EFRAG
European Financial Reporting Advisory Group

Clarifications to IFRS 15
Draft Letter to the European Commission

Olivier Guersent
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

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Dear Mr Guersent

Adoption of *Clarifications to IFRS 15 Revenue from Contracts with Customers*

Based on the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on the *Clarifications to IFRS 15 Revenue from Contracts with Customers* ('the Clarifications'), which were issued by the IASB on 12 April 2016. An Exposure Draft of the Clarifications was issued on 30 July 2015. EFRAG provided its comment letter on that Exposure Draft on 11 November 2015.

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*. The Clarifications become effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. A description of the Clarifications is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Clarifications would meet the technical criteria for endorsement, i.e. whether the Clarifications would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and not be contrary to the true and fair view principle. We have then assessed whether the Clarifications would be conducive to the European public good. We provide our conclusions below.

Do the Clarifications meet the IAS Regulation technical endorsement criteria?

EFRAG has assessed the Clarifications and has not identified any technical issues. EFRAG considers that they bring appropriate clarifications of the existing principles in IFRS 15 for accounting for revenues from contracts with customers in specific cases and will reduce the potential for diversity in practice to arise.

EFRAG has concluded that the Clarifications meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, and lead to prudent accounting. EFRAG has also assessed that the Clarifications do not create any distortion in their interaction with other IFRS and that the existing disclosure requirements in IFRS 15 are appropriate. Therefore EFRAG has concluded that the Clarifications are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2.

Are the Clarifications conducive to the European public good?

EFRAG has assessed that the Clarifications would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Clarifications could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that adopting the Clarifications is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3.

Our advice to the European Commission

As explained above, we have concluded that the Clarifications meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, lead to prudent accounting, and that they are not contrary to the true and fair view principle. We have also concluded that the Clarifications are conducive to the European public good. Therefore, we recommend the Clarifications for endorsement.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Roger Marshall
Acting President of the EFRAG Board

Appendix 1: Understanding the changes brought about by the Clarifications

Background of the Clarifications

1 *Clarifications to IFRS 15 Revenue from Contracts with Customers* ('the Clarifications') were issued on 12 April 2016.

The issue and how it has been addressed

2 After issuing IFRS 15 *Revenue from Contracts with Customers*, the IASB and the FASB formed the Transition Resource Group (the 'TRG') for Revenue Recognition to support implementation of their respective standards. Based on the issues that it was asked to consider, the TRG identified potential differences of views on how to implement the requirements in IFRS 15 and US GAAP.

3 The objective of the Clarifications is to clarify certain of the IASB's intentions when developing the requirements in IFRS 15. The objective is not to change the requirements and underlying principles of IFRS 15.

What has changed?

4 The Clarifications clarify the accounting in relation to the following topics:

(a) identifying performance obligations;

(b) principal versus agent considerations; and

(c) licensing.

5 In addition the Clarifications also provide additional practical expedients for transition to IFRS 15.

Identifying performance obligations

6 The Clarifications amend the wording of the 'separately identifiable' principle to convey more clearly that an entity should evaluate whether its promise, in the context of the contract, is to transfer (a) multiple distinct goods or services; or (b) a combined item or items that comprise the individual goods or services promised in the contract. The Clarifications also provide additional guidance to support entities in assessing whether a significant integration service is provided.

Principal versus agent considerations

7 The Clarifications amend IFRS 15 to (a) clarify how an entity should assess whether an entity is a principal or an agent; (b) clarify the application of the control principle to intangible assets and services; and (c) clarify the application of the indicators when applying the control principle.

Licensing

8 The Clarifications provide additional guidance on when activities change the intellectual property to which the customer has rights in such a way that the ability of the customer to obtain benefit from the intellectual property is significantly affected.

9 The Clarifications also provide additional guidance on the accounting for revenue in the form of a sales-based or a usage-based royalty promised in exchange for a licence of intellectual property (the 'royalties constraint'). The royalties constraint applies whenever a licence of intellectual property is the sole or predominant item to which the royalty relates. Further, the Clarifications prohibit the separation of a single

royalty into a portion subject to the royalties constraint and a portion subject to the general constraint on variable consideration.

Transition - practical expedients

10 The Clarifications amend the transition requirements to provide:

(a) for entities that apply IFRS 15 fully retrospectively, the option to exclude those contracts that are completed contracts at the beginning of the earliest period presented;

(b) for entities that elect to apply the modified retrospective approach, the option to apply the approach to those contracts that are completed contracts at the date of initial application; and

(c) for entities that apply IFRS 15 fully retrospectively or elect to apply the modified retrospective approach, the option not to restate individual contracts for contract modifications, although the aggregate effect of all modifications is to be reflected in allocating the transaction price to the satisfied and unsatisfied performance obligations.

When do the Clarifications become effective?

11 The Clarifications apply for annual periods beginning on or after 1 January 2018. Earlier application permitted. An entity shall apply those Clarifications retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In applying the Clarifications retrospectively, an entity shall apply the Clarifications as if they had been included in IFRS 15 at the date of initial application. Consequently, an entity does not apply the Clarifications to reporting periods or to contracts to which the requirements of IFRS 15 are not applied.

Appendix 2: EFRAG's technical assessment on the Clarifications against the endorsement criteria

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Clarifications. In it, EFRAG assesses how the Clarifications satisfy the technical criteria set out in the Regulation (EC) No 1606/2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability, so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether the Clarifications lead to prudent accounting and finally considers whether the Clarifications would not be contrary to the true and fair view principle.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRS or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Clarifications meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Clarifications meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (the IAS Regulation), in other words that the Clarifications:

(a) are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (the Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

3 The IAS Regulation further clarifies that '*to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of*

an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive' (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Clarifications would not be contrary to the true and fair view has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Clarifications from the perspectives of usefulness for decision-making and assessment of the stewardship of management. EFRAG has concluded that the information resulting from the application of the Clarifications is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG's assessment on whether the Clarifications are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether they meet all other technical criteria including whether the Clarifications lead to prudent accounting. EFRAG's assessment also includes assessing whether the Clarifications do not interact negatively with other IFRS and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 7 - 21;

(b) reliability: paragraphs 22 - 37;

(c) comparability: paragraphs 38 - 43;

(d) understandability: paragraphs 44 - 50;

(e) whether overall they lead to prudent accounting: paragraphs 51 - 54; and

(f) whether they would not be contrary to the true and fair view principle: paragraphs 55 - 58.

Relevance

7 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

8 EFRAG considered whether the Clarifications would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

9 In assessing whether the Clarifications result in the provision of relevant information, EFRAG builds on the assessment of IFRS 15. That is, as EFRAG concluded that IFRS 15 would result in the provision of relevant information, and therefore satisfied the relevance criterion, greater consistency in the application of IFRS 15 as intended by the IASB would be expected to be conducive to the provision of relevant information.

Identifying performance obligations

10 In its advice on the endorsement of IFRS 15, EFRAG considered that the requirements in IFRS 15 result in relevant information when revenue for distinct goods and services is recognised separately. EFRAG notes that the TRG discussions had identified circumstances where clarity was needed in the application of the requirements in IFRS 15 in order to avoid inappropriately combining distinct goods and services into a single performance obligation.

11 EFRAG considers that addressing this potential diversity in the interpretation of the requirements in IFRS 15 will support the provision of relevant information.

Principal versus agent

12 EFRAG considers that the accurate determination of the nature of the performance obligation (i.e. to provide goods or services or to arrange for those goods or services to be provided by another party) is essential to the provision of relevant information, as otherwise amounts of revenue would be misstated. EFRAG notes that the TRG discussion identified a number of instances where the application of the guidance was challenging. These were related to the carryover of indicators from the previous standard IAS 18 *Revenue*; and to transactions where it was difficult to identify the good or service to be provided to the customer.

13 EFRAG considers that the Clarifications will support consistent determination of the nature of the performance obligation and will therefore result in the provision of relevant information.

Licensing

<u>Nature of the entity's promise in granting a licence</u>

14 In its advice on the endorsement of IFRS 15, EFRAG assessed that determining the nature of the entity's promise in granting a licence provides relevant information as it is based on assessing whether the promise gives the licensee the right to access intellectual property as it existed at the time the licence was granted (i.e. the licence gives no rights to updates of the intellectual property); or the right to access the intellectual property over a period of time (i.e. the intellectual property is maintained and enhanced over the period of the licence by the licensor). EFRAG notes that the TRG discussions identified that one of the criteria to determine the nature of the entity's promise in granting a licence could be interpreted in different ways. This criterion is whether the expected activities of the entity significantly affect the intellectual property to which the customer has rights.

15 EFRAG considers that the Clarifications address the potentially diverse interpretations and will result in a more consistent determination of the nature of the entity's promise in granting a licence. As a result, the Clarifications will result in the provision of relevant information.

<u>Royalties constraint</u>

16 In its advice on the endorsement of IFRS 15, EFRAG assessed that information is relevant when the recognition of revenue for a sales-based or usage-based royalty is deferred until the subsequent sale or usage occurs and the performance obligation has been (partially) satisfied. EFRAG observes that TRG discussions indicated that it was unclear when a sales-based or usage-based royalty related to a licence and whether a performance obligation should be separated between a royalty and variable consideration. EFRAG considers that dividing a royalty into several parts that would be accounted for differently would not result in relevant information.

17 EFRAG therefore considers that, by clarifying the application of the royalty constraint, the Clarifications will result in the provision of relevant information.

Transition - practical expedients

<u>Full retrospective approach</u>

18 EFRAG observes that first-time adopters are given a similar practical expedient that allows them to not restate revenue contracts that were completed before the earliest period presented. EFRAG considers that any negative effect of this practical expedient on the relevance of the information provided will be limited as, at a minimum, the contracts affected were completed one year prior to the date of initial application of the Clarifications.

Modified retrospective approach

19 EFRAG observes that, under the modified retrospective approach, the application of IFRS 15 to the contracts that were completed at the date of initial application is expected to improve the consistency of the accounting for revenue contracts. However, EFRAG considers that the effect will be limited as it only affects the accounting for a limited number of contracts (contracts that were deemed completed under the former revenue recognition guidance and that would not be considered as completed under IFRS 15).

Modified contracts

20 EFRAG considers that the practical expedient related to past contract modifications will result in financial information that closely aligns with the financial information that would be available under IFRS 15 without the practical expedient. Therefore EFRAG does not expect the effect of this practical expedient on the relevance of the information provided to be significant.

Conclusion on relevance

21 EFRAG's overall assessment is that the requirements in the Clarifications will result in relevant information in that they improve the relevance of information about revenues from contracts with customers through consistent application of the requirements in IFRS 15.

Reliability

22 EFRAG also considered the reliability of the information that will be provided by applying the Clarifications. Information has the quality of reliability when it is free from material error and bias; and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

23 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

Identifying performance obligations

24 In its advice on the endorsement of IFRS 15, EFRAG considered that revenue recognition in IFRS 15, which was based on the transfer of goods or services from the entity to the customer under a contract, generally results in reliable information. EFRAG observes that any potential divergence in the determination of the performance obligations identified (which could result in inappropriately combining distinct goods and services into a single performance obligation) could negatively impact the faithful representation of the revenue transaction, as this could affect how the transfer of goods or services is accounted for in the financial statements.

25 EFRAG assesses that the Clarifications will support the faithful representation of the revenue transaction and therefore result in reliable information.

Principal versus agent

26 EFRAG observes that the appropriate determination of the good or service that is transferred to the customer and whether the entity is acting as a principal or as an agent is essential to faithfully represent a revenue transaction. This follows because the consideration to which the entity is entitled as a result of satisfying its performance obligation differs significantly depending on whether the entity is acting as principal or as agent. TRG discussions had highlighted that the guidance in IFRS 15 could have been interpreted in different ways, which would have affected the reliability of the resulting revenue recognition.

27 EFRAG assesses that the Clarifications will support the faithful representation of revenue transactions by clarifying the guidance on how to determine whether an entity is acting as a principal or as an agent in a revenue transaction, and will, therefore, result in reliable information.

Licensing

<u>Nature of the entity's promise in granting a licence</u>

28 EFRAG observes that the assessment of the nature of the entity's promise in granting a licence has a significant effect on the resulting timing of revenue recognition (that is, recognition at a point in time or over time). The TRG discussions highlighted that the criteria in IFRS 15 could be interpreted in different ways, which could have resulted in revenue transactions not being faithfully represented in the financial statements.

29 EFRAG assesses that, by clarifying the determination of the nature of the entity's promise in granting a licence, the Clarifications will result in reliable information.

<u>Royalties exception</u>

30 In its advice on the endorsement of IFRS 15, EFRAG considered that the requirements in IFRS 15 ensure that sales- or usage-based royalties are not overstated with successive downward adjustments recognised over the licence periods, and therefore avoid the provision of unreliable information about the entity's past performance. However, EFRAG observes that the TRG discussions identified that the guidance could be interpreted to require that a portion of a sales-based or usage-based royalty would not be subject to the royalties constraint. EFRAG considers that this interpretation could result in information that would not faithfully represent the underlying transaction, as measuring the consideration may require considerable judgement and be subject to significant uncertainty.

31 EFRAG therefore assesses that, by clarifying the application of the royalties constraint, the Clarifications will result in reliable information.

Transition - practical expedients

<u>Full retrospective approach</u>

32 EFRAG acknowledges that the full retrospective approach practical expedient may negatively affect the faithful representation of the full retrospective approach by excluding revenue contracts that were completed before the date of initial application.

33 However EFRAG does not expect the negative effect of this practical expedient on the reliability of the information provided to be significant, as it affects the accounting for only a limited number of contracts. In addition EFRAG notes that the revenues that are not restated would relate to revenue contracts that were completed before the beginning of the earliest period presented, hence at least one year prior to the start of the current period.

<u>Modified retrospective approach</u>

34 EFRAG observes that the introduction of the modified retrospective approach practical expedient will improve the faithful representation of revenue transactions as this will reduce the population of contracts which would be accounted for according to the former revenue recognition guidance.

35 However, similar to the practical expedient for the full retrospective approach, EFRAG considers that the effect will not be significant as it only affects the accounting for a limited number of contracts (contracts that were deemed completed under the former revenue recognition guidance and that would not be considered as completed under IFRS 15).

Modified contracts

36 Whilst EFRAG acknowledges that the introduction of the practical expedient may negatively affect the faithful representation of the effect of individual modifications to revenue contracts, the application of the practical expedient is expected to result in financial information that is closely aligned with the financial information that would be available under IFRS 15 without the expedient. Therefore, EFRAG does not expect the negative effect of this practical expedient on the reliability of the information provided to be significant.

Conclusion on reliability

37 Based on the above analysis, EFRAG's overall assessment is that the Clarifications result in reliable information.

Comparability

38 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

39 EFRAG has considered whether the Clarifications result in transactions that are:

(a) economically similar being accounted for differently; or

(b) economically different being accounted for as if they are similar.

40 EFRAG observes that the TRG discussions identified parts of the guidance in IFRS 15 that could be interpreted differently, which could result in transactions that are economically similar being accounted for differently. This is the case for identifying performance obligations; assessing whether the entity acts as a principal or an agent; determining the nature of an entity's promise in granting a licence of intellectual property; and the application of the sales-based and usage-based royalties exception.

41 EFRAG therefore assesses that the Clarifications will result in more comparable information by clarifying the IASB's intentions when developing the requirements in IFRS 15.

42 In respect of the practical expedients on transition to IFRS 15 introduced by the Clarifications, EFRAG acknowledges that providing different possible alternatives in accounting for completed contracts and modifications negatively affects the comparability of the information provided in the financial statements. However, EFRAG notes that the practical expedients relate to a limited number of contracts. EFRAG therefore expects that the impact on comparability will not be significant.

43 Overall, EFRAG considers that the Clarifications address potential diversity in accounting for revenue from contracts with customers, bring consistency in accounting for these transactions, or bring relief to preparers in transitioning to IFRS 15 without a significant loss of comparability. Therefore, EFRAG assesses that the Clarifications satisfy the comparability criterion.

Understandability

44 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.

45 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

46 As a result, in EFRAG's opinion, the main additional issue it needs to consider in assessing whether the information resulting from the application of the Clarifications is understandable, is whether that information will be unduly complex.

47 EFRAG observes that the IASB decided to apply a high hurdle when considering whether to amend IFRS 15 and, thus, to minimise changes to the extent possible. The objective of the Clarifications is not to change the underlying principles of IFRS 15, but only to clarify the IASB's intentions when developing the requirements in IFRS 15.

Transition - practical expedients

48 EFRAG notes that IFRS 15 provides a number of ways of transitioning to the new Standard and assessed in its endorsement advice on IFRS 15 that these options do not significantly impair understandability. EFRAG takes this view because the costs of full retrospective application outweigh the benefits of a conceptually pure transition in the situations permitted by IFRS 15.

49 EFRAG assesses that the additional practical expedients allowed on transition by the Clarifications do not impair understandability in that they allow all entities the choice whether or not to restate completed contracts or account for each modification to contracts separately, that arose before the transition to IFRS 15 in certain cases. That is, the relief provided is not expected to materially affect the impact of the transition.

Conclusion on understandability

50 Based on the analysis above, EFRAG's overall assessment is that the Clarifications will result in information that is understandable.

Prudence

51 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

52 As previously noted, the Clarifications generally do not change the underlying principles of IFRS 15, but are intended to clarify the IASB's intentions when developing the requirements in IFRS 15. As a result, the assessment of prudence in the endorsement advice on IFRS 15 is not affected.

53 Notwithstanding the above, in relation to the guidance on the royalties constraint, EFRAG observes that the Clarifications introduce guidance that clarifies that the general requirements on variable consideration should not be applied to arrangements when the predominant item to which the royalty relates is a licence. EFRAG also observes that the Clarifications clarify that a single royalty should not be split into a portion that is subject to the requirements applicable to variable consideration and a portion that is not. As a result, recognition of sales-based or usage-based royalty revenue is delayed until both the sale or usage has occurred and the performance obligation has been satisfied.

54 Based on all of the above, EFRAG has concluded that the application of the Clarifications will lead to prudent accounting.

True and Fair View Principle

55 A standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

56 EFRAG first observes that the Clarifications aim to improve guidance in IFRS 15 that, as evidenced during the TRG discussions, could be interpreted in ways other than intended by the IASB. The Clarifications are therefore expected to address any potential distortions in the representation of the entity's assets, liabilities, financial position and profit or loss.

57 EFRAG has assessed that, on a stand-alone basis, the Clarifications provide relevant, reliable, comparable and understandable information and their application will lead to prudent accounting. EFRAG has also assessed that, in interacting with other IFRS, the Clarifications do not lead to unavoidable distortions or significant omissions as the purpose of the Clarifications is limited to clarifying the IASB's intentions when developing the requirements in IFRS 15. EFRAG notes that the Clarifications do not include any disclosure requirements. All disclosures necessary are provided through the specific disclosure requirements in IFRS 15 and the general disclosure requirements in IFRS.

58 As a result, EFRAG concludes that the application of the Clarifications would not lead to information that would be contrary to the true and fair view principle.

Conclusion

59 Accordingly, for the reasons set out above, EFRAG's assessment is that the Clarifications meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Clarifications are conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to adopt the Clarifications. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Clarifications. In doing this, EFRAG considered:

(a) Whether the Clarifications improve financial reporting. This requires a comparison of the Clarifications with the existing requirements and how they fit into IFRS as a whole;

(b) The costs and benefits associated with the Clarifications; and

(c) Whether the Clarifications could have any adverse effect on the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw a conclusion as to whether the Clarifications are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Clarifications will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Clarifications are likely to improve the quality of financial reporting

3 Because limited information is available, it is difficult to assess how IFRS 15 will be applied by European entities to specific facts and circumstances. It follows that it is not clear what standard-setting activities will be needed to address difficulties in application. It is therefore difficult to assess whether and how these difficulties will be addressed by the Clarifications. For this reason, in its comment letter in response to the IASB's Exposure Draft, EFRAG expressed the view that the IASB should only clarify those issues that are strictly necessary for a proper understanding of IFRS 15.

4 Having considered these particular circumstances, EFRAG notes that the Clarifications are intended to clarify the IASB's intentions when developing the requirements in IFRS 15 and are not intended to change the underlying principles of IFRS 15. In that respect, EFRAG considers that the Clarifications will improve the application of the requirements in IFRS 15 by reducing potential diversity in practice that might arise upon the adoption of the Standard.

5 In addition, EFRAG notes that, in their feedback to EFRAG on the proposals in the Exposure Draft, most respondents were broadly supportive of the direction the IASB had taken in developing its proposals. In particular, while preferring that IFRS 15 and US GAAP remain converged, the general view was that changes of principle should not be made to IFRS 15 during the transition period.

6 EFRAG acknowledges that the Clarifications are not fully converged with US GAAP. The most significant difference relates to licenses. Having considered the wider implications of amending IFRS 15 before its effective date, the IASB decided to clarify the approach to determining the nature of an entity's promise in providing a licence, rather than to change that approach. In contrast, the FASB decided to develop an alternative approach. In some cases the IFRS and US GAAP approaches may not result in similar outcomes. That is, licences may be classified as a right to access when applying the FASB's approach, even though there is no expectation that the entity will undertake activities after making the intellectual property available to the customer. Whilst EFRAG welcomes the additional guidance provided by the

Clarifications as an improvement to support the assessment of whether a license transfers at a point in time (providing the right to use the entity's intellectual property) or over time (providing the right to access the entity's intellectual property), it acknowledges that the assessment will continue to require considerable judgement.

7 Based on the above, EFRAG has concluded that the Clarifications are likely to improve the quality of financial reporting because the Clarifications assist the implementation of IFRS 15 without creating significant changes during the transition period.

EFRAG's initial analysis of the costs and benefits of the Clarifications

8 EFRAG first considered the extent of the work necessary to assess costs and benefits. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Clarifications, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

9 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Clarifications.

10 EFRAG observes that, as the Clarifications are primarily intended to clarify the IASB's intentions when developing the requirements in IFRS 15, the main cost for preparers will be the one-off cost to familiarise themselves with the guidance and for updating internal documents and/or staff if these would be affected by the Clarifications.

11 For many transactions, the Clarifications are, at most, expected to confirm the current application of the requirements in IFRS 15. The Clarifications are therefore not expected to result in a significant increase in costs for preparers. They may even lead to a reduction in costs for preparers in that they will reduce the time spent in applying judgement.

12 Whilst the Clarifications introduce changes to the transition requirements, the changes consist of optional practical expedients. They are therefore only expected to be applied when preparers deem their benefits to outweigh their costs.

13 As the Clarifications are not introducing new requirements in IFRS 15, EFRAG does not expect preparers to incur additional ongoing costs due to the application of the Clarifications.

14 Overall, EFRAG's assessment is that the Clarifications will not result in a significant increase in costs to preparers and may even reduce costs.

Costs for users

15 EFRAG has carried out an assessment of the cost implications for users resulting from the Clarifications.

16 As mentioned above, the Clarifications do not intend to change the accounting under IFRS 15, but only clarify the IASB's intentions when developing the standard. Therefore, EFRAG's assessment is that no additional one-off costs are expected to be incurred by users as a result of the initial application of the Clarifications.

17 For that same reason, EFRAG also considers that the Clarifications will not result in increased ongoing costs for users.

18 Overall, EFRAG's assessment is that implementation of the Clarifications will not result in a significant increase in costs to users.

Benefits for users and preparers

19 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Clarifications.

20 EFRAG observes that the Clarifications will address areas of IFRS 15 where the guidance was deemed to be unclear or where the guidance could be interpreted in different ways. In EFRAG's opinion, users will benefit from a more consistent application of the requirements in IFRS 15 as this will improve the resulting financial information on revenue transactions.

21 EFRAG considers that those preparers that have not yet implemented the requirements of IFRS 15 will benefit from the Clarifications as they are expected to reduce the cost and effort required to apply the new guidance.

22 In addition to the above, preparers are expected to benefit from:

(a) the additional guidance in areas where IFRS 15 requires considerable judgement; and

(b) the additional practical expedients provided by the Clarifications which are expected to reduce the effort and cost of initial application.

Conclusion about the benefits for users and preparers

23 Overall, EFRAG's assessment is that both preparers and users are likely to benefit from the Clarifications.

Conclusion on the costs and benefits of the Clarifications

24 EFRAG's overall assessment is that the overall benefits of a more consistent application of the requirements in IFRS 15 are likely to outweigh the minor costs associated with implementing the Clarifications. EFRAG does not anticipate any ongoing costs of complying with the Clarifications.

Conclusion

25 EFRAG considers that the Clarifications will generally bring improved financial reporting when compared to current guidance. As such, their adoption is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

26 EFRAG also considers that the Clarifications lead to benefits for users that are greater than any costs for preparers of applying the Clarifications.

27 EFRAG has not identified that the Clarifications could have any adverse effect on the European economy, including financial stability and economic growth. Furthermore, EFRAG has considered whether there are any other factors that could mean that adoption of the Clarifications is not conducive to the European public good and has not identified any such factors.

28 Having considered all relevant aspects, EFRAG assesses that adopting the Clarifications is conducive to the European public good.