A Closer Look

IFRS 15: Learning points from disclosures in the notes at 31 December 2018

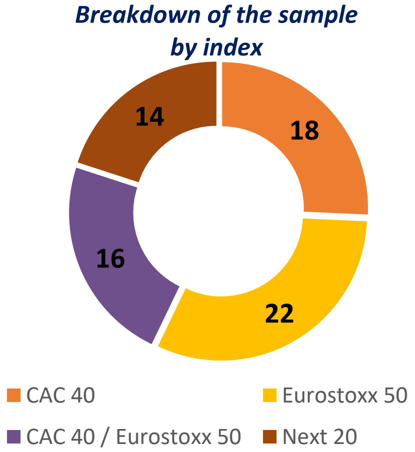
Following the publication of the first annual consolidated IFRS financial statements applying IFRS 15, we examined the financial reporting (financial statements and other elements of financial communication) of a sample of 70 European groups at 31 December 2018. This has enabled us to identify the key lessons to be learned on some of the major issues relating to disclosures required in the notes.

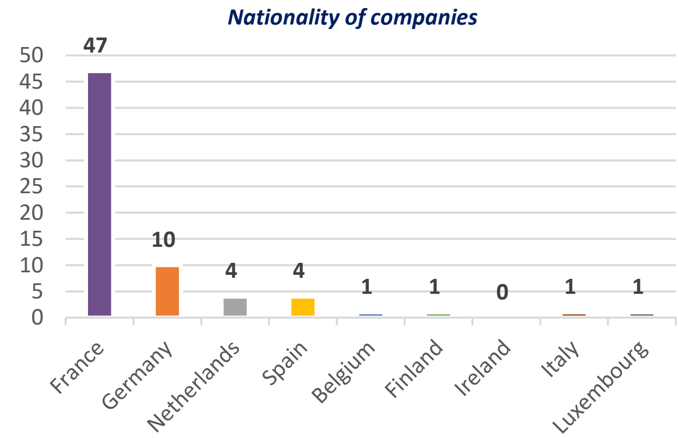
We decided to focus on two key requirements of the standard: **the disclosures required on disaggregation of revenue** and the **disclosures relating to the transaction price allocated to unsatisfied performance obligations** (or in other words, the "order backlog", defined and measured in accordance with IFRS 15). These two issues raised a lot of questions from preparers of financial statements prior to initial application of IFRS 15, and regulators are therefore paying close attention to these topics.

Our study aims to examine the decisions made by the groups in our sample, and to identify good practice. It also puts forward some points for consideration in the future, with a view to improving and enriching disclosures in the notes.

1. Characteristics of the sample

We used the same sample selection criteria as in our previous studies on implementation of IFRS 15, analysing the financial reporting of industrial and services companies from the Eurostoxx 50, CAC 40 and Next 20, with the exception of those whose financial reporting did not coincide with the calendar year. This gave us a sample of 70 European companies:





All of the charts and tables in this study have been produced by Mazars, based on data gathered from the financial statements and other elements of financial reporting (management reports, press releases, etc.) published by the companies in our sample for the period to 31 December 2018.

The extracts from financial reporting that follow are provided as illustration only, and are not intended to represent the whole range of good practices identified when analysing the financial communication of the sample.

2. Disaggregation of revenue: application of IFRS 15 results in more detailed reporting

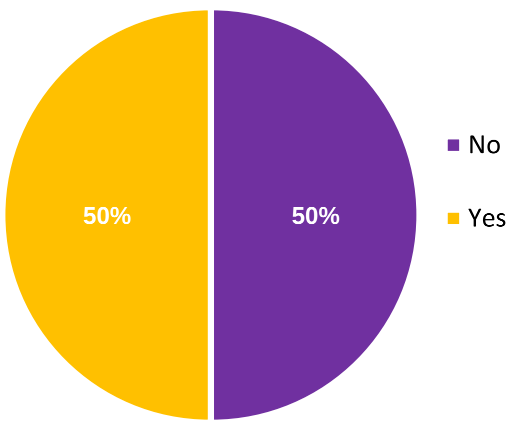
Unlike the standards that it replaced, IFRS 15 contains substantive and detailed requirements for revenue-related disclosures.

In particular, IFRS 15 now requires entities to disaggregate revenue in such a way as to enable users of the financial statements to understand the main drivers of revenue, by showing how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

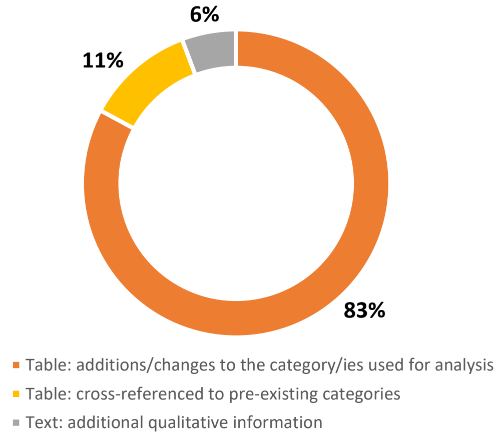
In its 2018 European Common Enforcement Priorities, ESMA emphasised the importance of determining the appropriate revenue disaggregation categories and providing additional information where required. It encouraged entities to take into account the principles and examples provided in the standard, as well as the information provided in the segment information and the information presented in financial communication documents other than the financial statements. This could require entities to present a more detailed disaggregation than required by IFRS 8.

Although this information should already have been included in the 2018 interim financial statements, we were interested in investigating how this played out in practice at 31 December 2018, when the first annual consolidated financial statements applying IFRS 15 were published.

Were additional disclosures presented, compared with financial reporting at 31/12/2017?



How were these additional disclosures presented?

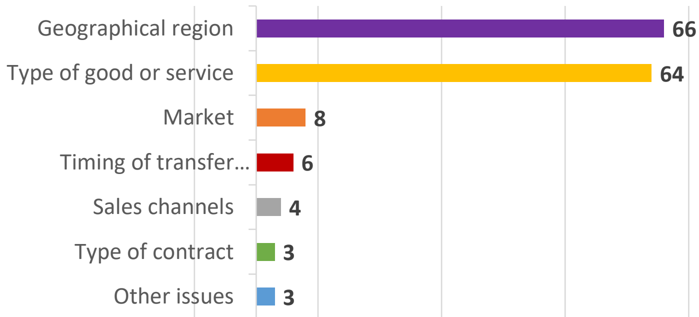


Of the 35 groups that presented additional disclosures:

- 29 groups presented one or more **new revenue disaggregation categories** in a **table**, with some **cross-referencing** them to pre-existing categories;
- 4 groups reworked their segment information, **cross-referencing** it to the categories **used historically**;
- 2 groups presented new information on the timing of the transfer of goods and services in a **narrative format**.

It should be noted that, of the 35 groups that did not present any additional disclosures, only five were materially impacted by the implementation of IFRS 15[†].

What categories were used for disaggregation of revenue?



Among the companies in the sample, the number of categories used ranged between 1 and 4, with **nearly all the groups in the sample (91%) using at least two categories**. Moreover:

- the large majority of groups (84%) disaggregated revenue using two or three categories including 'Geographical region' and 'Type of good or service';
- 9% of groups disaggregated revenue using only a single category ('Geographical region' or 'Type of good or service');
- 7% of groups disaggregated revenue using four categories (including 'Geographical region' and 'Type of good or service').

[†] Assessing materiality requires the use of judgement

In summary, while in general companies have provided more detailed information on revenue, it should be noted that IFRS 15 does not only require entities to disaggregate revenue into relevant categories in order to achieve the objectives discussed above, but also to disclose information that will enable users of financial statements to **understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment in accordance with IFRS 8** (cf. IFRS 15.115). On this topic, an illustrative example in the standard (IFRS 15.IE211) includes a **cross-tabulation** showing the relationship between disaggregation of revenue (by geographical region, type of good or service and timing of transfer of goods/services) and segments reported in accordance with IFRS 8 (which happen to be the group's main business segments).

However, our study shows that the **relationship with IFRS 8 segment information is not always clearly shown** (even though, as noted above, many groups have presented more detailed revenue disclosures following application of the standard). While some preparers may have run up against issues relating to the availability of certain information, it is nonetheless important to point out that this requirement is a **key enforcement priority for ESMA**. Finally, it should be noted that another of the enforcers' priorities is **consistency** in the level of detail of disaggregation of revenue **between the other financial disclosures and the financial statements**. Thus, if a category is used for analysis outside the financial statements, it should probably also be used for the disaggregation of revenue in order to meet the objectives of IFRS 15.

Extract from Notes to the Consolidated Financial Statements – Thales 2018 Registration Document:

2. SEGMENT INFORMATION

2.1 BUSINESS SEGMENTS

The business segments presented by the Group are as follows:

- The *Aerospace* segment, which combines the "Avionics" and "Space" Global Business Units that develop on-board systems and services for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) and for government/defence customers (national governments, space agencies and other semi-public organisations).
- The *Transport* segment, which comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civilian customer base of ground transportation infrastructure operators;
- The *Defence and Security* segment, which combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipment, systems and services for armed forces and for the protection of networks and infrastructure, mainly for a government/defence customer base.

In both 2017 and 2018, the Group's business is equally divided between civilian customers (50%) and military customers (50%).

2.2 SALES

2018	Aerospace	Transport	Defence & Security	Other	Thales
Sales by destination:					
Europe	3,564.8	1,083.7	4,056.3	30.7	8,735.5
North America	769.5	60.4	534.9	2.2	1,367.0
Australia and New Zealand	48.8	39.3	769.8	--	857.9
Total mature markets	4,383.1	1,183.4	5,361.0	32.9	10,960.4
Emerging markets *	1,396.4	817.1	2,658.6	22.2	4,894.3
Total	**5,779.5**	**2,000.5**	**8,019.6**	**55.1**	**15,854.7**
Revenue recognition method:					
Over time	3,615.4	1,734.2	6,225.3	21.1	11,596.0
At a point in time	2,164.1	266.3	1,794.3	34.0	4,258.7
Total	**5,779.5**	**2,000.5**	**8,019.6**	**55.1**	**15,854.7**

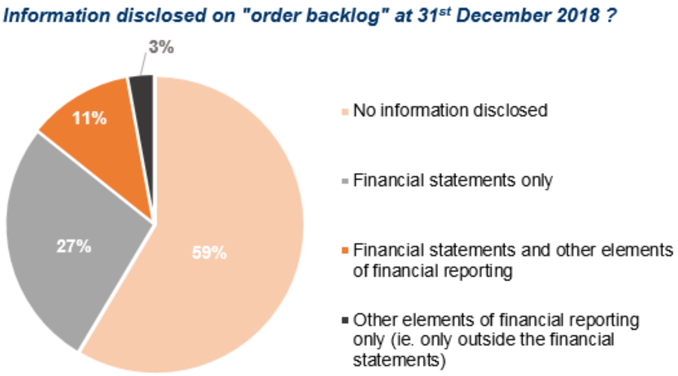
Thales, 2018 Registration Document, pages 185-186

The groups that presented additional disclosures in comparison with 31/12/17 and that also clearly showed the relationship with segment information include (among others) Ahold Delaize, Bouygues, CRH PLC, Deutsche Telekom and ENGIE.

Key points to remember

- It is not always necessary to add new revenue disaggregation categories in order to meet the requirements of IFRS 15. The categories that have historically been used – particularly for segment reporting in accordance with IFRS 8 – may be adequate. Remember that the objective is to disaggregate revenue "into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors" (IFRS 15.114). However, an assessment should always be carried out in order to document that this point has been addressed and to identify any additional categories that may be required in order to meet the objective set out in IFRS 15. In practice, half of the groups in our sample presented additional details on the disaggregation of revenue at 31 December 2018, compared with the information that had historically been presented.
- It is important – applying IFRS 15.115 – to show the connection between disclosures of disaggregated revenue and IFRS 8 disclosures on revenue information for each reportable segment. Users of financial statements must be able to "understand the relationship" between these two sources of information; a cross-tabulation could be useful in order to meet this requirement. In practice, our study showed that this connection was rarely made.
- Finally, revenue disaggregation disclosures in the notes to the financial statements must be consistent with information presented in other elements of financial reporting. It is likely that an analysis presented in non-financial communication is relevant information that should be taken into account in the disaggregation of revenue in order to meet the objectives of IFRS 15.

3. "Order backlog": what disclosures are presented within and outside the financial statements?

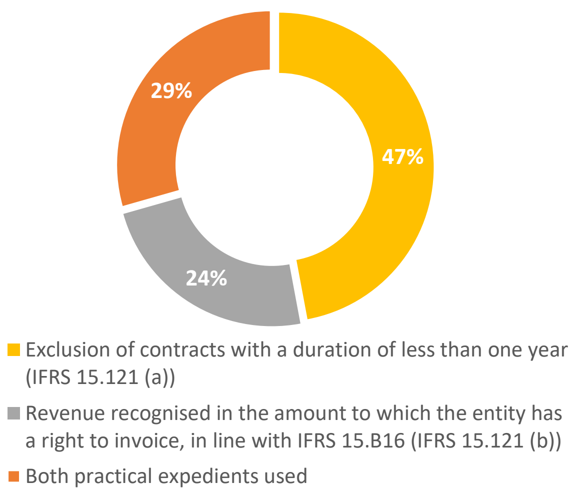


Forty-one groups did not present any disclosures on their "order backlog", either in the financial statements or in any other element of their financial reporting. Of these:

- 36 groups (i.e. nearly 90%) were not materially impacted by IFRS 15‡;
- of the five groups that were materially impacted, one group (Valeo) stated that its framework agreements with clients did not create enforceable rights and obligations at year-end; two groups explicitly presented disclosures on the application of practical expedients permitted under IFRS 15.121 (Accor and Publicis).

Furthermore, 17 groups in the sample (24%) **explicitly stated that they had used one or both of the practical expedients** permitted by the standard, which allow entities to exclude certain contracts from the "order backlog", defined and measured in accordance with IFRS 15. We surmise that several groups that did not present their "order backlog" in the financial statements had probably also used the practical expedients, given their area of activity, although they did not explicitly state that they had done so. We remind readers that this is one of ESMA's enforcement priorities: issuers are expected to provide an explanation of the practical expedients used.

What practical expedients were used?



Quantitative breakdown or qualitative segment information?

Although IFRS 15 does not require a quantitative breakdown or segment information for the order backlog, we noted that 1/3 of the groups in the sample that presented their order backlog in the financial statements (i.e. 9 of the 27 groups that included this disclosure in the notes) voluntarily provided this information.

We also noted that seven of these nine groups presented the breakdown of the order backlog using the same categories as for the disaggregation of revenue.

Was comparative information restated?

Readers will remember that, on transition, the presentation of comparative information on the order backlog is:

- not applicable for groups using the modified retrospective approach;
- required for groups using the full retrospective approach.

However, IFRS 15.C5 (d) permits a **practical expedient** for transition, under which an entity need not disclose comparative information on the "order backlog".

Of the groups applying the full retrospective approach that presented their "order backlog" in accordance with IFRS 15 in the financial statements (i.e. 13 groups), **four presented restated comparative information** for 2017: Bouygues, Eiffage, Safran and Thales.

We also noted that these four groups **already presented** their order book prior to first-time application of IFRS 15 (with two of the groups presenting these disclosures in both the notes to the financial statements and the management report, and the two other groups presenting them only in the management report).

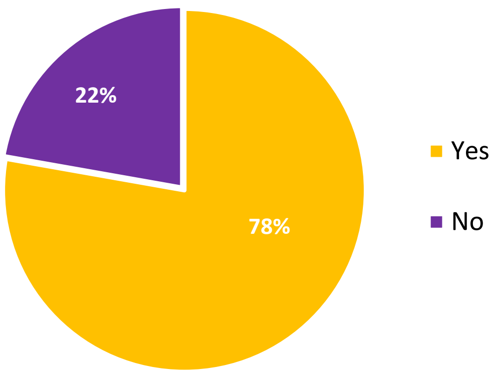
Are there disclosures on the timetable for recognition of the order book?

IFRS 15 requires entities to provide either quantitative or qualitative information on the timetable for recognition of the "order backlog".

This will explain when the entity expects to recognise as revenue the amount allocated to unsatisfied performance obligations.

‡ Assessing materiality requires the use of judgement

Are disclosures presented on the timetable for recognition of the order backlog (<u>required</u>)*?



* Chart showing only those groups that presented an IFRS 15 order book in their financial statements, i.e. a sub-sample of 27 groups

Of the 21 groups that provided disclosures on the timetable for recognition of the order backlog:

- 13 groups presented them in a **textual format**;
- 8 groups presented them in a **tabular format**;
- 8 groups broke down the order book into **one year or less** and **over one year**.

The standard offers quite a lot of latitude as to the type of disclosures provided (i.e. quantitative vs. qualitative) and the time bands used ("the time bands that would be most appropriate for the duration of the remaining performance obligations", cf. IFRS 15.120 (b) i). It is thus unsurprising that there is some diversity in the presentation of disclosures on the timetable for recognition of the order backlog. For example:

Groups	Format	Time bands used for breakdown
THALES	Text	3 years (order of magnitude)
AIRBUS	Text	7 years (order of magnitude)
orange	Table	< 1 an, between 1 and 2 years, between 2 and 3 years, between 3 and 4 years, between 4 and 5 years, > 5 years
BOUYGUES	Table	< 1 years, between 1 and 5 years, > 5 years

It should however be noted that simply providing the average duration (in months) of the remaining performance obligations at year-end is not sufficient to meet the requirements of the standard.

Extract from Notes to the Consolidated Financial Statements – Thales 2018 Registration Document (page 187):

2.3 COMMERCIAL ACTIVITY AND EBIT BY SEGMENT

2018	Aerospace	Transport	Defence & Security	Oth. elim. and unallocated*	Thales
Order book – non-Group at 31/12	7,984.8	4,143.5	20,130.9	69.5	**32,328.7**
Order intake – non-Group	5,345.7	1,858.2	8,775.1	55.3	**16,034.3**

2017 **	Aerospace	Transport	Defence & Security	Oth. elim. and unallocated*	Thales
Order book – non-Group at 31/12	8,259.9	4,289.3	19,451.4	63.6	**32 064.2**
Order intake – non-Group	5,237.5	1,780.7	7,856.5	56.5	**14 931.2**

At the end of 2018, the order book reached €32,328.7 million. Around 80% of this amount is expected to convert into sales within three years.

Extract from Notes to the Consolidated Financial Statements – Orange 2018 Registration Document (page 169)

The following table presents the transaction price assigned to unfulfilled performance obligations as at December 31, 201 Unfulfilled performance obligations are the services that the Group is obliged to provide to customers during the remaining fixe term of the contract. As allowed by the simplification procedure in IFRS 15, these disclosures are only related to performan obligations with an initial term greater than one year.

(in millions of euros)	Total Decem 31, 2
Less than one year	6,
Between 1 and 2 years	3,
Between 2 and 3 years	[illegible]
Between 3 and 4 years	[illegible]
Between 4 and 5 years	[illegible]
More than 5 years	[illegible]
Total remaining performance obligations	**11,**

Extract from Notes to the Consolidated Financial Statements – Bouygues 2018 Registration Document (page 305)

11.4 Order backlog

The Group's order backlog stood at €34,852 million as of 31 December 2018.

		Movements during 2018				
	31/12/2017 restated	Translation adjustments	Changes in scope of consolidation	Increases	Reductions	31/12/2018
Construction businesses	**31,470**	**(484)**	**1,338**	**30,001**	**(29,179)**	**33,146**
- Bouygues Construction	21,177	(410)	500 a	13,550	(12,634)	22,183
- Bouygues Immobilier	2,709			2,393	(2,624)	2,478
- Colas	7,584	(74)	838	14,058	(13,921)	8,485
TF1	**50**			**56**	**(50)**	**56**
Bouygues Telecom	**1,482**			**1,763**	**(1,414)**	**1,831**
Inter-segment adjustments	**(241)**		**(12)**	**(20)**	**92**	**(181)**
Total order backlog	**32,761**	**(484)**	**1,326**	**31,800**	**(30,551)**	**34,852**
- maturing within less than 1 year	17,212					18,575
- maturing within 1 to 5 years	13,160					12,239
- maturing after more than 5 years	2,389					4,038

(a) Includes newly-consolidated entities (€780m for Alpiq Engineering Services and €210m for AW Edwards), and the deconsolidation Axione (€490m).

Non-financial information

Of the 10 groups (14% of the sample) that presented disclosures on the "order backlog" **<u>outside the financial statements</u>**:

- Six groups presented the "IFRS 15 order backlog" that was included in the financial statements;
- Four groups presented disclosures using a "non-GAAP" measure:
  - Two of these had presented an "IFRS 15 order backlog" in the financial statements, and in addition to this presented an order backlog broken down by operating business segment.
  - The other two had not presented an "IFRS 15 order backlog" in the financial statements, but nonetheless continue to include the order backlog that had historically been presented in the non-financial information. It was not made clear whether this order backlog complied with the definition and measurement requirements set out in IFRS 15.

Key points to remember

- Around 60% of the groups in the sample did not present an "order backlog" defined and measured in accordance with IFRS 15 in the notes to the financial statements. A minority of the groups that did not present this information explicitly stated that they had applied one or both of the practical expedients permitted by the standard; thus, the lack of disclosures on the "order backlog" was presumably due to the fact that the performance obligations were part of customer contracts with short durations. It is thus important to point out that any practical expedients used should be disclosed, as they form part of the accounting policies and methods, and are also an enforcement priority this year.
- More than 3/4 of the groups that presented disclosures on their IFRS 15 "order backlog" included the required information on the timetable for recognition. In practice, the time bands used varied significantly, as each group chose the most appropriate for its business. However, simply providing the average duration (in months) of the remaining performance obligations at year-end is not sufficient to meet the requirements of the standard.
- Finally, if disclosures on the "order backlog" are presented in both the financial statements and other elements of financial reporting, the entity should explain any discrepancy between an "order backlog" defined and measured in accordance with IFRS 15 and an "order backlog" defined by the Group and used as an alternative performance measure. This is also one of this year's enforcement priorities.

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