Endorsement of International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15)

**Introduction, background and conclusions**

Attachment 1: Endorsement advice prepared by EFRAG
1. **INTRODUCTION**

European Commission officials and the European Financial Reporting Advisory Group (EFRAG) prepare studies on the effects of new accounting standards and interpretations before they are endorsed by the European Union. These studies set out the accounting issues involved, the results of stakeholder consultations and an analysis of the effects of implementing the new accounting rules in the EU.

EFRAG's endorsement advice to the European Commission on IFRS 15 assessed whether the standard meets technical endorsement criteria; is conducive to the European public good; gives companies enough time to implement it and whether its overall benefits outweigh costs. EFRAG’s endorsement advice is included in attachment 1.

2. **BACKGROUND**

The IASB issued IFRS 15 in May 2014. In September 2015, the IASB decided to postpone the effective date of the standard by one year, from 1 January 2017 to 1 January 2018.

The IASB issued a new standard on revenue recognition because its current guidance in this area has presented companies and investors with several difficulties. Firstly, current guidance, provided in two standards and a dozen of related interpretations, is not very coherent. Secondly, the two standards, issued more than 20 years ago, are now widely seen as outdated and incomplete. Finally, the IFRS and US accounting rules on revenue recognition are substantially different, limiting international comparability between companies.

*IASB due process and EFRAG consultations*

In line with its procedures, the IASB carried out two rounds of public consultations on the draft standard (in 2010 and 2011) which generated over 1,300 comment letters in total. In addition, the IASB presented and discussed its proposals in more than 200 meetings with stakeholders.

EFRAG’s approach was to carry out an initial evaluation of the standard, consult on the results of this initial evaluation and finalise its assessment in the light of the comments received. EFRAG provided the Commission with positive endorsement advice on the new standard in March 2015.

3. **EFFECTS STUDY**

*Impact on financial statements - assessment against technical endorsement criteria*

EFRAG considered the impact of IFRS 15 on the quality of financial statements by assessing whether the new standard is contrary to the principle of *true and fair view* and

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1 IFRS 15 is a joint project of the IASB and its US counterpart (FASB).
whether it meets the criteria of understandability, relevance, reliability and comparability. EFRAG concluded that these criteria were met.

Impact on European public good

In June 2014, Commission staff discussed with members of the Accounting Regulatory Committee whether IFRS 15 could pose any problems in Europe. With the exception of the standard's effective date (see below), ARC members did not identify any major issues.

EFRAG's endorsement advice concluded that adopting IFRS 15 would be conducive to the European public good. EFRAG expects that the standard will have several positive effects. In particular, IFRS 15 will require more relevant disclosures which shall enhance transparency and could lead to lower costs of capital for companies. Furthermore, the new standard will contribute to establishing a level playing field between EU and US companies as it will also be used in the USA. Finally, EFRAG identified no negative effects of IFRS 15 on the European economy.

Effective date

Both EFRAG and the Accounting Regulatory Committee expressed concerns that IFRS 15 gave companies too little time to implement it. The IASB addressed these concerns by postponing the effective date of the standard by one year, i.e. from 1 January 2017 to 1 January 2018.

Cost-benefit analysis

EFRAG's endorsement advice includes a cost-benefit analysis of IFRS 15. According to this, costs will mostly be incurred by companies (one-off implementation costs and ongoing costs of applying the standard) whereas benefits will be shared more widely: companies will benefit from better rules and possibly reduced costs of obtaining capital, and investors will benefit from better financial information.

Notwithstanding individual cases or specific industries, EFRAG's overall conclusion is that the benefits of IFRS 15 are likely to outweigh its costs.

4. CONCLUSION

On the basis of EFRAG’s endorsement advice, Commission staff has considered the main costs and benefits of endorsing IFRS 15. Commission staff agrees with EFRAG that the benefits of the standard will outweigh its costs and therefore considers that the EU should endorse it.

In particular, the new standard is based on one coherent revenue recognition model. IFRS 15 will replace all previous standards and interpretations in that area – often seen as incoherent, outdated and incomplete. Furthermore, IFRS 15 will deal with issues which

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were not previously covered, such as "complex transactions". Lastly, the new standard was developed jointly by the IASB and its US counterpart which means that companies in Europe and the US will report their revenues under the same rules.