Straight away

IASB and FASB decide to re-expose the proposed revenue standard

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What's new?

The IASB and FASB (the "boards") met in May and June to discuss their joint project on revenue recognition. They decided to re-expose the proposed revenue standard, pushing the expected timeline for issuing a final standard into 2012. The boards also reaffirmed that a retrospective application transition method will be required, but provided certain "transition reliefs" to reduce the burden on preparers.

The boards also discussed the effect of the proposed model on the telecommunications industry, and the FASB separately deliberated whether to retain certain revenue guidance for rate-regulated entities and whether to exempt nonpublic entities from certain disclosure requirements. These decisions are tentative and subject to change.

Key Provisions

Re-exposure

The boards agreed that formal re-exposure will ensure a transparent process for this key project. The revised exposure draft will include questions that request feedback on the more significant changes from the June 2010 exposure draft. These questions are expected to address the following: (1) performance obligations satisfied over time (i.e., service arrangements), (2) presentation of the effects of credit risk adjacent to revenue, (3) the "reasonably assured" constraint on revenue recognition, and (4) applying the onerous test.

The boards will also ask whether the standard is presented clearly and whether it is operational. The exposure draft is expected to be released in August or September 2011 and will have a 120-day comment period.

Transition requirements

The boards tentatively decided that an entity could transition to the new standard using either full or "limited" retrospective application, which would reduce the burden on preparers by:

- not requiring the restatement of contracts that begin and end within the same prior accounting period;
- allowing the use of hindsight in estimating variable consideration;
- not requiring the onerous test to be performed in comparative periods unless an onerous contract liability was recognized previously; and
- not requiring disclosure of the maturity analysis of remaining performance obligations in the first year of application.

Disclosure of a qualitative assessment of the likely effect of applying the reliefs is required.

Telecommunications industry

The boards discussed whether to modify the proposed standard for concerns raised by the telecommunications industry. These concerns related to allocating the total transaction price between handsets and network services based on standalone selling price. The boards concluded that the revenue model should be applied consistently by all industries and did not revise their decisions for the concerns raised by the telecommunications industry.

Am I affected?

The proposal will affect most entities that apply IFRS or U.S. GAAP. Entities that currently follow industry-specific guidance should expect the greatest impact.

What do I need to do?

We anticipate the final standard to have an effective date no earlier than 2015. Convergence is expected for revenue recognition, since the same principles should be applied to similar transactions under both frameworks. Differences might continue to exist to the extent that the guidance requires reference to other standards before applying the guidance in the revenue standard.

If you have questions about this issue, please contact the PwC IFRS team or your engagement partner.