

PUBLIC STATEMENT

Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers

1. The European Securities and Markets Authority (ESMA) is issuing this Public Statement on the implementation of IFRS 15 in order to promote consistent application of European securities and markets legislation, and more specifically that of International Financial Reporting Standards ('IFRS Standards'). In light of the expected impact and importance of the implementation of IFRS 15, ESMA highlights the need for consistent and high-quality implementation of IFRS 15 and the need for transparency on its impact to users of financial statements.
2. Issuers of securities admitted to trading on regulated markets and their auditors should take this Public Statement into consideration in their respective work during the implementation of IFRS 15, notably when disclosing and auditing its [expected] effects in IFRS financial statements. In this respect, ESMA expects that, where relevant, quality of the implementation of IFRS 15 will be closely monitored by audit committees. Furthermore, ESMA highlights that some matters discussed below might not be relevant for some issuers and that the level of detail provided should be adapted depending on the significance of the matter to the financial statements.
3. ESMA expects that this Public Statement will be taken into account and reflected in the 2016 and 2017 annual and 2017 interim financial statements, thereby enhancing the comparability of IFRS financial statements in the EU. ESMA together with national competent authorities will monitor the level of transparency that issuers provide in their financial statements about the implementation of IFRS 15, changes in accounting policies resulting from this implementation and information relevant to assessing its possible impact on the issuers' financial statements in the period of initial application.

Background

4. IFRS 15 and *Clarifications to IFRS 15*¹ replace the requirements in IAS 11 *Construction Contracts*, and IAS 18 *Revenue* and related interpretations. They contain a new set of principles on when and how to recognise and measure revenue as well as new requirements related to presentation and disclosures. ESMA notes that the endorsement process of IFRS 15 for use in the European Union (EU) has been substantially completed in July 2016 and its effective date of application in the EU is 1 January of 2018.²

¹ ESMA notes that the Clarifications to IFRS 15 are not yet endorsed

² The publication in the Official Journal of the European Union is expected later in Q3 2016.

5. While in some circumstances the impact of the implementation will be limited (e.g. straightforward retail transactions), for other transactions, such as some long-term contracts and multiple-elements arrangements, the impact on the amount and/or timing for recognising revenue may significantly differ from current practice. ESMA is thus of the view that issuers should carefully assess their particular circumstances when implementing IFRS 15.
6. ESMA also highlights that IFRS 16 *Leases* will replace the requirements in IAS 17 *Leases* and related interpretations. IFRS 16 contains new principles regarding the accounting for arrangements containing leases, in particular for lessees. Although the IASB's mandatory effective date for IFRS 16 is 1 January 2019, ESMA notes that IFRS 16 has not yet been endorsed for use in the European Union (EU).³
7. For cases where issuers decide to early apply IFRS 16 (once endorsed) in order to implement it at the same time as IFRS 15, ESMA draws issuers' attention to the need to provide relevant information about the expected impact of IFRS 16 in their financial statements in addition to the impact for IFRS 15.

Transparency on implementation and effects of IFRS 15

8. ESMA notes that paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of an impending change in accounting policies when the issuer has yet to implement a new IFRS Standard that has been issued but not yet come into effect (irrespective of whether it has already been endorsed in the EU).⁴ In addition, it requires disclosure of '*known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application*'. ESMA highlights that these requirements encompass both qualitative and quantitative information. Furthermore, ESMA stresses that the objective of these requirements is to enable users of the financial statements to understand beforehand the impacts that the future application of the new Standard will have on the financial position and performance of the entity.
9. ESMA expects that, as the implementation of IFRS 15 progresses, information about its impact should become more reasonably estimable and issuers should be able to provide progressively more entity-specific qualitative and quantitative information about the application of IFRS 15 in their financial statements.
10. ESMA believes that the timing for providing disclosures is likely to vary between issuers depending on the complexity of the implementation process, the estimated impact, and where relevant, differences in the timetables for developing and implementing new information systems.

³ Report, EFRAG Endorsement Status, Position as of 16 February 2016, EFRAG, Brussels, 16 February 2016

⁴ Report, 14th Extract from the EECS' Database of Enforcement, ESMA, 29 October 2013, Decision ref EECS/0213-12

11. ESMA expects that, for most issuers, the impacts of the initial application of IFRS 15 will be known or reasonably estimable at the time of the preparation of their 2017 interim financial statements, so that issuers are able to implement IFRS 15 compliant accounting policies as of 1 January 2018.⁵ Therefore, ESMA is of the view that in most cases it would not be appropriate to provide disclosures about changes in the accounting policies and their impacts on the issuer's financial statements (or the magnitude of its impacts) in the period of initial application only in the 2017 annual financial reports.
12. The impact in the period of initial application of IFRS 15 will be affected by the issuer's specific business and economic conditions at that date, circumstances which cannot be fully anticipated prior to the date of transition. However, if reasonably estimable quantitative information on the expected impact of IFRS 15 exists based on all information available as of a reporting date prior to transition date (e.g. in the 2016 annual financial statements or the 2017 interim financial statements), this should be disclosed notwithstanding that the actual figures in the 2018 financial statements might be different owing to changes in the contracts in place or different economic conditions.
13. Where the impact is expected to be significant, ESMA expects issuers to:
 - a. 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);
 - b. 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
 - c. explain the nature of the impacts so that users of financial statements understand the changes to current practices and their key drivers when compared with the existing principles on recognition and measurement in IAS 11, IAS 18 and related interpretations.
14. Moreover, ESMA encourages issuers to explain the impact, if any, to risk management and/or to alternative performance measures (APMs) that the issuer may use in any regulated information (financial communication of the issuer and/or in other parts of the annual financial report) to which the ESMA Guidelines on APMs⁶ apply.
15. Where issuers, and in particular lessors, decide to early apply IFRS 16 (at the same date as IFRS 15), they should adapt the disclosures provided to the specificities of the implementation of IFRS 16 (e.g. separately disclosing the impact of both standards in their financial statements).
16. Finally, ESMA highlights the need to verify that IFRS 15 is understood and implemented consistently within a group during the period over which IFRS 15 is being implemented. While acknowledging different economic conditions in different economic environments, ESMA points to the importance of consistent implementation of IFRS 15 within groups in

⁵ ESMA nonetheless reiterates that any disclosure in accordance with IAS 8 does not replace the obligation of issuers under other EU legislation such as the Market Abuse Regulation, with regard to inside information.

⁶ ESMA Guidelines on Alternative Performance Measures, 30 June 2015, ESMA/2015/1057

order to apply uniform accounting policies as required by paragraph B87 of IFRS 10 *Consolidated Financial Statements*.

Specific considerations

17. ESMA highlights that IFRS 15 establishes a comprehensive framework for determining and recognising revenue. For example, the new standard and *Clarifications to IFRS 15* provide new requirements on licences, principal versus agent considerations, contract modifications and contract costs (incremental and fulfilment) which might be applicable to some issuers. In addition, the changes stemming from the new standard are expected to be more significant for issuers whose revenue arises from long-term contracts and/or from contracts with multiple-element arrangements (e.g. telecommunication, construction of real estate, aerospace and defence sectors or software companies, etc.).
18. As the standard requires issuers to allocate the transaction price to all the identified performance obligations included in a contract and to recognise revenue when (or as) the performance obligation is satisfied, issuers may need, for example, to: (i) change the methodology in place to identify the performance obligations included in a contract and to assess whether there is a significant financing component, (ii) adjust their internal procedures to assess the progress towards satisfaction of performance obligations and to recognise revenue over time, (iii) determine variable considerations, (iv) assess the impact on the recognition of revenue derived from licences.
19. ESMA draws issuers' attention to the fact that some matters related to the application of IFRS 15 might be submitted to the IFRS Interpretations Committee (IFRS IC) before the application of the standard becomes mandatory. Issuers affected are encouraged to follow the discussions at the IFRS IC and to apply the clarifications provided.
20. ESMA notes that the IASB and the U.S. Financial Accounting Standards Board (FASB) have set-up the Joint Transition Resource Group for Revenue Recognition (TRG) in order to provide a forum to identify and to discuss implementation issues arising from the new revenue recognition requirements. While the discussions of the TRG do not provide authoritative guidance, they draw the attention to specific elements of the standard that are considered to be helpful to address the issues raised. Consequently, ESMA encourages issuers to consider the meetings' summaries when implementing IFRS 15.
21. Following the discussions of the TRG, the IASB published in April 2016 *Clarifications to IFRS 15* effective 1 January 2018. While ESMA acknowledges that these clarifications might not be endorsed in the EU by the time the 2016 financial statements are published, ESMA considers that issuers should take these clarifications into account when implementing the standard.⁷
22. ESMA also highlights that the FASB has issued further guidance on the application of the U.S. standard.⁸ ESMA recommends European issuers to apply caution before using the

⁷ <http://www.ifrs.org/Current-Projects/IFRIC-Projects/Pages/IFRS-Standards-list.aspx>

⁸ FASB's Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers

guidance developed for the purposes of U.S. GAAP when applying IFRS 15. Therefore, when analysing whether the U.S. guidance should be applied, issuers should assess whether the IASB considered that additional guidance on that specific matter was needed and/or whether the guidance issued in the context of US GAAP is compatible with the IFRS framework.

Illustrative timeline and good practices of disclosures

23. The following paragraphs illustrate good practices of disclosure to be provided when an issuer expects the application of IFRS 15⁹ to have a significant impact on its financial statements. Accordingly, this illustrative list is not exhaustive and each issuer should take into account materiality and its individual circumstances in order to provide relevant and transparent financial information to users of financial statements.

24. Where issuers decide to early apply IFRS 16 (at the same date as IFRS 15), they should adapt the disclosures provided to the specificities of the implementation of IFRS 16 (e.g. separately disclosing the impact of both standards in their financial statements).

2016 IFRS annual financial statements:

- Detailed description and explanation on how key IFRS 15 concepts will be implemented along the different revenue streams (e.g. identification of performance obligations, determination and allocation of the transaction price and how performance obligations are satisfied and revenue is recognised). Where relevant, highlight the differences to the current approaches.
- Explanation of the timeline for implementing IFRS 15, including expected use of any of the transition practical expedients, i.e. the cumulative catch-up transition method or the full retrospective application and, for example, the practical expedient for completed contracts (e.g. approach to provide comparative information at the date of initial application, planning of implementation and disclosure of information).
- If known or reasonably estimable, quantification of the possible impact of the application of IFRS 15 (e.g. either in relation to the amount or timing of the revenue recognised in relation to the different revenue streams).
- When the quantitative information is not disclosed because it is unknown or not reasonably estimable, additional qualitative information enabling users to understand the magnitude of the expected impact on the financial statements of the issuer.

2017 interim financial statements:

While IAS 34 *Interim Financial Reporting* does not require specific disclosure requirements related to updates of information provided in the latest annual financial statements in relation to a new IFRS Standard that has been issued but has not yet come into effect, ESMA is of

⁹ Assuming the effective date of 1 January 2018, without early adoption.

the view that, where significant, issuers could provide an update of information provided in the 2016 IFRS financial statements (as referred above) in the interim financial statements.¹⁰

In particular, an issuer could provide quantitative information on the impact of the transition to IFRS 15 on its interim financial statements in the following cases:

- The issuer expects a significant impact from the application of IFRS 15 but is unable to provide reliable information on it in the 2016 annual financial statements and reliable quantitative information on the impact becomes available before the publication of the 2017 interim financial statements; or
- The issuer is able to provide significantly more specific information in the 2017 interim financial statements compared to the one provided previously.

2017 IFRS annual financial statements:

ESMA notes that as the annual financial statements for 2017 will be published after IFRS 15 has become effective, issuers should provide a quantitative assessment of the impact of IFRS 15 on their financial statements as of 1 January 2018.

Consequently, ESMA expects that the 2017 annual financial statements provide the quantitative impact of the application of IFRS 15 and explain the changes to the amounts reported under IAS 11 and/or IAS 18, disaggregated as appropriate. Moreover, ESMA expects that the information already provided in previous financial statements is further developed and elaborated taking into account the actual implementation of IFRS 15.

Next steps

25. ESMA notes that once IFRS 15 is applied, i.e. at the latest in the 2018 annual financial statements, disclosures required by paragraphs C4, C6 and C8 of IFRS 15 related to the initial application of IFRS 15 need to be provided. These disclosures aim at providing an overview of the impact of the transition from IAS 11 and/or IAS 18 to IFRS 15.

¹⁰ Such information might need to be disclosed in advance of publication of the annual financial statements based on the provisions of the Market Abuse Regulation if considered to be inside information.