

EFRAG STAFF PAPER FOR PUBLIC MEETING

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Preparation of March ASAF Meeting **IFRS 15 *Revenue from Contracts with Customers***

Objective

- 1 The objectives of this session is to decide what recommendations EFRAG wants to be made to the IASB at the March ASAF meeting on how to follow up on issues identified by the Transition Resource Group on Revenue Recognition.

Background and activities undertaken by the Joint Transition Resource Group on Revenue Recognition

- 2 After issuing IFRS 15, the IASB and the FASB formed a joint transition resource group ('the TRG') to support the implementation of the new standard.
- 3 Currently, the TRG is composed of 11 preparers, 11 auditors, 2 investors and 4 observer organisations. All meetings are public and are co-chaired by the Vice-Chairmen of the IASB and the FASB.
- 4 The TRG does not issue guidance. Instead, TRG members share their views on issues submitted by constituents during public meetings. After each meeting, the IASB and the FASB determine what action, if any, should be taken on each issue.
- 5 The TRG met in July and October 2014 and in January 2015 and considered 32 out of the approximately 40 issues submitted by constituents until then. Additional issues may still be submitted as three more TRG meetings are scheduled in March, July and November 2015, respectively.
- 6 For most of the issues raised, the TRG has concluded that constituents can understand and apply the new revenue Standard with no additional guidance. The IASB and FASB agreed not to consider these issues further.
- 7 However for some of the reported issues, the discussion has shown uncertainty in understanding the requirements. The IASB and the FASB have decided to deal in priority with seven of these issues that regard :
 - (a) When to recognise revenue from licences immediately or over the term of the license (4 issues); and
 - (b) Identifying separate performance obligations (3 issues).

IASB recent decisions on issues reported by the TRG

Issues for which the IASB and FASB have decided that some standard-setting is required

- 8 In February, the IASB and the FASB held a joint meeting to consider how to address the issues mentioned in paragraph 7 above.
- 9 The IASB tentatively agreed on limited amendments to the Standard on three of the seven issues. Two of these issues (related to licences) will be addressed by clarifying certain paragraphs of the Standard. One issue (related to identifying performance obligations) would be addressed by adding supplementary illustrative examples.
- 10 The FASB tentatively agreed on limited amendments in relation to the seven issues discussed (i.e. the FASB would make more amendments to its guidance than the IASB would).
- 11 Because of the IASB's and FASB's different decisions, the result would be non-converged language in the Standards. US GAAP will contain more detailed guidance on some issues. However, because the amendments are intended to clarify the guidance rather than change it, the IASB and the FASB do not expect that their decisions will result in significant divergence in practice in most cases.

Question to EFRAG Board members

- 12 Should the IASB amend IFRS 15 to maintain the near-identical wording with its US equivalent, even if an amendment is largely driven by questions or concerns in the US or the IASB does not think that the amendment is required?

Issues for which the IASB has decided that no standard-setting is required

- 13 For issues arising from TRG discussions where the IASB decided that it would not be necessary to amend the Standard, the IASB however noted that the TRG discussions and meeting summaries could help educate and influence practice about those issues.
- 14 For example, the IASB's conclusion that the guidance is clear on a particular issue and the rationale for the conclusion could help educate and influence practice about how to apply and interpret the guidance in IFRS 15.

Question to EFRAG Board members

- 15 Do you have suggestions on improving the methods of disseminating the information from the TRG and IASB discussions to enhance stakeholders' understanding of the principles in IFRS 15? How could you [ASAF members] assist in this regard?

IASB's proposed plan for amending IFRS 15

- 16 The IASB expects to approve the proposed clarifications to be included in the Exposure Draft at its meeting in June 2015 with the intention to publish the amendments by the end of 2015. The IASB would also consider whether additional issues arise from the TRG meeting to be held in March 2015 in order to include all proposed amendments to IFRS 15 in a single Exposure Draft. Finally the IASB indicated that it would discuss the implications of the proposed amendments with its consultative bodies.

IFRS 15 – Preparation of ASAF Meeting

- 17 At the February meeting, the FASB directed its staff to draft a proposed Accounting Standards Update for possible ratification by the FASB at a future meeting. The FASB noted that its goal was to issue a proposal as soon as possible and receive feedback from constituents by the end of June to finalise the guidance in the third quarter of 2015.

Question to EFRAG Board members

- 18 Do you have any comments on the IASB's plan to develop a single ED of the clarifications and the proposed timing?

Effective date

- 19 The FASB has publicly commented that it has received a number of requests for deferral of the effective date to 2018. The FASB staff and FASB members are performing outreach with preparers. The FASB plans to complete the outreach in Q1 2015. The IASB staff has observed some of the meetings with preparers carried out by the FASB staff.
- 20 The IASB has reported that it has not received the same level of feedback about the effective date as the FASB. The feedback received comes from entities in the telecommunication sector. The IASB has held meetings with representatives of this industry. The concern seems to be with implementation of systems rather than with understanding the requirements.
- 21 The IASB and the FASB expect to hold a joint meeting to discuss the feedback on the effective date early in the second quarter of 2015.

Questions to EFRAG Board members

- 22 Are you aware of concerns about the 2017 effective date in your region? If so, are the concerns arising in a particular industry sector? Do the concerns primarily relate to operationalising the accounting (e.g. systems) or understanding the requirements of IFRS 15?
- 23 How important do you think it is to maintain convergence of the effective date?

Agenda Papers

- 24 In addition to this note, this session includes, for background only, agenda paper 10.02 - ASAF Update on TRG's activity.