

**AMF Instruction  
Implementation of IFRS 15 – Revenue from Contracts with Customers – and related disclosures - DOC-2016-03**

**References: Article 223-1 of the AMF General Regulation**

IFRS 15 – *Revenue from Contracts with Customers*, applicable to annual periods beginning on or after 1 January 2018, contains new principles for revenue recognition and for disclosures in the financial statements. The European Union is currently finalising its adoption of the standard.

IFRS 16 – *Leases*, does not apply until 1 January 2019 and has not yet been endorsed by the European Union. However, once it is endorsed, certain issuers may decide to start applying it early, at the same time as IFRS 15.

Following up on the recommendations it issued in 2015 asking issuers to report on their progress in implementing IFRS 15, the ESMA, along with all of the European market enforcers, decided it would be useful to release recommendations to listed issuers and their statutory auditors covering the application of IFRS 15 and the information to be disclosed to users of their financial statements between now and 2018. The AMF expects audit committees to monitor the standard's implementation, as well as the accounting and financial information disclosed to investors.

The goal is to allow investors to understand the principal changes brought about by the new standard, to prepare for its expected impacts, and to provide investors with relevant information about the key fundamental aspects of the standard's implementation.

On 20 July 2016, the ESMA issued a *Statement*<sup>1</sup>. The present AMF recommendations are in line with this ESMA *Statement*.

The IASB and the IFRS Interpretations Committee are the only ones authorized in writing and interpreting international accounting standards. The recommendations herein are intended to clarify aspects of IAS 8 that investors have questions about, notably in the context of the initial application of IFRS 15.

Many of the recommendations included in this document require issuers to provide descriptions or explanations in the notes to their financial statements. As for the specifics of implementing the new standard, it will be helpful for issuers to supply a level of detail that is consistent with the relative importance of the topic so that readers are provided with the most relevant information.

**Recommendation:**

**In the spirit of its *Guide to the relevance, consistency and readability of financial statements*, in order to implement the objectives set in this guide, the AMF encourages issuers to think about the way they present information in the notes to their financial statements regarding the impact that IFRS 15's future implementation is expected to have on the financial statements.**

Considerations may include where information is placed in the financial statements, links with other aspects of financial communications, or the level of detail supplied.

**1. Aspects to consider with respect to implementing the standard**

While in some straightforward cases the impacts could be minor, in some sectors, including ones that use long-term or multiple-element contracts (such as telecoms, real estate, construction, aerospace and defence, and software publishing), the impacts could be significant. The standard contains a number of new principles with respect to identifying performance obligations, allocating the transaction price of a multiple-element contract, and revising existing contracts. It may also lead to changes in the way

<sup>1</sup> Public Statement ESMA/ESMA/2016/1148

[https://www.esma.europa.eu/sites/default/files/library/2016-1148\\_public\\_statement\\_ifrs\\_15.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-1148_public_statement_ifrs_15.pdf)

contracts with clients are analysed, for example with respect to the methods used to measure progress towards completion of performance obligations (notably if the method of technical milestones is used under IAS 11), identifying financing components, revenue derived from licences, accounting for variable revenues, etc.

**Recommendation:**

**The AMF advises all issuers to immediately conduct an in-depth analysis of the principles in the standard and how they relate to the contracts in place with their clients in order to assess the impacts.**

*See ESMA page 2, par. 5*

At this point, the IFRS IC has not taken up any questions related to IFRS 15. However, issuers may start to raise questions in the months ahead and bring them to the IFRS IC's attention.

**Recommendation:**

**The AMF asks issuers to pay close attention to IFRS 15-related issues that could be brought to the attention of and discussed with the IFRS IC<sup>2</sup>, and to take the committee's conclusions into account when proceeding with the standard's implementation.**

*See ESMA page 4, par. 19*

The IASB has issued amendments to IFRS 15. These amendments contain clarifications, notably for identifying performance obligations, principal versus agent considerations, recognition of revenue derived from licences, and transitions methods.

**Recommendation:**

**The AMF asks issuers to take amendments to IFRS 15 into account when assessing the standard's future impacts, even if they have not yet been endorsed by the European Union.**

*See ESMA page 4, par. 21*

The IASB and FASB have also created a joint working group called the Transition Resource Group for Revenue Recognition (TRG) to deal with application issues identified before 2018. Its members include preparers and auditors, among other professionals. The TRG will not issue guidance on IFRS or US GAAP. Rather, by discussing these issues and publishing its meeting minutes, it will strive to highlight certain specific aspects of the standard that are relevant to analysing the topics referred to the TRG. So far, a number of questions have been referred to the TRG, and the IASB has posted summaries of the issues discussed and the analysis resulting from the group's discussions<sup>3</sup>.

**Recommendation:**

**Issuers are asked to avail themselves of the analysis the TRG has compiled as they implement IFRS 15.**

*See ESMA page 3, par. 20*

While the IFRS 15 and Topic 606 were originally identical, due to slightly different proposed amendments, they are no longer fully converged. Furthermore, the FASB has decided to pursue the TRG's work by continuing to meet with the group's US members, whereas the IASB has decided to suspend participation by IFRS members for the time being. Thus, there is a risk of differing interpretations between the two standards.

<sup>2</sup> <http://www.ifrs.org/Current-Projects/IFRIC-Projects/Pages/IFRIC-activities.aspx>

<sup>3</sup> <http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-15-Implementation/Pages/IFRS-15-Revenue-from-Contracts-with-Customers-Implementation.aspx>

**Recommendation:**

**The AMF advises French issuers to closely analyse the content of any positions that may result from the discussions taking place around the US standard. Before adopting positions made in respect of the US standard, issuers must first make sure that the positions do not stem from US GAAP principles that are incompatible with IFRS.**

*See ESMA page 5, par. 22*

**The AMF notes that pursuant to IFRS 10.B87, all group entities must use accounting methods that are in conformity with the group's accounting methods.**

To this end, issuers must verify that despite any differences in operating environment or economic conditions, accounting principles are applied uniformly across all of the entities in the group.

## **2. The importance of transparency with respect to IFRS 15 implementation and impacts**

Regarding standards that have been issued but have not yet taken effect, IAS 8 requires that issuers disclose "known or reasonably estimable information relevant to assessing the possible impact that the new IFRS will have on the entity's financial statements in the period of initial application". This wording applies, even though the European Union has not yet adopted the standard<sup>4</sup>. The goal here is to allow users of financial statements to understand the qualitative and quantitative impacts of the new standard on the company's financial position and performance.

Investors' expectations with respect to foreseeable impacts will increase the closer we get to the date of IFRS 15's application. This argues in favour of a progressive approach, with more complete information disclosed at each accounts closing.

**Recommendation:**

**The AMF encourages issuers that will be significantly affected by IFRS 15 to pursue a progressive approach, disclosing more complete information at each financial statements closing so that users of financial statements will have relevant qualitative and quantitative information.**

*See ESMA page 2, par. 9*

For information to be disclosed on a standard's impact in its first year of application, it must be reasonably estimable. Thus, different issuers will probably have different timelines for supplying such information, due notably to differences in the diversity and complexity of their transactions, and differences in their progress in the development of the IT systems needed.

**Recommendation:**

**The AMF advises issuers to present quantified information (for example the order of magnitude) on estimated potential impacts of IFRS 15 in its first year of application as soon as they are available or reasonably estimable. If the impact is material, the AMF expects that in a majority of cases, the presentation of this information will occur at the time half-year 2017 financial statements are released<sup>5</sup>.**

*See ESMA page 3, par. 11*

The real quantitative impacts of the initial application will naturally depend upon the transactions and contracts in place at the time of the transition (stage of contract completion, economic conditions, etc.), while the estimates of the potential impacts made prior to that date will be calculated based on potentially different transactions and/or data that are subject to change.

**Recommendation:**

<sup>4</sup> See ESMA decision ESMA/2013/1545, Ref EECS/0213-12 (14th Extract)

<sup>5</sup> Information provided in respect of IAS 8 does not relieve issuers of the obligation to disclose known impacts that could materially influence the market prices of the company's financial instruments as soon as possible (Article 17 of Regulation 596/2014 on Market Abuse)

**The AMF advises issuers to be as clear as possible when communicating the possible impacts of the new standard and to explain the methods and assumptions used to calculate the estimates so that users of financial statements understand that these estimates may not correspond exactly to the actual impacts at the time of the transition to the new standard.**

*See ESMA page 3, par. 12*

**Recommendation:**

**With respect to the implementation of IFRS 15 and the related information disclosed in the financial statements in accordance with IAS 8.30, the AMF recommends that significantly affected issuers:**

- **Provide information on the accounting policies they have chosen; for example, whether they have decided on a fully retrospective approach or a modified retrospective approach;**
- **Present the specific aspects of the standard that could potentially affect their company and explain any planned changes;**
- **Make distinctions with respect to the possible impacts of IFRS 15, using an approach that is relevant and suited to their company, such as by the nature of the impact (changes to revenue amounts or to the timeline for revenue recognition, etc.) or by the category of revenues, and explain the nature of the impacts so that readers understand the changes compared notably with IAS 18 and IAS 11;**
- **State whether the company plans to apply IFRS 16 early from 1 January 2018 and present the possible impacts of that standard separately;**

**Furthermore, the AMF recommends that affected issuers present, in other areas of their financial communication, the expected impacts on the financial indicators used in financial communications, for example the issuers' alternative performance measures, forecasts or outlook.**

*See ESMA page 3, par. 13 to 16*

### **3. Illustrative example of a communication timeline (assuming application from 1 January 2018)**

While the pace of implementation will vary from one company to the next, the sample timeline below serves as an illustration of the disclosures expected between now and the initial application of IFRS 15. Issuers can adapt this timeline to suit their specific situations and the extent of the changes to be made under IFRS 15.

#### **FY 2016 closing**

##### In the financial statements

1. Explanation of the company's time schedule for IFRS 15 implementation, notably:
  - Expected timeline for disclosing impacts;
  - Decision whether or not to apply IFRS 16 early, simultaneously with IFRS 15, in accordance with IFRS 16.C1;
  - The retrospective method chosen, if applicable (see IFRS 15.C);
2. Description of IFRS 15 and its principal aspects as they apply to the company, for example:
  - a presentation of the specific aspects of the standard that could affect the company, with an explanation of expected changes to, for example, agent/principal relationships, the method for determining stage of completion, accounting treatment of the cost of obtaining contracts, identification of financing components, etc.
3. The possible quantitative impacts (e.g. order of magnitude) of initial application of IFRS 15, if they are known or reasonably estimable:
  - Presentation and explanation of this information using a relevant and suitable approach, for example by type of impact (change to the timeline of revenue recognition, change to recognised amounts, etc.), by type of contract and/or by business line.
4. If quantitative impacts cannot be disclosed, then a qualitative assessment of the expected extent of the impacts.

In other areas of financial communication, such as the management report, issuers should present the impacts on and any changes to the key financial indicators they use, such as alternative performance measures, forecasts or outlook.

#### **Half-year 2017 financial statements**

While IAS 34 does not require specific information, issuers should expand on and update the disclosures communicated at the previous closing, adding more complete information. This is particularly true if the company was unable to provide quantitative impacts at the previous closing because they were not reasonably estimable.

#### **FY 2017 financial statements**

When the accounts closed on 31 December 2017 are published, the company will already be applying IFRS 15, so in accordance with IAS 8, the company will disclose the known or reasonably estimable impacts of applying IFRS 15 in its first period of application.

When it does, the company may expand upon and update the information it provided at previous closings, adding more complete information.

**The AMF underlines that starting with the full year 2018 financial statements, IFRS 15.C4, C6 and C8 specify certain information that must be included in the notes along with the initial application of IFRS 15.**