FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

Thematic review

IFRS 15 – Disclosures and presentation in annual financial statements

Companies listed on Oslo Børs and Oslo Axess with Norway as their home state

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Contents

1 Introduction

Finanstilsynet has reviewed IFRS 15[1] disclosures and presentation in a sample of financial statements of listed companies for the year ended 31 December 2018. Finanstilsynet decided to undertake the review as reporting on revenue is considered to be one of the most important matters for users of the financial statements and as the standard has introduced significant new concepts and requirements that were implemented by most entities on 1 January 2018. There has been a considerable increase in the disclosure requirements under IFRS 15 compared with previous requirements, which is an acknowledgement of the importance of users understanding entities' revenues. Improving IFRS 15 disclosures has been adopted as a priority in Finanstilsynet's 2019 review of financial statements. Reference is made to Finanstilsynet's report *Review of listed companies' financial reporting in 2019*[2] and the report *European common enforcement priorities for 2019 annual financial reports* issued by the European Securities and Markets Authority (ESMA).[3]

The aim of the review has been to make observations on the entities' compliance with the disclosure and presentation requirements in IFRS 15.

Finanstilsynet observes that there is significant room for improvement for a majority of the entities in the review. Finanstilsynet will increase its focus on IFRS 15 disclosure and presentation requirements in the control of 2019 financial statements.

2 Finanstilsynet's review

Finanstilsynet has performed a desktop review of whether the disclosures and presentation are in accordance with IFRS 15 in the 2018 financial statements of 20 listed entities in Norway. The sample included 5 large entities and 15 small to medium-sized entities from different industries. The review was carried out based on the published annual financial statements, and no further information was collected from the entities. Finanstilsynet hence has the same point of departure as a user normally has when reading the audited financial statements to get an understanding of the entity's revenue generating activities and revenue recognition policy.

Finanstilsynet also considered the general quality of the disclosures. This included checking if the entities had given sufficient information on how revenue from contracts with customers is measured and recognised and whether the disclosure objective has been met. Furthermore, Finanstilsynet checked that the information given was entity-specific, clear, structured and that the entity appeared to have made appropriate materiality judgements.

[1] IFRS 15 *Revenue from Contracts with Customers*
[2] https://www.finanstilsynet.no/en/news-archive/news/2019/review-of-listed-companies-financial-reporting-in-2019/?id=
[3] https://www.esma.europa.eu/document/european-common-enforcement-priorities-2019-annual-financial-reports

3 Summary of observations

The observations show that there is significant room for improvement in the IFRS 15 disclosures in most areas and for the majority of the entities reviewed.

Finanstilsynet's review focused on the following areas:

- Accounting policy disclosures and significant judgements (including disclosures on identifying performance obligations, determining the transaction price, allocating the transaction price and satisfaction of performance obligations);
- Presentation of contract assets and liabilities and related disclosures;
- Disaggregation of revenue; and
- Transaction price allocated to the remaining performance obligations.

Based on the observations, the general quality and extent of disclosures Finanstilsynet questions whether entities have sufficiently considered if they are fulfilling the overall disclosure objective in IFRS 15 (see appendix).

Finanstilsynet's observations are consistent with views expressed by some other European FSA regulators. Some professional service firms have also expressed similar views.

4 Next steps

Entities should consider whether the disclosure requirements and disclosure objective in IFRS 15 are fulfilled prior to issuing the 2019 financial statements.

Finanstilsynet will follow up on IFRS 15 disclosure and presentation requirements in the control of 2019 financial statements. If necessary, Finanstilsynet will start specific entity examinations.

5 Observations

5.1 Accounting policy disclosures and significant judgements

5.1.1 General

Finanstilsynet observed in some cases that accounting policies did not give sufficient information to enable the user to understand how revenue from contracts with customers is measured and recognised. Finanstilsynet also observed that in some instances the accounting policies were standardised descriptions and not sufficiently entity-specific, for example a copy of the standard text without sufficiently linking this to the entity's specific contracts with customers. It is important to explain the nature of the goods or services to enable the user to understand the entity's revenue recognition policy. Furthermore, the revenue recognition policy should be sufficiently clear as to how the entity recognises revenue in accordance with IFRS 15 for its specific contracts (or groups of contracts).

It is important that entities consider the disclosure objective in IFRS 15 and materiality when evaluating which disclosures will give users relevant information.[4] Refer to appendix 1.

Information on revenue from contracts with customers was in some cases unstructured and therefore difficult to understand. Due to the detailed and comprehensive disclosures required under IFRS 15, Finanstilsynet recommends carefully structuring the information to achieve better communication. It is often easier to understand the information if it is given for each good or service and for each performance obligation. Some entities have accomplished this for example by using tables or clearly labelled sections for the different goods or services or performance obligations. Finanstilsynet encourages entities to aim for clear and well-structured communication and presentation of financial information. If disclosures of a material matter are scattered throughout the financial statements, this may be seen as obscuring information, which could be a material error. Refer to appendix 1.

Some entities continue to use terminology from previous standards, for example "fair value" in the context of allocation or "risk and rewards" in a wider sense than only as one of the indicators of when control is transferred. Finanstilsynet encourages entities to use the terminology in the standard to achieve clear communication and presentation. Unclear or vague language may be seen as obscuring information. Refer to appendix 1.

When entities make judgements in the application of IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers,[5] entities should also consider the requirements of IAS 1.125 and 129.[6] For example, it may be relevant to provide sensitivities if there is material estimation uncertainty.

5.1.2 Identifying performance obligations

IFRS 15.22 requires an entity to assess the goods or services promised in a contract and identify as a performance obligation each promise to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct, or;
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

An entity shall disclose information about its performance obligations,[7] for example the nature of the goods or services an entity has promised to transfer. IFRS 15.BC354 states: "*This disclosure complements the accounting policy disclosure requirements in existing Standards by requiring an entity to provide more descriptive information about its performance obligations*". In order for a user to understand an entity's revenue recognition it

[4] Cf. IFRS 15.110-111
[5] as required by IFRS 15.123
[6] IAS 1 *Presentation of Financial Statements*
[7] Cf. IFRS 15.119

is important that the description of it is entity-specific and that the nature of the goods or services is explained in sufficient detail.

Finanstilsynet observations of the entities' descriptions of performance obligations:

- Few entities provided all the information required by IFRS 15.119. For example, disclosures relating to the entity-specific nature of goods or services promised were sometimes lacking or not explained in sufficient detail;
- Some entities did not provide enough information for the user to understand which performance obligations they have and whether their contracts contain multiple performance obligations. Finanstilsynet notes that it is important to provide entity-specific information on performance obligations in order for the users to understand how revenue is measured and recognised from the entity's contracts with customers.
- Few entities explained whether goods or services are considered a series and therefore constitute one performance obligation, even though Finanstilsynet would have expected this to be applicable for several of the entities.
- Some entities did not provide a clear link between the performance obligations and the measurement and recognition related to those performance obligations. Finanstilsynet notes the importance of structuring the disclosures so that the revenue recognition policy for each performance obligation is clear.
- Some entities for which it is believed to be applicable, did not disclose the significant judgements made by management when identifying performance obligations. Some entities provided only standardised descriptions of how performance obligations were identified. Finanstilsynet notes that it is important to provide entity-specific explanations of why goods or services are distinct in order for the user to understand the significant judgements made. It is not sufficient to merely state that significant judgements were made when identifying performance obligations. The actual entity-specific judgements made should be explained when they significantly affect the determination of the amount or timing of revenue from contracts with customers.

Finanstilsynet expects entities to improve their disclosures related to performance obligations and highlights the need for entity-specific disclosures. Finanstilsynet also encourages entities to consider whether the presentation and structure of disclosures could be improved to ensure better communication.

5.1.3 Determining the transaction price

IFRS 15 requires an entity to determine the transaction price and provides guidance on, for example, variable consideration, constraining estimates of variable consideration and adjusting the promised amount of consideration for a significant financing component. Entities shall also disclose information on significant payment terms, for example when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained.[8] Furthermore IFRS 15 requires entities to disclose the significant

[8] Cf. IFRS 15.119(b)

judgements made,[9] such as methods, inputs and assumptions used by the entities when determining the transaction price.[10] This includes the methods, inputs and assumptions used when estimating variable consideration, assessing whether this should be constrained and significant financing components.

Finanstilsynet made the following observations relating to the determination of transaction price:

- Most of the entities gave some information on variable consideration in their accounting policies, however many did not provide entity-specific information. In many instances the information was a standardised description, without sufficiently describing the entity's specific variable consideration, for example that it relates to a performance fee or a penalty.
- Disclosures relating to significant judgements made in determining variable consideration were often generic, and the explicit disclosures required by IFRS 15.126 (a) and (b) were often missing. For example, only a few entities provided information on the methods and inputs used. Very few entities gave information related to the assessment of constraining estimates of variable consideration, for instance the factors affecting the constraint, beyond a standardised description.
- Some entities did not provide information on when payments are typically due.[11]
- Most of the entities did not disclose that they had applied the practical expedient for significant financing components as allowed by IFRS 15.63. Finanstilsynet expects that the majority of entities use the practical expedient and in line with IFRS 15.129 should have disclosed this fact.

Finanstilsynet expects entities to improve their disclosures on transaction price, so that users can understand how the entity has determined the transaction price. Finanstilsynet assumes that entities comply with the requirements and disclose the significant payment terms and significant judgements made by management when determining the transaction price.

5.1.4 Allocating the transaction price

Under IFRS 15 the transaction price is allocated to the performance obligations (or a distinct good or service) in the contract. An entity shall allocate the transaction price to each performance obligation on a relative stand-alone selling price basis,[12] except as specified for allocating discounts[13] and for allocating consideration that includes variable amounts[14]. It is a requirement that an entity's accounting policies on revenue state clearly how the transaction price is allocated. In addition, an entity shall disclose information about the methods, inputs and assumptions used for allocating the transaction price, which includes estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract, if applicable.[15]

[9] Cf. IFRS 15.123
[10] Cf. IFRS 15.126 (a) and (b)
[11] Cf. IFRS 15.119 (b)
[12] In accordance with IFRS 15.76-80
[13] In accordance with IFRS 15.81-83
[14] In accordance with IFRS 15.84-86
[15] Cf. IFRS 15.126 (c)

Finanstilsynet made the following observations relating to the allocation of the transaction price:

- Some entities had not addressed allocation of the transaction price in their accounting policies even though it appeared to be relevant.
- Some entities provided only standardised descriptions of how the allocation was made, and most entities did not address the allocation of variable consideration or discounts. Few entities addressed the allocation of variable consideration to distinct goods or services in a series. This was expected to be relevant in some of the financial statements that were reviewed. In some of these instances, it was difficult to understand how the transaction price had been allocated.
- Fewer entities than expected identified allocation as a significant judgement and only a few entities provided the information required by IFRS 15.126 (c). The entities that provided information generally explained which method they used to estimate stand-alone selling prices when observable prices were not available.

Finanstilsynet expects entities to improve their disclosures on allocation so that users can understand how the entity has allocated revenue in its contracts with customers and the significant judgements and estimates made in that allocation.

5.1.5 Satisfaction of performance obligations

IFRS 15 requires an entity to determine, at contract inception, whether it satisfies the performance obligation over time or at a point in time. An entity shall disclose when it typically satisfies its performance obligations.[16] IFRS 15 also requires entities to disclose judgements made that significantly affect the determination of the amount and timing of revenue from contracts with customers. For performance obligations that an entity satisfies over time, the entity shall disclose the methods used to recognise revenue and an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.[17] For performance obligations satisfied at a point in time, the entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.[18]

The following judgements will typically significantly affect the timing of revenue recognition:

- If the entity recognises revenue over time for performance obligations, Finanstilsynet typically expects information on why revenue is recognised over time (cf. criteria in IFRS 15.35) and any significant judgements made in reaching this conclusion. It may be necessary to describe contractual terms and significant judgements made in respect of applying IFRS 15 to these terms, if the outcome of the judgements can significantly change the timing of revenue recognition.
- If the entity recognises revenue at a point in time, Finanstilsynet would expect information about which point in time this is and any significant judgements made in

[16] Cf. IFRS 15.119 (a)
[17] Cf. IFRS 15.124
[18] Cf. IFRS 15.125

concluding that revenue should be recognised at this point in time.[19] In the evaluation of which point in time to be used it could be natural to look to and disclose the incoterms used in contracts when disclosing which indicators have been given most weight.

Finanstilsynet made the following observations relating to satisfaction of performance obligations:

- Most entities disclosed when they typically satisfy performance obligations, however some entities did not explain why they can recognise revenue over time (cf. criteria in IFRS 15.35). Few entities explained which indicators of transfer of control were evaluated when concluding on which point in time the customer obtains control (including, but not limited to, the indicators in IFRS 15.38). Finanstilsynet expects this to be disclosed so that users can understand the significant judgements made in determining when performance obligations are satisfied.
- Some entities did not provide this information for all their performance obligations. Finanstilsynet notes that it is important to structure the information so that the users can understand the satisfaction of each performance obligation.
- Most entities provided information on the method used to measure progress for performance obligations over time. However, a few entities had not disclosed this. Only a couple of entities provided information on why the methods chosen provide a faithful depiction of how goods and services are transferred.
- It was noted that some entities appear to use the practical expedient in IFRS 15.B16 when measuring progress, namely to recognise revenue in the amount to which the entity has a right to invoice. However, this was neither explicitly stated nor was an explanation provided that enabled the users to fully understand this. Finanstilsynet expects entities to make it clear if they do apply the practical expedient in B16, based on IFRS 15.124 (a), which requires the entity to disclose the methods used to recognise revenue. It is important for the users to understand which progress measure has been used as this may impact the timing of revenue recognition.

Finanstilsynet expects that entities comply with the disclosure requirements and expects entities to improve their disclosures relating to satisfaction of performance obligations so that the users can understand how performance obligations are satisfied. Entities shall explain the timing of satisfaction of performance obligations and the judgements made when determining whether revenue is recognised over time or at a point in time for the different performance obligations. For performance obligations recognised over time, entities shall disclose the progress measure(s) used and why it (they) provide a faithful depiction of how goods or services are transferred. Furthermore, entities shall explain at which point in time control is transferred for performance obligations that are satisfied at a point in time, and the significant judgements made in concluding that control is transferred at this point in time.

[19] Cf. IFRS 15.125

5.2 Presentation of contract assets and contract liabilities and related disclosures

IFRS 15 includes requirements related to the presentation of receivables, contract assets and contract liabilities from contracts with customers. Even though there is no explicit requirement to use the terms "contract asset" and "contract liability"[20] when presenting this, it is important that users are able to understand which line items in the statement of financial position are receivables, contract assets and contract liabilities from contracts with customers as defined in IFRS 15.105-109. IFRS 15 also contains detailed disclosure requirements for contract asset and liabilities.[21] For example, the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers should be disclosed. Furthermore, significant changes in the contract assets and contract liabilities during the reporting period shall be explained.

Finanstilsynet made the following observations:

- Most entities include accounting policy disclosures on receivables, contract assets and contract liabilities from contracts with customers. These descriptions are often somewhat standardised and entities are therefore encouraged to explain in more detail how the timing of satisfaction of its performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances.[22]
- Finanstilsynet notes that some entities state that contract assets are transferred to receivables when invoiced. Finanstilsynet questions whether invoicing a customer is representative of a right to consideration becoming unconditional in all these cases.[23] It may be necessary for entities to provide a better explanation of why the amounts included in the contract asset are conditional in order for the users to understand the distinction between receivables and contract assets.
- Some entities did not provide any disclosures on contract assets or contract liabilities even though it appeared to be relevant. Some entities provided only the opening and closing balances but no explanations, or only standardised descriptions, of significant changes. Some entities provided opening and closing balances and explained the changes. When there are a number of significant changes in the contract asset or contract liability, Finanstilsynet notes that it is often easier to understand the changes if there is a table reconciling the opening and closing balances in addition to explanations of the reconciling items. Moreover, it is noted that IFRS 15.118 requires the explanation of the significant changes to include qualitative and quantitative information.
- Some entities had not disclosed the revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.[24] No entities disclosed revenue recognised in the reporting period from performance

[20] Cf. IFRS 15.109
[21] Cf. IFRS 15.116-118
[22] Cf. IFRS 15.117
[23] Cf. IFRS 15.108
[24] Cf. IFRS 15.116 (b)

obligations satisfied in previous periods.[25] The latter may often be immaterial, but Finanstilsynet expects it may be relevant for some of the entities.

- In one set of financial statements assets recognised from the costs incurred to fulfil a contract were labelled contract assets in the statement of financial position. Finanstilsynet is of the opinion that it should be clear from reading the financial statements which assets are contract assets as defined in IFRS 15.107 and which assets are recognised from the costs to fulfil a contract as defined in IFRS 15.95.

Finanstilsynet expects entities to improve their presentation and disclosures relating to receivables, contract assets and contract liabilities from contracts with customers. These concepts are new in IFRS 15 and it is therefore important to give a clear and entity-specific explanation and provide the required disclosures in the financial statements so that a user can understand these contract balances in relation to the entity's specific customer contracts.

5.3 Disaggregation of revenue

IFRS 15 requires an entity to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. IFRS 15.B87–B89 give more guidance on selecting the categories to use to disaggregate revenue. The standard also requires an entity to disclose sufficient information to enable users of the financial statements to understand the relationship between the disaggregated revenue and revenue information that is disclosed for each reportable segment if the entity applies IFRS 8.[26]

Finanstilsynet made the following observations relating to disaggregation of revenue:

- More than half of the entities provided a revised disaggregation after adopting IFRS 15.
- There are several entities for which Finanstilsynet questions whether they have disclosed all relevant categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, including the examples in IFRS 15.B89. For some of the entities it is for example questioned whether any of the following categories would also be relevant to disclose under the IFRS 15 requirements on disaggregation:
    - timing of transfer of goods or services;
    - type of contract (for example, fixed price and time-and-materials contracts or contracts with significant variable consideration);
    - contract duration; and
    - market or type of customer
- Finanstilsynet observed that approximately half of the entities did not provide sufficient information to 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, as required by IFRS 15.115. There were several instances in which entities explained the relationship between the

[25] Cf. IFRS 15.116 (c)
[26] Cf. IFRS 15.115

disaggregated revenue for the type of product or service and each reportable segment, but failed to explain the relationship between the disaggregated revenue for geographical regions and each reportable segment. Finanstilsynet reminds entities that the relationship between disaggregated revenue and segments should be explained for all categories of disaggregated revenue. One approach observed in practice to give this information is to show the disaggregated revenue for each reportable segment in a matrix. Finanstilsynet notes that this approach makes it easy for the user to understand the relationship between disaggregated revenue and reportable segments.

Finanstilsynet expects entities to improve their disclosures relating to disaggregated revenue. Entities should ensure that they have disclosed disaggregated revenue for all relevant categories and that the user can understand the relationship between the disaggregated revenue and each reportable segment.

Finanstilsynet's desktop review is based on 2018 financial statements. However, Finanstilsynet has observed that entities listed on Oslo Børs in for example the half year report for 2019 have not provided the disclosures on disaggregated revenue from contracts with customers as required by IFRS 15.114–115, in their interim financial statements, ref. IAS 34.16Al. Finanstilsynet will also review the disaggregation given in interim financial reports in next year's control.

IFRS 15.B88 requires an entity to consider how information about the entity's revenue has been presented for other purposes when selecting the type of category (or categories) to use to disaggregate revenue. When reviewing disaggregated revenue in 2019 financial statements, Finanstilsynet will also consider revenue information given in other parts of the annual report and/or in presentations.

5.4 Transaction price allocated to the remaining performance obligations

IFRS 15 introduced a new requirement in that entities shall disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period and an explanation of when the entity expects to recognise this revenue.[27] Two practical expedients are available when disclosing this,[28] that is two exceptions from the disclosure requirement. An entity shall explain whether it is applying these practical expedients. An entity shall also explain whether any consideration from contracts with customers is not included in the transaction price allocated to the remaining performance obligations, for example if variable consideration is constrained. Finanstilsynet notes that for users to understand the transaction price allocated to the remaining performance obligations it is important to give sufficient information on this. Finanstilsynet assumes that entities determine the transaction price allocated to unsatisfied performance obligations (or partially unsatisfied), in the same way as they determine the transaction price allocated to satisfied (or partially satisfied) performance obligations.

[27] Cf. IFRS 15.120
[28] Cf. IFRS 15.121

Finanstilsynet notes that the transaction price allocated to the remaining performance obligations has a range of labels in the financial statements, for example backlog, unsatisfied performance obligations, etc. In this report it is referred to as "transaction price allocated to the remaining performance obligations". To ease comparability, Finanstilsynet encourages entities to use IFRS 15 terminology or provide an explanation so that the user can understand that this is the transaction price allocated to the remaining performance obligations as defined in IFRS 15.120.

Finanstilsynet observes that the requirement to disclose the transaction price allocated to remaining performance obligations can affect the information given on the alternative performance measure that is often called backlog (in monetary units). Entities should consider whether backlog still is an alternative performance measure, or whether backlog is identical to transaction price allocated to remaining performance obligations. If backlog is identical to transaction price allocated to remaining performance obligations it is now an IFRS measure. If backlog still is an alternative performance measure, i.e. it is not identical to transaction price allocated to remaining performance obligations, entities should evaluate the effect the requirements in the ESMA Guidelines on Alternative Performance Measures will have. If the number is within the scope of the guidelines on alternative performance measures, entities should comply with the requirements in the guidelines. This includes requirements to define the measure and present a reconciliation against the most directly reconcilable line item, subtotal or total presented in the financial statements for the corresponding period. In this case this would be the transaction price allocated to the remaining performance obligations in the financial statements.

Finanstilsynet made the following observations relating to disclosures of transaction price allocated to the remaining performance obligations:

- Few of the entities provided information that was fully compliant with the disclosure requirements.
- Some entities did disclose the transaction price allocated to the remaining performance obligations but either failed to explain when the entity expects to recognise it as revenue or to explain whether any consideration is not included in the transaction price.
- Some entities provided no disclosures on the transaction price allocated to the remaining performance obligations even though Finanstilsynet expected this to be relevant based on their business or type of contracts, for example entities that are expected to have entered into long-term contracts. Finanstilsynet would have expected these entities to either provide the required disclosures on transaction price allocated to the remaining performance obligations or to explain the practical expedients they are applying.
- A couple of entities disclosed the backlog as an APM outside the financial statements but did not give any disclosures on transaction price allocated to the remaining performance obligations in the financial statements. For that reason, Finanstilsynet assumes that these entities have remaining performance obligations and thus should have disclosed the transaction price allocated to the remaining performance obligations in line with the requirements in IFRS 15.
- One entity stated that variable consideration was not included in the transaction price allocated to remaining performance obligations. Finanstilsynet notes that this is

appropriate if the entire amount is constrained in accordance with the requirements of IFRS 15.56-58. However, variable consideration should be estimated and constrained in accordance with the requirements and cannot be excluded from the transaction price allocated to the remaining performance obligations on the basis that it is variable consideration, unless this is in line with the practical expedients in IFRS 15.121.
- One instance was noted where the transaction price allocated to the remaining performance obligations had not been audited. Disclosures given in accordance with IFRS 15 should be audited.

Finanstilsynet expects entities to improve their disclosures on transaction price allocated to the remaining performance obligations. Finanstilsynet reminds entities that this is an important disclosure to enable users to evaluate what an entity expects to recognise from the remaining performance obligations in the entity's existing contracts for periods ahead. Entities should ensure that they explain any practical expedients used and whether any consideration from contracts with customers is not included in the transaction price.

6 Appendix

6.1 Disclosure objective in IFRS 15 and materiality

In addition to the observations on the individual disclosure requirements, Finanstilsynet wishes to highlight the disclosure objective in IFRS 15:

> *"110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:*
> *(a) its contracts with customers (see paragraphs 113–122);*
> *(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and*
> *(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).*
>
> *111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics."*

Finanstilsynet reminds issuers to evaluate their overall revenue disclosures against the requirement to "[…] *disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows* […]". Finanstilsynet emphasises that entities need to use judgement to evaluate whether the disclosures on revenue fulfil the disclosure objective in the standard, not merely whether individual IFRS 15 disclosure requirements have been met.

Finanstilsynet notes that when issuing the standard, IASB stated in the feedback statement that:

> *"Information about revenue is used to assess a company's financial performance and position and to compare that company with other companies."*

Furthermore, IASB stated that previous disclosure requirements were inadequate:

> *"The disclosure requirements in previous IFRS and US GAAP often resulted in information that was inadequate for investors to understand a company's revenue, and the judgements and estimates made by the company in recognising that revenue. For instance, investors were concerned that the revenue information disclosed was often 'boilerplate' in nature or was presented in isolation and without explaining how the revenue recognised related to other information in the financial statements. IFRS 15 addresses those deficiencies by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue. In particular,* […] *IFRS 15 provides more useful information through improved disclosure requirements."*

In the evaluation of which disclosures to give on revenue it is naturally important to consider materiality. Finanstilsynet notes that revenue is usually a material item in the financial statements.

Finanstilsynet notes that the new definition of materiality in IAS 1.7 that becomes effective from 1 January 2020, states: "*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions* [...]". IAS 1.7 also includes examples of circumstances that may result in material information being obscured. All examples are unquestionably relevant when assessing which information to include in the revenue disclosures in the financial statements.

Based on the observations made in this report Finanstilsynet believes that entities could benefit from having these examples in mind, not least because IASB describes the changes as refinements, i.e. changes that are not substantive, and that the revised definition will help entities to make better materiality judgements. This part of IAS 1.7 is reiterated below:

"Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- *(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;*
- *(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;*
- *(c) dissimilar items, transactions or other events are inappropriately aggregated;*
- *(d) similar items, transactions or other events are inappropriately disaggregated; and*
- *(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material."*

In addition IAS 1.31 states:

> *Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*

The disclosure objective in IFRS 15 as well as appropriate materiality judgements are key in order to provide useful information in the revenue disclosures to the users. Disclosures are intended to be transparent and enable users to understand the entity's revenue generating activities and revenue recognition policy and compare this to those of other entities. To achieve this, the disclosures have to be entity-specific and sufficiently detailed and comprehensive. For example, Finanstilsynet expects entities with many revenue streams or complex application issues to have more extensive disclosures than entities with few revenue streams or straightforward application. This would be a consequence of fulfilling the disclosure objective and providing sufficient information. As IASB has acknowledged that previous disclosure requirements were inadequate, it follows that IFRS 15 disclosures typically would be expected to be more extensive and detailed than previous disclosures. It is Finanstilsynet's observation that disclosures may not have been extended sufficiently to meet the increased requirements. Nevertheless, it is also important to consider the disclosure objective and materiality when evaluating which information to give to ensure that users get useful information and not a large amount of insignificant detail or immaterial information. Finanstilsynet will ask entities to give an explanation if their revenue disclosures do not appear to meet the disclosure objective or appropriate materiality judgements do not appear to have been made.

Finanstilsynet emphasises the importance of considering the disclosure objective and making materiality judgements when evaluating which information to provide in the revenue disclosures. Finanstilsynet will ask for explanations if information appears to be missing or is obscured as well as if entities appear to provide a large amount of insignificant information. However, Finanstilsynet's current observations indicate that sufficiently detailed disclosures to meet the requirements have not been provided.

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