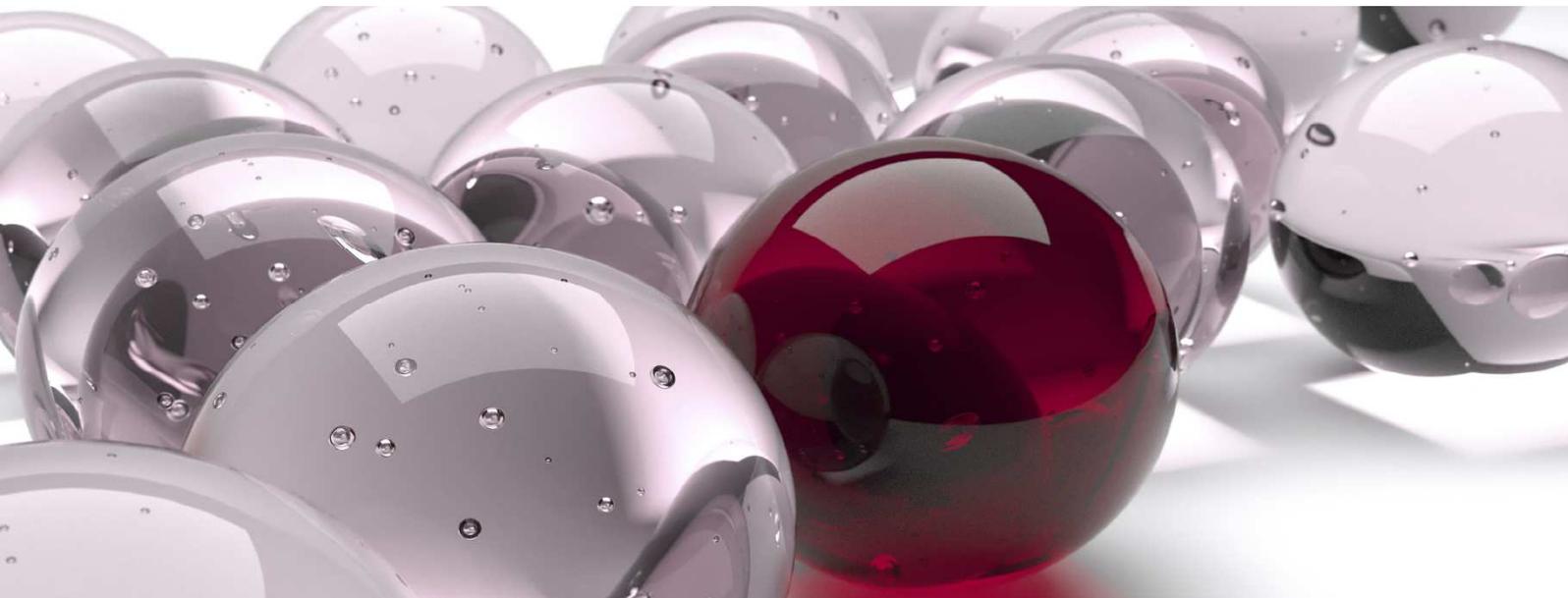


Beyond the GAAP

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Mazars' newsletter on accounting standards



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Editorial

As scheduled, the IASB has published its exposure draft, proposing a one-year deferral of the mandatory effective date of IFRS 15. This exposure draft is to be followed by a second, scheduled for July, proposing amendments to the standard (in the form of clarifications and additional examples) ensuing from the work of the TRG. Although further TRG meetings are scheduled, the IASB is not planning to make any further amendments.

The IASB has also published its draft Conceptual Framework this month. Although this will not have any immediate impact on currently-applicable standards, it sets out the context for their future development. It should however be noted that some important issues, such as the definition of 'performance' and distinguishing between debt and equity, are not addressed in the draft and have been added to the IASB's work plan as research projects. Beyond the GAAP will address the key elements of the IASB's proposed Conceptual Framework in a future issue.

Enjoy your reading!

Michel Barbet-Massin Edouard Fossat

IFRS Highlights

Conceptual Framework for financial reporting: IASB publishes exposure draft

On 29 May 2015, the IASB published an exposure draft of its Conceptual Framework for financial reporting.

The aim of this document is to improve financial reporting by augmenting, clarifying and updating the existing Conceptual Framework so that it can be used by:

- The IASB, when developing IFRSs; and
- Its stakeholders, to facilitate their understanding and implementation of IFRSs.

In a future issue, Beyond the GAAP will look in more detail at the various proposals put forward in this substantial document (around 200 pages, including the Basis for Conclusions).

The comment period is open until 26 October 2015.

The full exposure draft is available here:

<http://www.ifrs.org/Open-to-Comment/Pages/International-Accounting-Standards-Board-Open-to-Comment.aspx>

IASB publishes amendments to IFRS for SMEs

On 21 May 2015, the IASB published a whole range of amendments to the IFRS for SMEs (published in 2009). This marks the culmination of the first comprehensive review of the standard, which began in 2012.

The published amendments relate to 21 of the 35 sections of the standard. The large majority are clarifications and additions to the application guidance, with a view to improving users' understanding of the document. These amendments are unlikely to have a significant impact on the financial reporting of SMEs. They will be applicable for financial periods commencing on or after 1 January 2017. Early application will be permitted.

The amendments are available on the IASB's website via the following link:

http://www.ifrs.org/IFRS-for-SMEs/Documents/IFRS%20for%20SMEs%20May%202015/2015_Amendments%20to%20IFRS%20for%20SMEs_Standard.pdf

Recently-published exposure draft proposes deferral of IFRS 15 effective date

On 19 May 2015, the IASB published an exposure draft which proposes deferring the effective date of the new revenue recognition standard. If stakeholders are in agreement with the IASB's proposal, the effective date of IFRS 15 will be deferred by one year, and will thus be applicable for financial periods commencing on or after 1 January 2018. Early application would still be permitted. The comment period is open until 3 July 2015.

EFRAG has already published its draft comment letter as part of its own due process, and supports the IASB's proposal.

Improvements to the notes: IFRS Foundation sets a good example

On 5 May 2015, the IFRS Foundation published its annual report for the financial period to 31 December 2014. In line with the project to improve the notes to financial statements, the Foundation's financial statements were presented in accordance with the amendments to IAS 1 published by the IASB at the end of 2014 (see Beyond the GAAP, December 2014).

Thus, the statement of comprehensive income and the related notes were reorganised into sections that reflect the various activities of the Foundation:

- the IASB's activities (technical and operational activities, Trustee oversight, premises, taxation);
- funding (contributions, publications and related activities);
- management of funds (foreign currency management, investments, finance income and finance costs).

The following information is presented in each section:

- the relevant financial data;
- the key accounting policies that are relevant to an understanding of the Foundation's activities; information deemed to be less relevant has been either:
 - removed; or
 - simplified.

Thus, the key information is presented more clearly for users of the financial statements.

This has not actually resulted in a shorter notes section (8 pages in 2014, 7 pages in 2013). However, the page design incorporates less content and more white space, thus improving legibility.

The IFRS Foundation annual report for 2014 can be accessed here:

<http://www.ifrs.org/Alerts/Publication/Pages/IFRS-Foundation-publishes-2014-Annual-Report.aspx>

European highlights

European Commission seeks new EFRAG President

Last March, the European Commission nominated Mr Wolf Klinz as President of EFRAG. He was due to take up office in June, once his nomination had been approved by the European Parliament and Council and ratified by the General Assembly of EFRAG. However, Mr Klinz has announced that he will not be taking up the Presidency, due to health reasons.

Mr Roger Marshall will therefore continue to act as President during the interim period until a new President is appointed, which the European Commission intends to do as soon as possible.

EFRAG recommends adoption of IFRS 9

On 4 May 2015, EFRAG published its Draft Endorsement Advice on IFRS 9 *Financial Instruments*. In this document, EFRAG recommends adoption of the standard, and broadly concurs with the IASB's proposed timeline: a mandatory effective date of 1 January 2018, with early application permitted. However, EFRAG also points out that insurers are in an unusual position since, as things stand currently, they could find themselves required to apply IFRS 9 to their financial assets before implementation of IFRS 4, which is likely to have a substantial impact on the accounting treatment of insurance liabilities. In view of this, EFRAG recommends asking the IASB to permit insurance companies to defer application of IFRS 9.

The draft document is available via the following link:
[http://www.efrag.org/files/IFRS%209%20endorsement/IFRS_9_DEA - May 4 2015 - final.pdf](http://www.efrag.org/files/IFRS%209%20endorsement/IFRS_9_DEA_-_May_4_2015_-_final.pdf)

Comments should be sent to EFRAG by 30 June 2015.

A closer look

IASB continues redeliberations on IFRS 15

In April and May, the IASB continued to discuss two issues relating to the new revenue recognition standard:

- Collectability considerations relating to Step 1 of the IFRS 15 revenue recognition model, *Identify the contract(s) with a customer* (April 2015 meeting);
- Agent versus principal considerations (May 2015 meeting).

Both issues have previously been discussed by the Transition Resource Group (TRG) and in joint discussions with the FASB in March 2015.

Collectability considerations

As a reminder, IFRS 15 states that one of the conditions that must be met in order to identify a contract with a customer (and thus to be entitled to recognise revenue) is that it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services that it provides to the customer. If this criterion is not met, the amounts received from the client are not recognised as revenue unless and until the contract is completed or terminated and the amounts received from the client are not reimbursable.

Stakeholders raised questions around the practical implementation of these requirements, as they could appear punitive in some situations.

At the joint meeting with the FASB in March 2015, the US standard-setter reached a number of decisions (although they are yet to be confirmed through its due process). The IASB, on the other hand, did not reach any decisions, pending further discussion on the subject. For more details on the March 2015 joint meeting, and the (tentative) decisions made by the FASB, see the March 2015 issue of *Beyond the GAAP*.

The IASB continued discussions on the subject at its April 2015 meeting, and finally decided not to make any clarifications or amendments to IFRS 15 on this topic.

Agent versus principal considerations

The principles for determining whether an entity is acting as a principal or as an agent, are located in the IFRS 15 application guidance, in paragraphs B34 onwards. Paragraph B34 states that when another party is involved in providing goods or services to a customer of the entity, the entity must determine whether the nature of it is promise is an obligation:

- to *provide* the specified goods or services *itself* (i.e. it is acting as a principal); or
- to *arrange for the other party to provide* the specified goods or services (i.e. it is acting as an agent).

Since IFRS 15 simply reproduced the indicators given in the IAS 18 application guidance for determining whether an entity is acting as an agent or a principal, some stakeholders felt it was not clear whether conclusions reached previously were likely to be called into question by the general principle of IFRS 15. This general principle states that an entity is acting as a principal if it *controls* the promised good or service *before* transferring it to the customer. Moreover, putting this principle into practice may prove particularly complex where transactions involve intangible goods or services.

After a question was submitted to the TRG and discussed at the July 2014 meeting, the FASB and IASB staffs carried out additional research on the subject. The two Boards discussed the issue in March 2015 but did not reach any conclusions.

In May 2015, the IASB members agreed with the staff that the standard is clear, in that:

- The general control principle shall be applied, as stated in paragraph B35;
- The indicators listed in paragraph B37 do not contradict this principle. They are there to help entities assess control in situations where it is not clear whether the entity controls the goods or services. It is thus likely that an entity has control if it meets one or more of the criteria set out in paragraph B37. These indicators should not be viewed in isolation or as an alternative to the general control principle;

- Examples 47 and 48 demonstrate that it is necessary to first identify the specified goods or services, as stated in paragraph B34, in order to determine the nature of the entity's performance obligation. For instance, in Example 47 in the standard, the question is whether a travel agent is acting as a principal or as an agent when it purchases tickets from airlines at a particular rate in order to resell them to end clients. The staff emphasised that the specified good is the right to a flight (i.e. the ticket), not the flight itself – otherwise the agent versus principal issue would not arise, from the travel agent's perspective.

By the end of the meeting, the IASB had made the following (tentative) decisions:

- To amend IFRS 15 to clarify the application of the control principle to services. Paragraph B35 may be amended as follows (cf. paragraph 63 Agenda Paper 7A) : *"The entity that is a principal controls:*
 - (a) a good (e.g. a right) that it obtains from the other party that it then transfers to the customer;*
 - (b) a right to a service to be provided by the other party, which gives the entity the ability to direct the other party to provide that service to the customer on the entity's behalf in satisfying its performance obligation; or*
 - (c) a good or service that it then integrates with other goods or services into a bundle of goods or services that represents its performance obligation."*

However, this decision passed with a very narrow majority.

- To amend examples 45 to 48 in line with the decision above, and to add additional examples;
- Not to change the indicators in paragraph B37.

It should be noted that the issues relating to principal versus agent considerations will be discussed again at the June joint meeting with the FASB, notwithstanding the (tentative) decisions presented above. However, the IASB is not expecting to revise its position, given that a limited exposure draft on IFRS 15 is scheduled for approval in June (see below). In fact, some members of the IASB suggested that if the FASB were to persist in tinkering with this issue, potentially resulting in significant changes to the current Topic 606 (which is converged with IFRS 15), then this would lead to divergence between the two Boards, as the IASB would not be prepared to go along with these decisions.

At the end of the meeting, the IASB briefly discussed a potential change to the provisions of IFRS 15 on series (cf. the March 2015 TRG meeting, reported in the April 2015 issue of *Beyond the GAAP*). These provisions, set out in paragraphs 22(b) and 23 of the standard, require an entity to treat a series of distinct goods or services as a single performance obligation if certain conditions are met. The members of the TRG questioned whether it was necessary for this to be a mandatory requirement, given that it was intended to make things simpler. The FASB also included a question in its exposure draft *Identifying Performance Obligations and Licensing* (see below) on whether the requirement should be changed to an optional practical expedient. The FASB also asked stakeholders what the potential consequences would be if the series requirements were made optional. Therefore, at the May 2015 IASB meeting, the Board returned to the issue and discussed the FASB's proposal. However, the IASB ultimately decided that it would not change the series requirements of IFRS 15.

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In addition to the exposure draft proposing a one-year deferral of the IFRS 15 effective date (see 'IFRS Highlights', above), the IASB has confirmed that a further exposure draft proposing limited amendments to IFRS 15 is to be published in July 2015. Thus, the content will be finalised in June 2015. In practice, these amendments will relate to licences (see Beyond the GAAP, February 2015), identifying performance obligations (idem), transition requirements (see Beyond the GAAP, March 2015) and agent versus principal considerations (see above). Two more meetings of the TRG are scheduled for 2015 (13 July and 9 November). It is not currently clear how the IASB will deal with any issues identified in these meetings.

While we await the publication of the IASB's exposure draft, readers may find it useful to cast an eye over the one

published by the FASB on 12 May, which deals with licensing and identifying performance obligations. The comment period is open until 30 June 2015 and the document can be downloaded from the following link: http://www.fasb.org/cs/ContentServer?c=Document_C&page=1176166005104

Readers will remember that the (tentative) decisions made thus far by the FASB are not absolutely identical to those made by the IASB (see the February and March 2015 issues of Beyond the GAAP). Moreover, the FASB is expected to publish at least one more exposure draft to cover issues other than licensing and identifying performance obligations, on which decisions have already been reached.

Key points to remember

Mandatory effective date

The IASB has published an exposure draft that proposes a one-year deferral of the standard's mandatory effective date. It would thus become mandatory for financial periods commencing on or after 1 January 2018, but early application would still be permitted.

Agent versus principal considerations

1. The IASB is expected to propose an amendment to IFRS 15, providing clarification on how to assess an entity's role in the context of a service contract.
2. These clarifications will be accompanied by additional illustrative examples.
3. The issue of whether the entity controls the goods or services before transferring control to the customer is still key to assessing whether the entity is acting as an agent or a principal.

Collectability

The IASB considers that the rules on collectability of a consideration – which determine whether a contract with a customer exists and whether the entity can recognise revenue – are clear. It therefore does not intend to add any additional clarifications to the standard on this issue.

Other points relating to proposed amendments to IFRS 15

The IASB's exposure draft, which is scheduled for July 2015, is expected to propose amendments on various subjects that have been discussed at previous meetings of the TRG. These are expected to include:

1. The accounting treatment of licences;
2. Identifying performance obligations;
3. Transition requirements (on contract modifications).

A closer look

Standards and interpretations applicable at 30 June 2015

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position as at 19 May 2015): http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFrag_Endorsement_Status_Report_19_May_2015.pdf

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

- The IASB's draft standards cannot be applied as they are published standards.
- IFRIC's draft interpretations may be applied if the two following conditions are met:
 - The draft does not conflict with currently applicable IFRSs;
 - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).

- Interpretations published by the IASB but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 "Interim Financial Reporting", the changes in accounting policies required for 2014 by new standards must also be disclosed in the interim financial reporting published during the course of the year.

1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 30 June 2015
Annual improvements to IFRSs 2011-2013 Cycle	Annual improvements to various Standards (issued on 12 December 2013)	1/07/2014 Early application permitted	19 December 2014 Effective for annual periods beginning on or after 1 January 2015	Mandatory
Annual improvements to IFRSs 2010-2012 Cycle	Annual improvements to various Standards (issued on 12 December 2013)	1/07/2014 Early application permitted	9 January 2015 Effective for annual periods beginning on or after 1 February 2015	Permitted
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions (issued on 21 November 2013)	1/07/2014 Early application permitted	9 January 2015 Effective for annual periods beginning on or after 1 February 2015	Permitted
Annual improvements to IFRSs 2012-2014 Cycle	Annual improvements to various Standards (issued on 25 September 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2015)	Permitted⁽¹⁾
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)	1/01/2016 Early application permitted (prospectively)	Awaiting endorsement by the EU (expected in Q4 2015)	Permitted⁽¹⁾

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

1. Situation of European Union adoption process for standards and amendments published by the IASB (continued)

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 30 June 2015
IFRS 9	Financial Instruments	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in H2 2015)	Not permitted
IFRS 15	Revenue from contracts with Customers (issued on 28 May 2014)	1/01/2017^(*) Early application permitted	Awaiting endorsement by the EU (*) (expected in Q3 2015)	Not permitted
Amendments to IAS 16 and IAS 41	Bearer Plants (issued on 30 June 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2015)	Not permitted
Amendment to IAS 27	Equity Method in Separate Financial Statements (issued on 12 August 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2015)	Not permitted
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q1 2016)	Permitted ⁽¹⁾
Amendment to IAS 1	Disclosure Initiative (issued on 18 December 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2015)	Permitted ⁽¹⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	1/01/2016 (could be amended) Early application permitted	Differed (Waiting for a minor correction to that amendment)	Permitted ⁽²⁾
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2015)	Permitted ⁽²⁾

(*) The IASB issued an ED proposing to defer the effective date of IFRS 15 by one year (i.e. for annual reporting periods beginning on or after 1 January 2018). This tentative decision may have an impact on the date of adoption of IFRS 15 in the EU

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) if the entity had not developed an accounting policy

2. Situation of European Union adoption process for interpretations published by the IFRS IC

Interpretation	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 30 June 2015
IFRIC 21	Levies (issued on 20 May 2013)	1/01/2014 Early application permitted	13 June 2014 Effective for annual periods beginning on or after 17 June 2014	Mandatory

Events and FAQ

Frequently asked questions

IFRSs

- Recognition of an investment in an entity which is 50/50 jointly owned with a third party outside the group;
- Recognition of a patent sale and leaseback transaction;
- Recognition of a patent whose value is calculated in line with royalties based on revenue;
- Classifying an inter-group loan as a net foreign investment if the loan is not denominated in either of the functional currencies used by the two parties to the contract.

Upcoming meetings of the IASB, the IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
22-26 June	14-15 July	24 June	8-10 July
20-24 July	8-9 September	21-22 July	9-11 September
21-25 September	10-11 November	1er September	7-9 October

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