

## EFRAG STAFF PAPER FOR PUBLIC MEETING

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### **Effective date for IFRS 15 *Revenue from Contracts with Customers***

#### **EFRAG TEG recommendation**

- 1 At its January 2015 meeting, EFRAG TEG decided to recommend that the effective date of IFRS 15 *Revenue from Contracts with Customers* should be deferred within the EU to 1 January 2018 (the effective date included in IFRS 15 is 1 January 2017). Consistent with IFRS 15, early application should be allowed. All EFRAG TEG members were unanimous in formulating this recommendation.
- 2 In summary, EFRAG TEG acknowledges that revenue is a key figure in the financial statements. Therefore there is a strong argument against deferring the effective date that it would harm comparability for an additional year. On the other hand, EFRAG TEG understands that it will be difficult for some entities to be ready to report under IFRS 15 by 1 January 2017. It is possible that IFRS 15 will be amended in the short term. Although the amendments are likely to be minor, they may result in some entities having to change how their planned implementation of the Standard or having to change their accounting practice shortly after they have implemented IFRS 15. There is also a chance that the IASB will decide to defer the effective date. If that would happen, it would be unhelpful for constituents if EFRAG first recommends endorsement of the Standard with a 1 January 2017 effective date. EFRAG TEG believes that uncertainties regarding the implementation could be reduced by endorsing IFRS 15 with an effective date of 1 January 2018.
- 3 In making this recommendation, EFRAG TEG has considered:
  - (a) Comparability;
  - (b) Responses from constituents;
  - (c) IASB/FASB consultation on the effective date;
  - (d) Possible future changes to IFRS 15; and
  - (e) Uncertainty regarding the endorsement of IFRS 15.

#### **Comparability**

- 4 In its comment letter in response to the Exposure Draft resulting in IFRS 15, EFRAG noted that it was not in favour of allowing early adoption as this – together with a deferred effective date – could lead to an extended period during which comparability of financial information would be considerably reduced. During the debate it was noted that revenue was a key figure in the financial statements and that comparability between entities therefore was particularly important in relation to this information.

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- 5 IFRS 15 allows for early application and some entities have accordingly started implementing IFRS 15. EFRAG TEG therefore assesses that at this stage it could result in high costs for some entities to prohibit early application within the EU. When recommending a deferral of the effective date, EFRAG TEG therefore also recommends allowing early application.
- 6 EFRAG TEG acknowledges that its recommendation to defer the effective date would harm comparability as entities may be reporting their revenue figures under different Standards for an additional year than if the effective date included in IFRS 15 were also used within the EU.

### **Responses from constituents**

- 7 In its comment letter in response to the Exposure Draft resulting in IFRS 15, EFRAG noted that as a starting point, the effective date should not be earlier than the beginning of the first annual period starting three years after the publication of the Standard (which would be 1 January 2018), however, the application requirements and the finalisation of other projects should also be considered.
- 8 In its Draft Endorsement Advice, EFRAG exceptionally consulted on the effective date. This was triggered by the concern expressed by some members of ARC. EFRAG TEG considered the comments received at its January 2015 meeting. EFRAG TEG observed that there did not seem to be a high demand from most preparers to defer the effective date, but that for some entities in some industries it would be very difficult to meet the 1 January 2017 effective date. EFRAG TEG members also noted that the implementation of IFRS 15 was more difficult than many entities had initially expected. EFRAG TEG members accordingly considered it possible that a more significant request for a deferral of the effective date could arise as entities started considering the detailed Standard particularly in relation to the disclosure requirements and multiple element arrangements.
- 9 The result of a survey conducted by the German standard setter among preparers showed that German preparers would generally prefer a deferral of the effective date (allowing for early application) or were indifferent on the issue.

### **IASB/FASB consultation on the effective date**

- 10 The FASB has received requests to consider deferring the 1 January 2017 effective date of the US Standard. The FASB will consider the issue early in the second quarter of 2015. If the FASB decides to defer the effective date, in contrast to the normal approach in the US, the FASB vice chairman has announced that early application will be allowed in order not to harm those entities that have planned to apply the Standard as of 1 January 2017
- 11 As companies listed in the US are required to show two years of comparative data in financial statements, companies should have been prepared to begin applying the new Standard to their business activity in 2015. Not all companies have been able to do so, and EFRAG TEG accordingly considers it likely that the effective date will be deferred in the US.
- 12 The IASB has not received as many requests to defer the effective date as its US counterpart. The IASB may therefore decide to keep the 1 January 2017 effective date even if FASB defers the effective date.
- 13 If the FASB, but not the IASB, decides to defer the effective date, EFRAG TEG notes that the benefits of the new Standard that are related to having similar requirements in US GAAP and in IFRS on revenue will not be fully achieved before the Standard is also effective in the US. Further, EFRAG TEG acknowledges that if

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the effective date is deferred in the US but not in IFRS, entities having difficulties implementing the Standard could consider that this would not be a level playing field (although an assessment of this would have to consider whether IFRS 15 is generally better or worse than the Standards it replaces).

- 14 If the IASB decides to defer the effective date, it would be unhelpful for European constituents if EFRAG would first recommend endorsement of the Standard with a 1 January 2017 effective date and then afterwards support a deferral of the effective date.

### **Possible future changes to IFRS 15**

- 15 The IASB and the FASB have created a Joint Transition Resource Group ('the TRG') for Revenue Recognition. The purpose of the TRG is to:
  - (a) Solicit, analyse, and discuss stakeholder issues arising from implementation of the new Standard;
  - (b) Inform the IASB and the FASB about those implementation issues, which will help the boards determine what, if any, action will be needed to address those issues; and
  - (c) Provide a forum for stakeholders to learn about the new Standard from others involved with implementation.
- 16 The TRG has identified some issues where clarification may be needed in order to avoid entities applying the Standard differently. The IASB and FASB will discuss some of the issues at their February 2015 meetings (other issues will be discussed at other meetings). To deal with the issues the IASB and FASB may decide to suggest amending their Standards.
- 17 Although the issues identified (so far) have not been pervasive, changes to IFRS 15 (or other types of clarifications issued by the IASB) may result in some entities having to change their original implementation. Deferring the effective date would allow entities to await any short-term amendments to IFRS 15 or other clarifications before final implementation.

### **Uncertainty regarding the endorsement of IFRS 15**

- 18 As the IASB and FASB are consulting on the effective date and will have to consider how to deal with issues identified by the TRG, EFRAG TEG has considered whether it should recommend pausing the endorsement process until any future steps of the IASB are known. However EFRAG TEG thinks that this could create uncertainty about whether and when IFRS 15 would become effective within the EU. Pausing the endorsement process could accordingly disturb the implementation process. EFRAG TEG believes that a more effective transition would be achieved by providing a positive endorsement advice and recommending a deferred effective date.

#### **Question for EFRAG Board**

- 19 Does the EFRAG Board agree with the recommendation of EFRAG TEG to defer the effective date of IFRS 15 within the EU to 1 January 2018?