

## EFRAG STAFF PAPER FOR PUBLIC MEETING

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### **Assessment of whether IFRS 15 *Revenue from Contracts with Customers* is conducive to the European public good**

#### **Objective and background**

- 1 The objective of this paper is to provide some factors to consider when assessing whether IFRS 15 *Revenue from Contracts with Customers* is conducive to the European public good.
- 2 EFRAG TEG has, after consulting publicly, assessed that IFRS 15 meets the basic criteria as to the quality of information required for financial statements to be useful to users. EFRAG TEG has also assessed that the information resulting from the application of IFRS 15 would not be contrary to the true and fair view principle.
- 3 Further, as part of its public consultation, EFRAG TEG asked whether there were any reasons to believe that it would not be conducive to the European public good to adopt IFRS 15. EFRAG TEG has not, however, performed any assessment of this issue.

#### **Factors the EFRAG Board may decide to consider**

- 4 It follows from the assessment of EFRAG TEG, that EFRAG TEG considers that IFRS 15 results in information that:
  - (a) Would result in the provision of relevant information;
  - (b) Would generally result in reliable information;
  - (c) Will result in comparable information although the comparability could be limited in the transition period and although differing interpretations of the requirements may also reduce comparability;
  - (d) Satisfies the understandability criterion in all material respects; and
  - (e) Results in benefits that are likely to outweigh the associated costs for users and for most preparers. EFRAG TEG, however, acknowledges that for some entities or industries, the benefits may not necessarily outweigh the associated costs. However, when taking into account the benefits of having one revenue recognition model applicable across entities, industries and jurisdictions, EFRAG TEG believes that the benefits of adopting IFRS 15 will outweigh the associated costs.

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- 5 When assessing whether IFRS 15 is conducive to the European public good, some additional information that could be considered is available on the following issues:
- (a) Feedback from constituents;
  - (b) Transparency;
  - (c) Investor protection;
  - (d) Level playing field;
  - (e) Impact on investor behaviour;
  - (f) Impact on preparer behaviour; and
  - (g) Economic growth.
- 6 This paper does not consider the following factors, which could also be considered, as no information has been collected at this stage:
- (a) Maintenance of confidence in capital markets; and
  - (b) Financial stability.

*Feedback from constituents*

- 7 On 15 October 2014, EFRAG requested comments on its draft endorsement advice and effects study report on IFRS 15. The comment deadline was 15 December 2014. As of 23 January 2015, EFRAG had received 14 comment letters.
- 8 The request for comments included a question on whether there were any reason to believe that it is not conducive to the European public good to adopt IFRS 15. Of the 14 comment letters received, one thought that it would not be conducive to the European Public good. The respondent was concerned about the requirements on how to allocate the total transaction price in multiple arrangement contracts. The EFRAG Technical Expert Group did not share the concern raised on this issue when assessing the quality of information required for financial statements to be useful to users.
- 9 Another comment letter noted that it was currently difficult to make such an assessment as there would always be risks associated with changing Standards that deal with a significant line in the statement of profit or loss.
- 10 None of the remaining 12 comment letters expressed that there were any reason to believe that it is not conducive to the European public good to adopt IFRS 15.

*Transparency*

- 11 If IFRS 15 would result in information that is less relevant and less reliable than information resulting from previous requirements, it could be contrary to the European public good.
- 12 EFRAG TEG has assessed that IFRS 15 generally provides investors with relevant and reliable information. EFRAG TEG has not assessed whether the information provided under IFRS 15 results in more relevant and reliable information than under IAS 18 *Revenue* or IAS 11 *Construction Contracts*.

*Investor protection*

- 13 Investor protection could be assessed through the consideration of prudence in that, in case of uncertainty, assets are not overstated and liabilities are not understated.
- 14 EFRAG TEG had originally expected that the European Commission would ask for a separate assessment of prudence in the Endorsement Advice. EFRAG TEG had therefore originally started to make an explicit assessment of prudence as part of its work on its Draft Endorsement Advice. The conclusion (that was reached without a vote) was:
- EFRAG assesses that IFRS 15 would generally result in prudent information as the Standard includes:
- (a) Requirements that limit the likelihood of revenue reversals in relation to the most critical judgements in relation to revenue recognition;
  - (b) Requirements that introduces caution in most areas where EFRAG considers that uncertainty may be particularly relevant to consider in relation to measurement and where it can be claimed that one measurement approach is more prudent than another; and
  - (c) Disclosure requirements on how an entity accounts for issues that are assessed to be particularly relevant in relation to measurement uncertainty.
- 15 The conclusions was based on the assessments made in other parts of the Draft Endorsement Advice. Although the conclusion was thus not subject to public consultation, the paragraphs on which it was based were, and these paragraphs were not amended following the public consultation.

*Level playing field*

- 16 The main competitor to IFRS as globally accepted international accounting standards is US GAAP. The European public good may be harmed if European entities are subject to less appropriate reporting requirements than entities applying US GAAP.
- 17 IFRS 15 has been developed as a joint project with the US Financial Accounting Standards Board (FASB). Similar requirements to those included in IFRS 15 will therefore be effective in the US.

*Impact on investor behaviour*

- 18 If similar items are accounted for differently, investors' choices may be biased. This could be assessed as being contrary to the European public good.
- 19 The EFRAG Technical Expert Group has assessed that IFRS 15, on a stand-alone basis will generally result in comparable information. The issue has not been addressed specifically in outreach with investors. However it is acknowledged that IFRS 15 significantly expands disclosures on revenue that respond to needs expressed by users.

*Impact on preparer behaviour*

- 20 If IFRS 15 would distort preparer behaviour, it could be assessed as being contrary to the European public good.
- 21 From the field-tests conducted, EFRAG is aware that some telecommunication entities think they will have to manage the entity based on information other than

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that resulting from IFRS 15. This will, however, not necessarily change the behaviour of telecommunication entities.

*Economic growth*

- 22 If the impact of IFRS 15 is likely to affect economic growth negatively, it could be assessed as being contrary to the European public good.
- 23 The EFRAG Technical Expert Group has noted that the benefits for users of IFRS 15 may reduce entities' costs of capital and hence benefit preparers. The EFRAG Technical Expert Group has, however, not performed any tests of whether IFRS 15 would generally reduce the costs of capital compared with IAS 11 and IAS 18.

**Question for EFRAG Board**

- 24 Are there factors other than those listed in paragraph 4 above that the Board wishes to consider when assessing whether IFRS 15 is conducive to the European public good?
- 25 Does the EFRAG Board consider it necessary to collect additional information in order to assess whether IFRS 15 is conducive to the European public good?