

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



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IAS 18:

- Reported Revenue Generally follows billing
- The “contingent cap”
- Little revenue to handset sale

To Revenue: €100

To Cost: €400

To Loss: €300

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 – The 5 step mode



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IFRS15 - In practice

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- Is it of benefit on its own?? **Yes**
- Can it be used with other services in the market? **Yes**

IFRS 15 - In practice



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- 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



3&4. Transaction price:

Determine/ Allocate (RFV, SSP)

IFRS 15 - In practice



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- IFRS15 Handset revenue €435

On the date the handset is provided to the customer

- 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



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Summary:

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

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

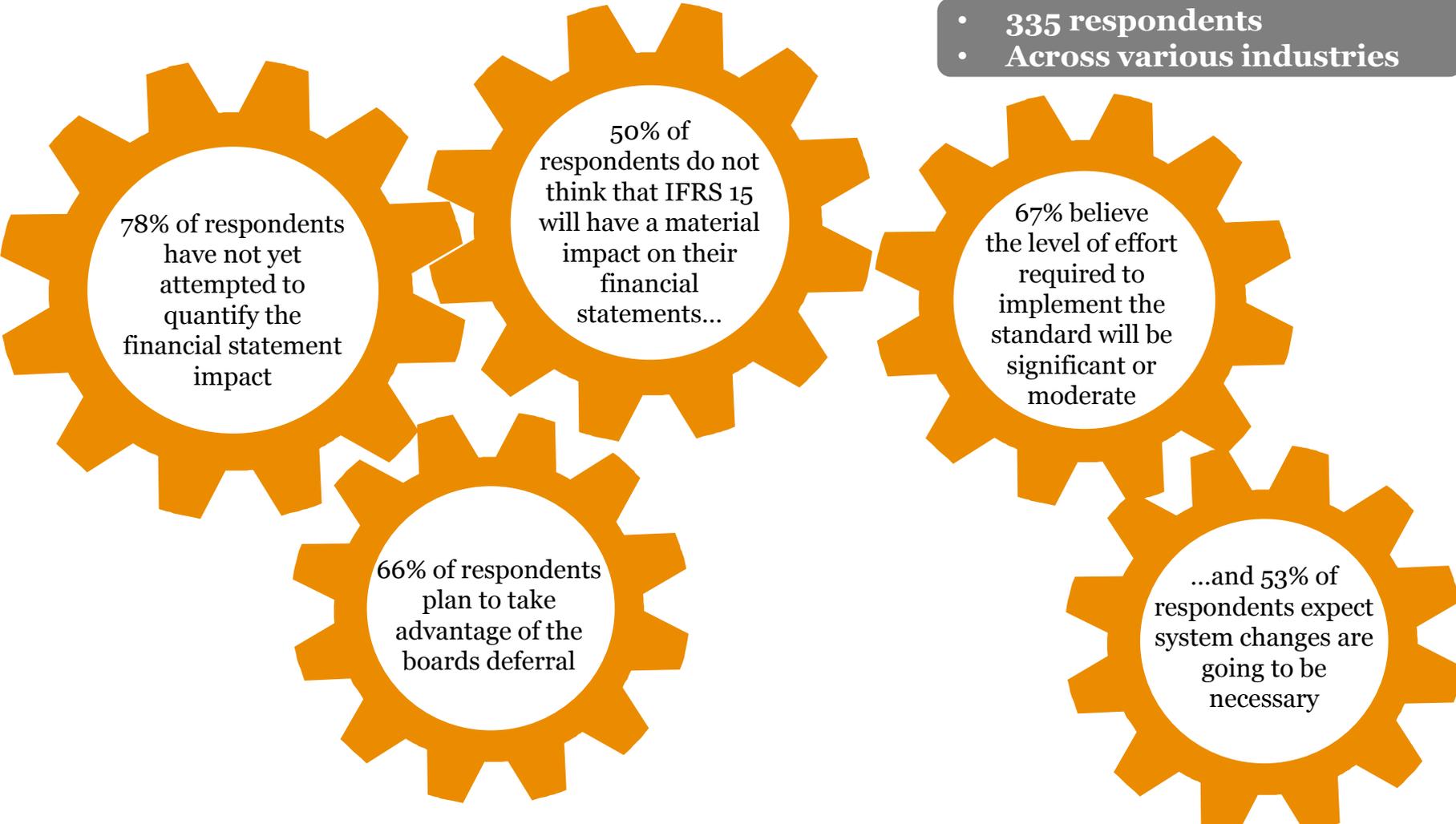
75%

...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 !

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