IASB proposes one-year deferral for new revenue standard

What you need to know

- The IASB tentatively agreed to propose a one-year deferral of the effective date for IFRS 15.
- The IASB also decided not to propose any changes or clarifications to address issues related to the requirements for assessing collectability when determining whether a contract exists under IFRS 15.
- The IASB is expected to issue an exposure draft in May 2015 with a comment period of no less than 30 days in relation to the proposed effective date deferral.

Highlights

The International Accounting Standards Board (IASB) plans to issue an exposure draft, with a comment period of no less than 30 days, on its decision to propose a one-year deferral of the effective date for its new revenue standard, IFRS 15 Revenue from Contracts with Customers. This aligns with the US Financial Accounting Standards Board's (FASB) (together with the IASB, the Boards) decision to propose a one-year deferral of the effective date of its new revenue standard.1

At its April 2015 meeting, the IASB also discussed issues in relation to assessing collectability when determining whether a contract exists under IFRS 15. The IASB elected not to propose any changes or clarifications to the standard.

The IASB plans to issue a separate exposure draft in June 2015 that incorporates its tentative decisions from the February and March 2015 meetings, on topics such as accounting for licences of intellectual property and identifying performance obligations, and any additional amendments it determines are necessary.

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1 Accounting Standards Update 2014-09, Revenue from Contract with Customers (largely codified in Accounting Standards Codification (ASC) 606)
Deferral of effective date

The IASB plans to propose a one-year deferral of the effective date of IFRS 15. As a result, IFRS 15 would be effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. In making its decision, the IASB considered feedback from stakeholders, the impact of amendments it expects to propose, and the FASB's proposal to defer the effective date.

IFRS 15 is currently effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The IASB received a number of comment letters from stakeholders regarding the effective date, mainly from entities in the telecommunications, automotive and information technology industries. This feedback indicated that additional time was needed to implement IFRS 15 because of the impact on systems and processes and to reduce the risk of errors.

On 1 April 2015, the FASB decided to propose a one-year deferral such that public entities would be required to adopt its new revenue standard for annual reporting periods beginning after 15 December 2017 and interim periods therein. Non-public entities would be required to adopt its new revenue standard for annual reporting periods beginning after 15 December 2018 and interim periods within annual reporting periods beginning after 15 December 2019. Early adoption would be permitted, but only for periods beginning after 15 December 2016 and interim periods therein.

How we see it

We support the IASB's decision to propose a one-year deferral of the effective date. We believe this will give preparers additional time to consider the requirements of IFRS 15 along with any amendments that result from the anticipated exposure draft to be issued by the IASB.

Collectability

Under the new revenue standards, collectability refers to the customer's ability and intent to pay the amount of consideration to which the entity expects to be entitled in exchange for the goods or services that will be transferred to the customer. The Boards concluded that assessing a customer's credit risk is an important part of determining whether a contract, as defined by the new revenue standards, exists.

The IASB considered a number of issues in relation to:

- The application of the collectability criterion in Step 1 of the new revenue standards
- The requirements that apply when a contract fails Step 1 of the new revenue standards.

These implementation issues were highlighted by the discussions of the IASB/FASB Joint Transition Resource Group for Revenue Recognition (TRG) and were initially discussed by the Boards at the March 2015 joint meeting.

Application of the collectability criterion in Step 1

The new revenue standards require an entity to evaluate at contract inception (and also when significant facts and circumstances change) whether it is probable that it will collect the consideration it expects to be entitled to receive in exchange for transferring goods or services to a customer.
At the March 2015 joint Board meeting, the FASB tentatively decided to refine the requirements of the Step 1 collectability threshold and/or to add or amend examples to clarify that an entity would consider the probability of collecting the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer, rather than the total amount promised. For example, in a service contract with a stated three-year term that either party could terminate with two months’ notice without penalty, the evaluation would only reflect the two-month non-cancellable period in the contract. However, this analysis would only determine whether the entity has a valid contract under the new revenue standards and would not affect the contractual term that is considered when applying the rest of the requirements in the new revenue standards (e.g., for purposes of determining or allocating the transaction price).

At its April 2015 meeting, the IASB agreed not to make any clarifications or amendments to IFRS 15 in respect of the Step 1 collectability threshold. In making its decision, the IASB noted that sufficient guidance exists within IFRS 15 and in the explanatory material in the Basis for Conclusions.

The requirements that apply when a contract fails Step 1

The new revenue standards state that if an arrangement does not meet the criteria (including the collectability criterion) to be considered a contract, an entity will recognise non-refundable consideration received as revenue only when one of two events has occurred: (1) it has completed performance and received substantially all consideration; or (2) the contract has been terminated. Stakeholders have questioned whether the Boards intended for this requirement to indefinitely delay the recognition of non-refundable cash consideration in a number of situations (e.g., a month-to-month service arrangement when the entity continues to perform). Stakeholders have also asked whether a contract would be considered ‘terminated’ when the entity stops providing the good or service, or only when the entity stops pursuing collection from the customer.

At the March 2015 joint Board meeting, the FASB tentatively decided to clarify that a contract would be terminated when an entity has the ability to stop transferring goods or providing services and has actually done so.

At its April 2015 meeting, the IASB agreed not to make any clarifications or amendments to IFRS 15. In making its decision, the IASB noted that sufficient guidance exists in IFRS 15 and that practice would likely develop to reach the same conclusion as that reached by the FASB at the March 2015 meeting.

Next steps

The Boards’ latest decisions are tentative and they will seek public comment on any changes that they propose.

The IASB is expected to issue an exposure draft in May 2015 in relation to the proposed deferral of the effective date. The comment period will be no less than 30 days, but may be as much as 45 days.

A separate exposure draft is expected in June 2015 that incorporates its decisions made on topics discussed in the February and March 2015 meetings, such as accounting for licences of intellectual property and identifying performance obligations, and any additional amendments it determines are necessary.