The impact of IFRS15 on Telecoms
Management is ecstatic! M Telecoms Plc signs 100,000 new subscribers to its new unlimited 24 month mobile plan during the first quarter of 2016.

A freefall for M Telcos Market Cap as the Company reports losses during the first quarter of 2016.

In a press conference management says that IAS18 is to blame for the reported results! Investors remain unconvinced!
Smart phone and Service for
• €100 upfront and
• €40 * 24 months
Wholesale cost of the handset €400
IAS 18:
- Reported Revenue Generally follows billing
- The “contingent cap”
- Little revenue to handset sale

Smart phone and Service for
- €100 upfront and
- €40 * 24 months

Wholesale cost of the handset €400

To Revenue: €100
To Cost: €400
To Loss: €300
1. **Contract:** aggregate if negotiated together, or performance of one depends on another

2. **Performance obligations:**
   Identify/ determine if distinct

3&4. **Transaction price:**
   Determine/ Allocate (RFV, SSP)

5. **Recognise Revenue:** as benefits are consumed:
   Over time/ at point in time
IFRS15 – The 5 step mode

1. **Contract**: aggregate if negotiated together, or performance of one depends on another

2. **Performance obligations**: Identify/ determine if distinct

3&4. **Transaction price**: Determine/ Allocate (RFV, SSP)

5. **Recognise Revenue**: as benefits are consumed:
   Over time/ at point in time
**IFRS15 - In practice**

2. **Performance obligations:**
Identify/ determine if distinct

1. **Smart phone and Service for**
   - €100 upfront and
   - €40 * 24 months
   Wholesale cost of the handset €400

- Is it of benefit on its own??  Yes
- Can it be used with other services in the market?  Yes
IFRS 15 - In practice

Smart phone and Service for
- €100 upfront and
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Wholesale cost of the handset €400

3&4. Transaction price:
Determine/ Allocate (RFV, SSP)

- Transaction price €1,060
- Service SSP €30 * 24 = €720
- Handset SSP €500
- Total discount €160 (or 15%)
- IFRS15 Handset revenue €435
- IFRS 15 Service revenue €626
**IFRS 15 - In practice**

- **IFRS15 Handset revenue €435**
  On the date the handset is provided to the customer

Smart phone and Service for
- €100 upfront and
- €40 * 24 months

Wholesale cost of the handset €400

- **IFRS 15 Service revenue €626**
  Over the 24 month period (most likely €26 per month)

5. **Recognise Revenue**: as benefits are consumed:
   Over time/ at point in time
**IFRS 15 - In practice**

Summary:
- 2 distinct performance obligations
- IFRS15 Handset revenue €435 at T0
- IFRS 15 Service revenue €26 per month

Smart phone and Service for
- €100 upfront and
- €40 * 24 months

Wholesale cost of the handset €400

To Revenue: €435
To Cost: €400
To Profit: €35
Implications for telecoms industry preparers

- Vast amount of data involved/new systems and processes
- Client base size/complexity of bundles/portfolio approach
- Judgment: Direct vs. Indirect channel
- Judgment: contract Modification/Termination
- Judgment when observable data is not available
When is it applicable?

**Periods starting 1 January 2018 or later**

- Retrospective application (2 options)
  - Option 1 – In line with IAS 8
  - Option 2 – Cumulative effect is recognised in the current year

- Contracts which are longer than 12 months
Where are you with IFRS 15?
Survey from the PwC Global Summit

- 25% of respondents are considering changing tariff structures to simplify IFRS 15 accounting.
- 57% of respondents think current systems will be unable to provide all the data required by IFRS 15.
- 40% of respondents are still at the impact assessment stage.
- 75% of respondents are thinking about their external communication. 13% have had discussions with external stakeholders.
Where are you with IFRS 15?
Revenue recognition survey report from US

- 335 respondents
- Across various industries

78% of respondents have not yet attempted to quantify the financial statement impact

50% of respondents do not think that IFRS 15 will have a material impact on their financial statements...

67% believe the level of effort required to implement the standard will be significant or moderate

66% of respondents plan to take advantage of the boards deferral

...and 53% of respondents expect system changes are going to be necessary
Thank you!