entities and sectors?
 - What kind of insights are being provided in investor and analyst reports on variable consideration?
 - How costly was it for entities to apply the requirements?

Significant financing component (1/3)

Step 3



Identified problem

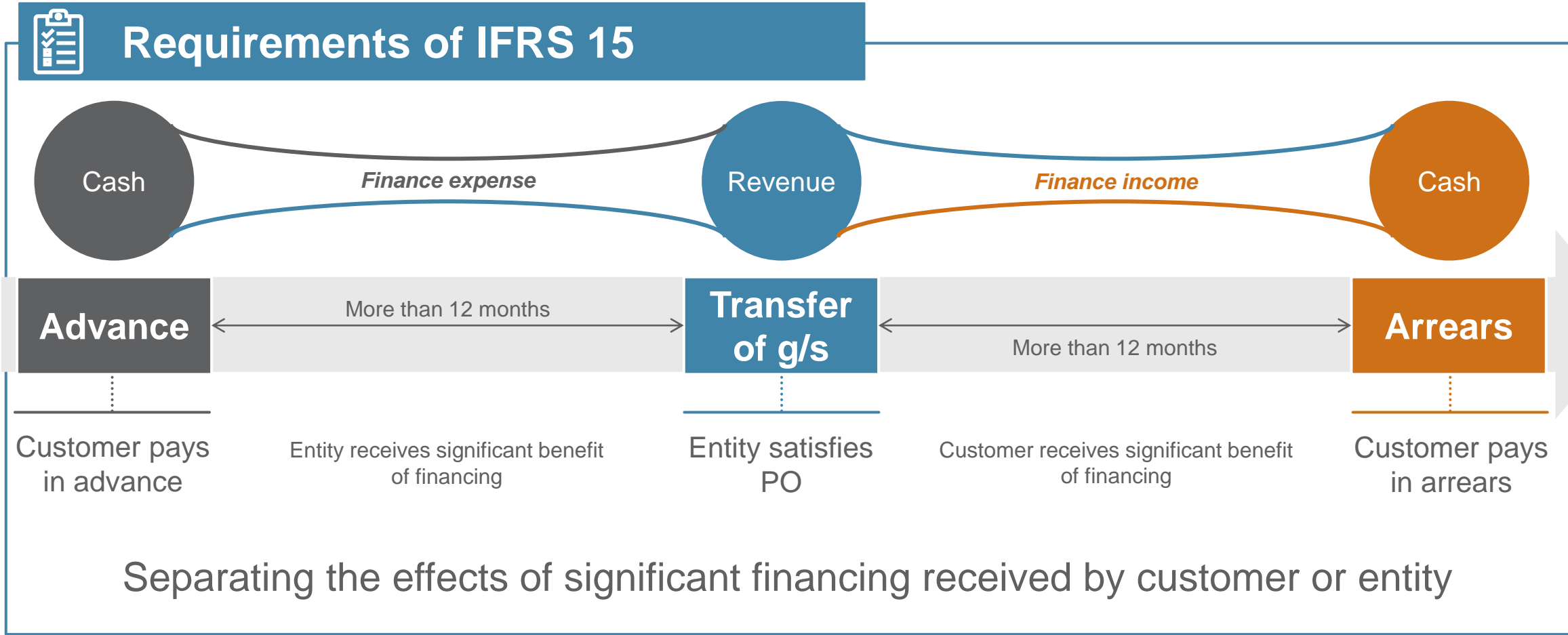
- Implicit financing in contracts with customers not separated, more so for advance payments by customers
- Not a faithful representation if revenue includes a financing component



What did Board set out to achieve

- To provide a measure of revenue that reflects the 'cash selling price' of good or service at the time of transfer by separating any significant benefit of financing

Significant financing component (2/3)



Significant financing component (3/3)

Step 3



Potential research opportunities

- Are the requirements producing information that users find useful?
 - How pervasive are significant financing components in contracts with customers?

Satisfying performance obligations (1/3)

Step 5



Identified problem

- Different requirements for revenue from sale of goods and revenue from services
- Subjectivity in assessing transfer of substantial risks and rewards of ownership of a good
- Measures of progress for service contracts sometimes selected to smooth margin



What did Board set out to achieve

- To develop a cohesive set of requirements for recognising revenue for all contracts
- To align revenue recognised with what a customer receives

Satisfying performance obligations (2/3)

Step 5



Requirements of IFRS 15

A performance obligation is satisfied by transferring good or service (when the customer obtains control of the good or service)

Is PO satisfied over time?

(ie does it meet any 1 of ¶35 criteria)

Yes

Revenue over time

Select single measure of progress to depict performance of that PO

No

PO satisfied at a point in time

Revenue point in time

Apply definition of control—direct the use & obtain the benefits

Can result in change in timing of revenue compared to IAS 11 & 18



Potential research opportunities

- Have revenue recognition practices become comparable across entities, sectors and jurisdictions, and better reflect the transfer of goods or services?
 - To what extent has the introduction of ‘transfer of control’ as the principle for determining satisfaction of a PO changed the timing of revenue recognition?
 - To what extent has there been a change from over-time to point-in-time recognition of revenue (and vice versa) and why?
 - For over-time revenue recognition, to what extent have measures of progress used by entities changed and why?

Disclosure (1/3)



Identified problem

- Limited disclosure requirements in IAS 11 & 18
- Users' dependence on voluntary disclosure by entities



What did Board set out to achieve

- To enhance information for users to enable them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

Disclosure (2/3)



Requirements of IFRS 15

Revenue

Disaggregation of revenue

Amounts recognised relating to performance in previous periods

Contracts

Information about contract balances and changes

Information about performance obligations

Amounts allocated to remaining performance obligations

Significant judgments

Timing of and methods for recognising revenue

Determining the transaction price and amounts allocated to performance obligations

Disclosure (3/3)



Potential research opportunities

- Are users able to better understand contracts and how amounts of revenue and contract balances relate to those contracts?
 - How do sectors and countries compare in their application of the disclosure requirements?
 - Are entities providing a level of disaggregation/information that depicts how prospects for revenue and cash flows are affected by economic factors?
 - Are entities providing disclosures about judgements that explain the significant judgements affecting the determination of revenue?



Identifying improvements to standard-setting process

Potential research opportunities



We are looking for information that helps us improve process and product



Transition—what drove the choice of transition method (eg user need and the extent of change; implementation costs; sector)? To what extent were user needs given priority?



To what extent did entities provide information about the initial effects of applying IFRS 15 in or to accompany the interim financial statements in which IFRS 15 was first applied?



Were the implementation costs of IFRS 15 as expected?

A grayscale world map serves as the background, with several thick, curved, light-gray lines and dotted lines overlaid, suggesting a globe or a network. The word "Questions?" is written in a large, white, sans-serif font on the right side of the map.

Questions?



Appendix

Expected main effects on revenue recognition

Sector	Main effects
Aerospace and defence, Construction, Services	<ul style="list-style-type: none">• Revenue may still be over time but pattern of revenue (measures of progress) may change• More discipline in using costs incurred as a measure of progress• Initial costs capitalised if resources created for use in fulfilling a contract, not to normalise margins
Asset managers	<ul style="list-style-type: none">• Contingent fee, eg a fee calculated with reference to an index, is recognised only if highly probable that it will not be reversed
Life sciences and Media	<ul style="list-style-type: none">• Revenue recognised on transfer of licence if the licence is a right to use IP• Sales-based royalties recognised as sales occur

Expected main effects on revenue recognition *(continued)*

Sector	Main effects
Real estate	<ul style="list-style-type: none">• Revenue recognised point in time rather than over construction period in many residential blocks of apartments
Software	<ul style="list-style-type: none">• No need to establish vendor-specific objective evidence of fair value of a good or service
Telecommunications	<ul style="list-style-type: none">• Revenue recognised for 'free' handset
Retail	<ul style="list-style-type: none">• More components of the transaction treated as revenue generating (eg more sales incentives and incidental obligations identified as performance obligations)

Relevant materials



Overview: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>



Project Summary and Feedback Statement: <https://cdn.ifrs.org/-/media/project/revenue-from-contracts-with-customers/project-summary-feedback-statement.pdf>



List of supporting materials:
<https://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-15/>

- Educational materials
- Webcasts (eg IFRS 15 for Investors (February 2019))
- IFRS Interpretations Committee agenda decisions
- Summaries of issues discussed at the IASB and FASB joint Transition Resource Group meeting

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