**What you need to know**

- With adoption of IFRS 15 becoming mandatory in 2018, almost all entities indicate to have started their projects to implement the new revenue standard. However, most entities have provided little, if any, quantitative information about the expected effect to date.

- Entities may need to disclose quantitative information about the expected effect of adopting IFRS 15 in their 2017 interim financial statements.

**Highlights**

The new revenue standard, IFRS 15 Revenue from Contracts with Customers, becomes effective for annual periods beginning on or after 1 January 2018. The implementation of IFRS 15 may have a significant effect on the financial statements of many entities as the amount of revenue and contract costs and/or the timing of their recognition may differ significantly from current practice. Also, additional disclosures are required by the new standard.

Whilst almost all entities indicate to have started their IFRS 15 implementation projects, little information, if any, was disclosed in the 2016 financial statements about the expected effect. We surveyed the 2016 annual financial statements of 207 Fortune 500 IFRS preparers. Of those we surveyed:

- Only 1% provided quantitative information about the expected effect of IFRS 15; 33% qualitatively disclosed aspects of the standard that could have a significant effect on financial statements.

- 3% indicated IFRS 15 could have a material effect, while 35% did not expect the standard to have a material effect.

- Only 15% disclosed the expected transition method.

IAS 34 Interim Financial Reporting does not have a specific disclosure requirement to update information previously disclosed about a new standard that has been issued but is not yet effective. However, some regulators like the European Securities and Markets Authority (ESMA) expect entities to provide an update of the information disclosed in their 2016 annual financial statements on the anticipated effect of adopting IFRS 15. As such, entities need to heed the advice of the regulators and be prepared to update both quantitative and qualitative information about the likely effect.
Disclosure requirements for standards issued but not yet effective

When an entity has not applied a new standard that has been issued but is not yet effective, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires the entity to disclose that fact together with known, or reasonably estimable, information relevant to assessing the possible impact that the application of a standard will have on the financial statements in the period of initial application. An entity is required to consider disclosing all of the following:

- The title of the new standard
- The nature of the impending change or changes in accounting policy
- The date by which application of the standard is required
- The date at which it plans to apply the standard initially
- A discussion of the impact that initial application of the standard is expected to have on the entity’s financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

Regulators’ perspective

During 2016, several regulators stressed the importance of entities providing relevant disclosures in relation to IFRS 15 and indicated an expectation that an entity’s disclosures should evolve in each reporting period as more information about the effects of the new standard becomes available. The International Organisation of Securities Commissions (IOSCO) released a statement in December 2016 that reiterated this point. Furthermore, while qualitative disclosures about the impact may be useful during the earliest stages of an issuer’s implementation, IOSCO believes that “quantitative disclosures regarding the possible impacts of the new standards will increase as the issuer moves forward with its implementation plans ...”. While acknowledging the inherent risk that quantitative estimates may change, IOSCO encourages issuers to provide sufficient, robust and detailed disclosures that are both timely and entity-specific. “Issuers should not be reluctant to disclose reasonably estimable quantitative information merely because the ultimate impact of the adoption of the new standards may differ, since such reasonably estimable quantitative information may be relevant to investors even while lacking complete certainty. Similar to other accounting estimates, issuers would disclose that these amounts are estimates.”

ESMA published a statement in July 2016 emphasising the need for transparency about the impact of new standards. ESMA confirmed that it expects entities to know, or to be able to reasonably estimate, the impact of the adoption of IFRS 15 when preparing their 2017 interim financial statements. As such, ESMA went on to say that, in most cases, it would not be appropriate to provide disclosures about the magnitude of the impact of IFRS 15 only in the 2017 annual financial statements. Where an entity anticipates the impact to be significant, “ESMA expects issuers to:

- provide information about the accounting policy choices that are to be taken upon first application of IFRS 15 (such as the accounting policy to apply a full retrospective approach, the cumulative catch-up transition method or the use of practical expedients);
- disaggregate the expected impact depending on its nature (i.e., whether the impact will modify the amount of revenue to be recognised, the timing or both) and by revenue streams; and

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1 IAS 8.30
2 IAS 8.31
Are you ready to quantify the effect of adopting IFRS 15?

ESMA’s public statement also provides, by way of illustration, the types of information ESMA expects to be disclosed for each interim and annual reporting for 2016 and 2017, when an entity expects the standard to have a significant impact.

**Survey of disclosures prior to adoption of IFRS 15**

To gain an insight into the quality of disclosures prior to adoption of IFRS 15, we reviewed disclosures in the 2016 annual financial statements of 207 Fortune 500 entities that prepare their financial statements in accordance with IFRS. Of those we surveyed, only 11% disclosed that their preliminary assessment of the effect of adopting IFRS 15 had been completed. 71% of preparers indicated that such an assessment was ongoing. One entity confirmed it had not started its assessment.

**Disclosures about the effect of adopting IFRS 15**

As discussed above, IAS 8 requires an entity to disclose information about the expected effect on its financial statements of adopting a new standard or, if that impact is not known or reasonably estimable, a statement to that effect.

Of the entities we surveyed, only 3% stated that they expected IFRS 15 to materially affect their financial statements; half of those entities are in the telecommunications sector. 35% of entities indicated that they did not expect the standard to have a material impact; one third of those entities are in financial services sectors. However, the majority of preparers either indicated that they did not yet have a reliable estimate, or did not give a clear indication of the expected effect.

Despite regulators’ statements about the importance of making progress in the implementation projects, only 1% of the entities surveyed provided quantitative information about the potential impact of adoption. One entity disclosed the expected overall impact.

The disclosure of qualitative information was more common, with 33% of the entities disclosing the aspects of the standard that could have a significant effect on financial statements.

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4 ESMA Public Statement: Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers, issued 20 July 2016, available on ESMA’s website.
The top 10 most commonly mentioned topics in qualitative disclosures that entities believe will have an effect, in descending order, are:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying performance obligations</td>
<td>45%</td>
</tr>
<tr>
<td>Expected change in timing of revenue recognition</td>
<td>39%</td>
</tr>
<tr>
<td>Contract cost requirements</td>
<td>33%</td>
</tr>
<tr>
<td>Changes in presentation</td>
<td>28%</td>
</tr>
<tr>
<td>Variable consideration requirements</td>
<td>26%</td>
</tr>
<tr>
<td>Disclosure requirements</td>
<td>25%</td>
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<tr>
<td>Principal vs Agent considerations</td>
<td>22%</td>
</tr>
<tr>
<td>Allocating the transaction price</td>
<td>14%</td>
</tr>
<tr>
<td>Licensing application guidance</td>
<td>12%</td>
</tr>
<tr>
<td>Identifying the contract/Contract modifications</td>
<td>12%</td>
</tr>
</tbody>
</table>

Other topics mentioned included customer options for additional goods or services, non-refundable upfront fees, and measures of progress over time.

Disclosures about the method to transition to IFRS 15

IFRS 15 requires retrospective application. The IASB decided to allow either a full retrospective adoption, in which the standard is applied to all of the periods presented, or a modified retrospective adoption. Entities electing the modified retrospective method apply the standard retrospectively to only the most current period presented in the financial statements (i.e., the initial period of application). The entity has to recognise the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings. Some relief exists ("practical expedients") for both methods, e.g., for completed contracts or contracts that were modified before the beginning of the earliest period presented. As discussed above, regulators may expect an entity to disclose whether they intend to apply the full or modified retrospective method.

Only 15% of the entities we surveyed disclosed the expected transition method in their 2016 annual financial statements. More than two-thirds of those that disclosed this information stated that they intended to use the modified retrospective approach.

How we see it

Regulators will expect an entity’s disclosures to evolve in each reporting period, as more information about the effects of the new standard becomes available. This includes providing more detailed, entity-specific and quantitative information.

While most entities are still assessing the impact of adopting IFRS 15, in opting to wait to disclose quantitative information about the anticipated effect only in the 2017 annual financial statements, they may not meet the regulators’ expectations. Therefore, entities will likely need to be in a position to quantify the effect of adopting IFRS 15 and disclose that information in their 2017 interim financial statements.