Commission Regulation (EU) 2016/1905 of 22 September 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 15 (Text with EEA relevance)

COMMISSION REGULATION (EU) 2016/1905

of 22 September 2016

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 15

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008[(2)] certain international standards and interpretations that were in existence on 15 October 2008 were adopted.

(2) In May 2014, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) 15 entitled *Revenue from Contracts with Customers*. This standard aims to improve the financial reporting of revenue and to improve comparability of the top line in financial statements globally.

(3) In September 2015 the IASB issued an amendment to IFRS 15 that defers the effective date from 1 January 2017 to 1 January 2018.

(4) IFRS 15 contains some references to IFRS 9 that at present cannot be applied as IFRS 9 has not been adopted by the Union. Therefore, any reference to IFRS 9 as laid down in the Annex to this Regulation should be read as a reference to International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*.

(5) Adoption of IFRS 15 implies by way of consequence amendments to IFRS 1, 3 and 4, IAS 1, 2, 12, 16, 32, 34, 36, 37, 38, 39 and 40, Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 12, Interpretation of the Standing Interpretations Committee (SIC) 27 and SIC 32 in order to ensure consistency between international accounting standards. Moreover, it implies by way of consequence the withdrawal of IAS 11 and 18, IFRIC 13, IFRIC 15 and IFRIC 18 and SIC 31.

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) 2016/1905. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

(6) The European Financial Reporting Advisory Group confirms that IFRS 15 meets the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(7) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(8) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

1 The Annex to Regulation (EC) No 1126/2008 is amended as follows:

a International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* is inserted as set out in the Annex to this Regulation;

b IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations,* IFRS 4 *Insurance Contracts,* International Accounting Standard (IAS) 1 *Presentation of Financial Statements,* IAS 2 *Inventories,* IAS 12 *Income Taxes,* IAS 16 *Property, Plant and Equipment,* IAS 32 *Financial Instruments: Presentation,* IAS 34 *Interim Financial Reporting,* IAS 36 *Impairment of Assets*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* IAS 38 *Intangible Assets,* IAS 39 *Financial Instruments: Recognition and Measurement,* IAS 40 *Investment Property*, Interpretation of the International Financial Reporting Interpretations Committee IFRIC 12 *Service Concession Arrangements,* Interpretation of the Standing Interpretations Committee (SIC) 27 *Evaluating the Substance of Transactions Involving the Legal Form of Lease,* SIC 32 *Intangible Assets — Web Site Costs,* are amended in accordance with IFRS 15 as set out in the Annex to this Regulation;

c IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate* and IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services* are replaced in accordance with IFRS 15 as set out in the Annex to this Regulation.

2 Any reference to IFRS 9 as laid down in the Annex to this Regulation shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Article 2

Each company shall apply the amendments referred to in Article 1(1), at the latest, as from the commencement date of its first financial year starting on or after 1 January 2018.

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

***Changes to legislation:** There are outstanding changes not yet made to Commission Regulation (EU) 2016/1905. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

Done at Brussels, 22 September 2016.

For the Commission

The President

Jean-Claude JUNCKER

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ANNEX

International Financial Reporting Standard 15 Revenue from Contracts with Customers

International Financial Reporting Standard 15 *Revenue from Contracts with Customers*

OBJECTIVE

1. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of *revenue* and cash flows arising from a *contract* with a *customer*.

Meeting the objective

2. To meet the objective in paragraph 1, the core principle of this Standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

3. An entity shall consider the terms of the contract and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances.

4. This Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this Standard to a portfolio of contracts (or *performance obligations*) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual contracts (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

SCOPE

5. An entity shall apply this Standard to all contracts with customers, except the following:

(a) lease contracts within the scope of IAS 17 *Leases*;

(b) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;

(c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; and

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

6. An entity shall apply this Standard to a contract (other than a contract listed in paragraph 5) only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the

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activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities.

7. A contract with a customer may be partially within the scope of this Standard and partially within the scope of other Standards listed in paragraph 5.

(a) If the other Standards specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the *transaction price* the amount of the part (or parts) of the contract that are initially measured in accordance with other Standards and shall apply paragraphs 73–86 to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of this Standard and to any other parts of the contract identified by paragraph 7(b).

(b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply this Standard to separate and/or initially measure the part (or parts) of the contract.

8. This Standard specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer if those costs are not within the scope of another Standard (see paragraphs 91–104). An entity shall apply those paragraphs only to the costs incurred that relate to a contract with a customer (or part of that contract) that is within the scope of this Standard.

RECOGNITION

Identifying the contract

9. An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) **the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;**

(b) **the entity can identify each party's rights regarding the goods or services to be transferred;**

(c) **the entity can identify the payment terms for the goods or services to be transferred;**

(d) **the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and**

(e) **it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).**

10. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may