

Dr Wolf Klinz
EFRAG FRB Chair
European Financial Reporting
Advisory Group (EFRAG)
35 Square de Meeûs
1000 Brussels
Belgium

Ref: EFRAG's due process on the IASB's Request for Information on the Post Implementation Review of IFRS 15

Dear Dr Klinz,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's due process with regards to the IASB's Post Implementation Review (PIR) of IFRS 15 *Revenue from contracts with customers*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRS in the European Union.

ESMA strongly supports PIRs as an opportunity to assess how issuers apply in their financial statements the IFRS requirements and how these can be further improved to address any issues that may challenge consistent application, enforceability and usefulness to users of financial statements.

Our responses to the IASB's Request for Information (IASB/RFI/2023/2) are based on the evidence from supervision and enforcement activities undertaken by European enforcers on financial statements, as well as on discussions with preparers of financial statements, users, academics and auditors.

ESMA agrees that IFRS 15 has achieved its objective and generally works as intended. ESMA acknowledges that the exercise of judgement is important in the context of principle-based standards, but also considers that the standard should provide sufficient guidance on how to apply judgement (also to allow for effective enforcement when judgement exercised does not appear reasonable). Therefore, more detailed guidance and additional explanations and examples in the standard for some specific aspects would contribute to the improvement in the level of compliance, comparability and transparency in the application of the requirements.

Identifying performance obligations in a contract.

Given that the determination of whether a software licence should be accounted for as distinct and separate from maintenance services often requires a significant degree of judgement, additional and more complex illustrative examples may be useful to ensure consistent application of the standard's requirements. This applies especially in cases where software updates, upgrades or enhancements are expected to significantly change the functionality of the software.

Determining the transaction price:

ESMA recommends that the IASB include specific guidance on the presentation of consideration payable to customers related to incentives provided by an agent to the end customer. This is particularly relevant when considering whether such incentives should be accounted for as a reduction of revenue from contracts with customers or as an expense, and whether a negative revenue amount should be presented if the revenue amount after consideration of the incentive is negative.

ESMA highlights divergent practice among European entities in different industries regarding the inclusion of certain sales taxes in the transaction price and revenue. ESMA considers it important to include in IFRS 15 guidance and examples that would help entities to assess whether those payments are collected on behalf of third parties.

Furthermore, additional explanations on when a contract has a significant financing component would be beneficial. This relates particularly to the assessment of whether the difference between the promised consideration and the cash selling price arises for other reasons than the provision of finance to either the customer or the entity.

Principal vs. agent considerations:

ESMA notes that in assessing if an entity controls the specified good or service before it is transferred to the customer, it is often challenging to determine (i) whether the entity has inventory risk in relation to services and (ii) how to assess the importance of the fact that an entity has (some) discretion in establishing the price for the good or service.

Applying IFRS 15 with other IFRS Accounting Standards:

ESMA continues to consider it important to clarify which standard is applicable (IFRS 10 or IFRS 15) in instances where an entity, as part of its ordinary activities, enters a contract to sell an asset (e.g., real estate) through selling the equity interest in a single asset entity that is a subsidiary. ESMA considers that this issue is of particular importance as it affects a wide spectrum of transactions, as well as the interaction with some other standards (e.g., IAS 40, IFRS 16, IAS 12). In addition, ESMA suggests clarifying some issues around the interaction between IFRS 15 and IFRS 9.

Our detailed responses are included in the Appendix to this letter.

In case you have any questions or comments please do not hesitate to contact me or Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit.

Yours sincerely,

[signed]

Verena Ross

Appendix

1.1 Overall assessment of IFRS 15

Question 1 – Overall assessment of IFRS 15

- (a) In your view, has IFRS 15 achieved its objective? Why or why not?
- (b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:
 - (i) in developing future Standards; or
 - (ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?
- (c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

1. ESMA agrees that IFRS 15 has achieved its objective and is generally working well. At the same time, ESMA considers that more detailed guidance and additional explanations and examples in the standard for some specific aspects would contribute to the improvement in the level of compliance, comparability and transparency in the application of the standard requirements by entities. For more details, please refer to our answers to subsequent questions.

1.2 Identifying performance obligations in a contract

Question 2 – Identifying performance obligations in a contract

- (a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?
- (b) Do you have any suggestions for resolving the matters you have identified?

2. ESMA has observed that the requirements of IFRS 15 regarding the identification of performance obligations in a contract are generally clear and consistently applied in practice in most cases. Nevertheless, the assessment appears to be challenging for entities in certain situations.
3. Specifically, stakeholders have informed ESMA that in cases where software developers enter contracts with customers to transfer on-premise software licenses and provide maintenance services related to the transferred software, significant judgement is often required to determine whether the software licence is considered distinct and to account for it separately from the maintenance services. The decision as to whether on-premise software licenses and related maintenance services are distinct is very discretionary and may result in different accounting treatments.

4. Stakeholders have apprised ESMA that this discretion might lead in some cases to different accounting treatments of similar fact patterns by US entities applying US GAAP and European entities applying IFRS, although the relevant requirements in both accounting frameworks are very similar. In the US, the sale of on-premise software licenses and related maintenance services appears to be more often identified as one performance obligation and, thus, such revenue is recognised over time. In Europe, the sale of on-premise software and related maintenance services is more often identified as two distinct performance obligations and, thus, a larger portion of the revenue might be recognised point in time (up-front) when the software is sold. Therefore, additional and more complex illustrative examples might be helpful to better understand the rationale of the standard. In particular, it would be helpful to provide examples on instances where software updates, upgrades or enhancements are expected to significantly modify the functionality of the software.

1.3 Determining the transaction price

Question 3 – Determining the transaction price

- (a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not?
- (b) Do you have any suggestions for resolving the matters you have identified?

5. ESMA notes that IFRS 15 does not include specific guidance on the presentation of consideration payable to customers related to incentives provided by an agent to the end customer. This is particularly relevant when considering whether such incentives should be accounted for as a reduction of revenue from contracts with customers or as an expense and whether a negative revenue amount should be presented if the revenue amount after consideration of the incentive is negative.
6. For example, ESMA and European enforcers¹ have discussed a case in which an entity operated a marketplace model (online shopping platform), facilitating transactions between buyers and merchants and generating revenues by charging commissions to merchants acting as an agent with regards to these transactions. To provide incentives to customers to use its shopping platform, the entity introduced a loyalty programme to customers that offered customers free delivery service (through a third-party transport company) during the subscription period subject to a minimum order value, in exchange for a programme subscription fee.
7. The entity concluded that loyalty programme contracts between the entity and the customers and contracts between the entity and merchants constituted two separate services. The entity furthermore concluded that it acted as an agent in relation to the delivery service, as it did not control this service (it did not bear any risk related to the

¹ National Enforcers in the European Economic Area.

proper provision of this service). The subscription fee for the loyalty programme was recognised by the entity as revenue over time (the subscription period). Since the introduction of the loyalty programme, most of these contracts had been loss-making, as the delivery costs exceeded the subscription fees earned.

8. ESMA notes that a related issue was addressed in 2015 to the Joint Transition Resource Group for Revenue Recognition (TRG) created by the IASB and the FASB to help them determine whether more application guidance was needed. Stakeholders wanted to know whether an entity should reclassify as an expense any 'negative revenue' resulting from consideration paid or payable to a customer and, if so, under what circumstances. However, the TRG did not provide any additional guidance on this issue.
9. Moreover, ESMA submitted in 2019 to the IFRS Interpretation Committee (IFRS IC) an agenda item request concerning an airline's obligations to compensate customers for delayed or cancelled flights.² In the request, ESMA shared with the IFRS IC its observation that different views were expressed on whether, and if so to which extent, the compensation payments to customers could be presented as a deduction from revenue or as a separate component of costs. While the IFRS IC concluded that the compensation for delay or cancellation is a variable consideration in the contract, ESMA notes that in its agenda decision³, the IFRS IC stated that it did not consider the question raised by some respondents as to whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.
10. ESMA also understands from discussions with stakeholders that diversity in practice exists regarding the accounting treatment of 'negative revenue' resulting from incentives or penalties paid to customers by intermediaries. Therefore, ESMA recommends that the IASB provides guidance on how the 'negative revenue' should be accounted for.
11. Moreover, ESMA notes divergent practice among European entities in different industries (e.g., breweries, energy) regarding the inclusion of certain sales taxes in the transaction price and revenue. According to paragraph 47 of IFRS 15, the transaction price excludes amounts collected on behalf of third parties (for example, some sales taxes). Paragraph BC188A of the IFRS 15 Basis for Conclusions states that entities are required to identify and assess sales taxes to determine whether to include or exclude those taxes from the transaction price. However, the standard does not include any specific guidance to assist entities in making this assessment, resulting in inconsistent accounting treatment across entities.
12. For example, ESMA and European enforcers have discussed the different treatment of excise taxes related to brewery activities by European breweries. Some of the issuers, with which European enforcers have interacted, generally view the excise tax as a production tax and recognise the amount to be paid as excise tax as part of the revenue, while other

² [ESMA32-63-711](#) ESMA Letter *Agenda Item Request: Presentation of lump-sum compensation payments in the airline industry (IFRS 15)*, 17 April 2019

³ [IFRS - IFRIC Update September 2019](#)

issuers generally view it as a sales tax and therefore the amount to be paid in excise tax is not recognised as part of the revenue. It was observed that including the tax in the transaction price significantly increases the revenue of breweries (in some cases by over 40%). As the entities sell their products in the same markets, the divergence in presentation does not seem to be caused by differences in tax legislation.

13. When discussing the issue, European enforcers have noted that the evaluation of taxes collected was also discussed by the TRG in July 2014. TRG members generally agreed that an entity would apply the principal vs. agent application guidance when it is not clear whether the amounts are collected on behalf of third parties.
14. According to paragraph B35 of IFRS 15, an entity is a principal if it controls the specified good or service before that good or service is transferred to the customer. Paragraph B37 of IFRS 15 includes indicators to assess that an entity controls the specified good or service. With respect to the tax related to brewery activities, enforcers observed that application of these indicators in the specific case they discussed does not result in a clear conclusion on whether the tax is collected on behalf of a third party. Some details of the discussed fact pattern seemed to support the view that the entity acted as a principal. For example, the entity had to pay the tax to the authorities (even if the customer defaulted), the tax was not stated on the invoice, the issuer was not legally obliged to change prices if the excise tax changed, and the tax was chargeable at the time of release for consumption and not at the time of delivery to the customer. On the other hand, there were details that could be viewed as indicators of the entity's agent role. For instance, the entity did not have inventory risk, it stated in its contracts with customers that prices could be automatically changed if excise taxes were changed, and no excise tax was payable if the products were destroyed during transport to a customer or if the customer did not accept the products.
15. Moreover, despite the observation of the TRG, it is questionable whether the agent vs. principal guidance in IFRS 15 could be applied in this instance. The agent vs. principal guidance was written with the aim to assess whether another party involved is providing promised goods or services to the customer itself or arranging for those goods or services to be provided by the other party, which is different from the assessment of whether the tax amount is collected on behalf of third parties. The standard is, however, not clear on that.
16. In another case discussed by ESMA and European enforcers, a public service obligation (PSO) was included as a component of an electricity tariff charged to customers by an electricity supplier. The government in the jurisdiction of the entity used the PSO payments, which were determined as a specific currency amount for each kWh of the consumed electricity, to finance strategic energy projects and initiatives (e.g. green energy). While the entity could not claim refund of the tax if the customer failed to pay it and therefore bore the price risk, the entity was not exposed to any inventory risk and had no power to establish the pricing of the PSO component. The PSO component was not separately presented on the invoices. Also in this case, the assessment of whether PSO amounts were collected on behalf of third parties was highly judgemental.

17. Given the prevalence and material impact of the discussed issues related to sales taxes and similar payments, ESMA recommends that the IASB include in IFRS 15 guidance and examples which would help entities to assess whether those payments are collected on behalf of third parties. ESMA reiterates its view expressed in its comment letter on the IASB's *Exposure Draft Clarifications to IFRS 15*⁴ that no accounting policy election relating to presentation of sales taxes (either on a gross or on a net basis) should be introduced, as such accounting policy choice would decrease comparability of IFRS financial statements and would create an exception to the revenue recognition model that does not reflect the economics of the arrangement in cases for which a sales tax is a tax on the entity, rather than a tax collected by the entity from the customer on behalf of the tax authority. ESMA considers it important that, when assessing whether certain taxes are collected on behalf of third parties, the focus is on the substance of the transaction (e.g., the intention and underlying characteristics of the tax) rather than on formal characteristics (e.g., the presentation on the invoice).
18. In addition, ESMA considers it would be useful to provide additional guidance on instances where a contract has a significant financing component. This especially relates to the assessment of whether the difference between the promised consideration and the cash selling price arises for other reasons than provision of finance to either the customer or the entity (paragraph 62(c)). In this context, ESMA refers to an enforcement decision published in 2022⁵, which illustrates the importance of this assessment. Additional explanations and/or examples on what 'other reasons' could lead to the conclusion that there is no significant financing component would help to address practical challenges.

1.4 Determining when to recognise revenue

Question 4 – Determining when to recognise revenue

(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?

(b) Do you have any suggestions for resolving the matters you have identified?

19. ESMA considers that application of the IFRS 15 criteria to recognise revenue over time can be challenging to meet in practice. This applies especially to the assessment of whether the entity's performance creates an asset with an alternative use to the entity (paragraphs 35(c) and 36 of IFRS 15).
20. For example, ESMA and European enforcers have discussed diversity in practice resulting from the different application of these paragraphs by some automotive parts suppliers. The suppliers had master supply agreements (MSA) with the original equipment manufacturers (OEM) that determined price per component but did not include a minimum guaranteed quantity of parts to be purchased or a minimum guaranteed consideration. The subsequent

⁴ [ESMA/2015/1518](#) ESMA Comment Letter, *The IASB'S Exposure Draft Clarifications to IFRS 15*, 5 October 2015.

⁵ Decision ref EECS/0122-05 included in [26th Extract from the EECS's Database of Enforcement](#)

purchase orders (call-offs) were considered a contract according to paragraph 9 of IFRS 15. Most of the specific parts produced by the automotive suppliers were delivered to the OEM. There was also an aftermarket for the specific parts where a limited number of the parts could be sold to other customers in the aftermarket.

21. European enforcers have observed that some entities recognised revenue at a point in time for each component part delivered to a customer. Other entities, however, recognised revenue over time over the period set by the call-off, using an output-based method. The different accounting treatment results from differing assessments of whether there is an alternative use for the automotive parts for the supplier, in particular on whether the supplier would incur significant economic losses when directing the parts for another use (paragraph B8) by selling them in the aftermarket. This assessment depends on whether the decision to accept or reject an alternative use for the products in question must be taken at the level of the economic viability of the business as a whole (i.e., can an alternative use be found for the full production capacity), or at the level of smaller units of account in question (i.e., one component part or one call-off, which can easily be sold in the aftermarket).
22. Moreover, additional guidance could be helpful to assess whether an entity has an enforceable right to payment for performance obligations completed to date as required by paragraph 35(c) of IFRS 15. In a case discussed by ESMA and European enforcers, an entity developed and installed systems for lifting and transporting ships. A typical project lasts several years, where the issuer provides design services according to the customer's needs and specifications, sources subcontractors for the different parts needed, arranges for transportation of the different parts and builds the ship's lift system on the customer's shipyard. The contract in question included a 'termination for convenience' clause under which the customer could terminate the contract at any time but had to pay the issuer the value of the work performed and the costs incurred. However, the customer could demand a reduction in the amount to be paid if the issuer was not performing any measures to mitigate losses. The actions required to mitigate losses depended on the circumstances and could include reselling materials and goods by entering an alternative contract.
23. The entity concluded that an enforceable right to payment existed, arguing that the resale value of whole or parts of the ship's lift system represented only a marginal value, as each ship's lift system is specific to customer specifications. In accordance with paragraph 37 of IFRS 15, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date if the customer or another party terminates the contract for reasons other than the entity's failure to perform as promised. ESMA considers that clarity regarding the treatment of mitigation obligations could be provided.

24. In this respect, additional guidance could also be included in the standard based on the IFRS IC's agenda decisions⁶ *Revenue recognition in a real estate contract and Right to payment for performance completed to date*.
25. The first decision clarifies that, although an entity need not undertake an exhaustive search for evidence, it would be inappropriate for an entity to either ignore evidence of relevant legal precedent available to it or anticipate evidence that may or may not become available in the future. In addition, the entity does not have an enforceable right to payment for performance completed to date if there is relevant legal precedent indicating that the entity is not entitled to an amount that at least compensates it for performance completed to date in the event of cancellation for reasons other than the entity's failure to perform as promised.
26. The second agenda decision provides clarification that it is the payment the entity is entitled to receive under the existing contract with the customer relating to performance under that contract that is relevant in determining whether the entity has an enforceable right to payment for performance completed to date. The consideration received by the entity from the third party in the resale contract is the consideration relating to that resale contract. It is not payment for performance under the existing contract with the customer.
27. In another case discussed by ESMA and European enforcers⁷, a ship-building company entered long-term contracts for the construction of vessels. The entity recognised revenues over time in accordance with paragraph 35(c) of IFRS 15, having concluded that the entity had an enforceable right to payment for performance completed to date since the contract did not provide the customer with any termination rights for reasons other than the issuer's failure to perform as promised. The issuer had no experience of customers terminating or attempting to terminate shipbuilding contracts for reasons other than the seller's default, nor did it have knowledge that this had occurred at any other shipyards known to the entity. The enforcer requested the entity to analyse if the customer had termination rights based on national law and noted that the entity must perform an assessment according to paragraphs 37 and B12 of IFRS 15.
28. In addition, ESMA has learned from stakeholders that, in some cases, application of judgement may be challenging when determining appropriate methods for measuring progress towards complete satisfaction of a performance obligation. For example, in a case discussed by ESMA and European enforcers, an entity developing software applications for its customers using fixed price contracts elected to use hours expended compared to budgeted number of total hours to measure progress towards completion of the specific applications. Although hours expended is one of the input methods mentioned in paragraph B18 of IFRS 15, the question arose as to whether incurred cost compared to total budgeted cost would not be a more relevant method to depict the issuer's performance in transferring

⁶ [IFRS - IFRIC Update March 2018](#)

⁷ Decision ref EECS/0122-04 included in [26th Extract from the EECS's Database of Enforcement](#)

control to the customer. ESMA encourages the IASB to provide illustrative examples demonstrating how to apply judgement in determining which input is the most appropriate.

1.5 Principal vs. agent considerations

Question 5 – Principal vs. agent considerations

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

(b) Do you have any suggestions for resolving the matters you have identified?

29. ESMA notes that difficulties arise in practice in determining whether an entity acts as a principal or agent. In particular, when assessing if an entity controls the specified good or service before it is transferred to the customer, it is often challenging and subjective to determine (i) whether the entity has inventory risk before the specified good or service has been transferred to a customer (paragraph B37(a) of IFRS 15), and (ii) how to assess the importance of the fact that an entity has (some) discretion in establishing the price for the good or service (paragraph B37(b) of IFRS 15).
30. ESMA considers that application of the indicator “inventory risk” may be particularly difficult with regards to services (as opposed to physical goods), such as providing software licences. Due to the intangible nature of services, European enforcers have encountered different interpretations by preparers of what inventory risk comprises in relation to services.
31. With respect to pricing discretion, the standard states that an agent also can have discretion in establishing prices in some cases. The standard provides an example where an agent has flexibility in setting prices to generate additional revenue.
32. ESMA notes that the assessment of the above control indicators was addressed in the IFRS IC agenda decision *Principal versus Agent: Software Reseller* (April 2022).⁸ Prior to that, the fact pattern was also discussed by ESMA and European enforcers.
33. In its decision, the IFRS IC concluded that, in the specific fact pattern discussed by the Committee, the software reseller had no inventory risk before the licences were provided to the customer. However, the software reseller had inventory risk up until the point at which the customer accepted the licences. This assessment was made based on the fact that the reseller did not obtain a pool of software licences before entering the contract with the customer and was not able, for example, to direct the software licences to another customer. Further explanations on this subject were included in the working paper prepared for the April 2022 IFRS IC meeting. In particular, it was noted that inventory risk arises not only in relation to physical or tangible goods so that an entity might have

⁸ [IFRS - IFRIC Update April 2022](#)

inventory risk even if no physical good is sold (i.e., if an entity commits itself to obtain a service from a service provider before obtaining a contract with a customer to provide that service).

34. The agenda decision also includes explanations on pricing discretion, which in the Committee's view may be less relevant to the assessment of control if, for example, the market for the software licences is such that the reseller, in effect, has limited flexibility in establishing the price.
35. ESMA considers that it would be useful if the IASB could provide in IFRS 15 additional guidance and examples on the application of the control indicators, also taking into consideration the discussion in the IFRS IC and clarifications in paragraph BC385H of IFRS 15 Basis for Conclusions.
36. Furthermore, ESMA notes that paragraph BC385E of the IFRS 15 Basis for Conclusion explains that an entity that itself manufactures a good or performs a service is always a principal if the entity transfers control of that good or service to another party. ESMA and European enforcers discussed the application of this clarification in a case where an issuer manufactured and sold value-added content services (e.g., financial and weather information, games, ringtones) to a listed mobile operator, which then resold them to end-users. In this context, it would be helpful if the IASB could provide additional guidance and examples on the application of paragraph BC385E to the transfers of services involving intermediaries.
37. Finally, ESMA was informed by stakeholders that some entities that act as principals would estimate the amount of revenue to recognise if they do not have information about the amounts charged to end customers by an intermediary (agent). The issue was discussed by the TRG and was also mentioned by some stakeholders who commented on the above-mentioned IFRS IC decision on the software reseller. Even though the IASB concluded in the past that the issue is expected to affect only a limited number of entities and contracts (paragraph BC385X of IFRS 15), ESMA encourages the IASB to reassess the importance of the issue and consider providing guidance on how entities should deal with it.

1.6 Licensing

Question 6 – Licensing

- (a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?
- (b) Do you have any suggestions for resolving the matters you have identified?

38. ESMA refers to its comments on Question 2 and Question 11 regarding software licences.

1.7 Disclosure requirements

Question 7 – Disclosure requirements

- (a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?
- (b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?
- (c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?

39. ESMA considers that the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements. In the cases discussed by ESMA with European enforcers, the application of requirements was mostly clear. Nevertheless, based on these discussions it also appears that providing more examples (in addition to Example 41 included in IFRS 15 *Illustrative Examples*) would be helpful, particularly examples that would explain the application of judgement when determining revenue categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors as required by paragraph 114 of IFRS 15.

1.8 Transition requirements

Question 8 – Transition requirements

- (a) Did the transition requirements work as the IASB intended? Why or why not?

40. ESMA does not have any comments on this question.

1.9 Applying IFRS 15 with other IFRS Accounting Standards

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

- (a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?
- (b) Do you have any suggestions for resolving the matters you have identified?

41. ESMA considers that it would be important to clarify (i) which standard is applicable (IFRS 10 or IFRS 15) in instances where an entity, as part of its ordinary activities, enters into a contract to sell an asset (e.g. real estate) through selling the equity interest in a single asset entity that is a subsidiary and (ii) how the resulting gain or loss should be presented ('corporate wrapper' issue).

42. The IFRS IC discussed the issue of corporate wrappers in 2019 but did not issue an agenda decision on this matter. Instead, the issue was referred to the IASB, which in June 2020 discussed a possible narrow-scope amendment. Due to concerns raised by the IASB members about potential unintended consequences of a narrow-scope amendment without a more comprehensive discussion, the discussions did not result in providing clarity on this matter.
43. In its report on the application of IFRS 10 published in 2021⁹ and based on the results of its review of financial statements, ESMA noted that the accounting treatment applied by entities in the sample reflected predominantly the substance of the transaction. Preparers of financial statements tend to ‘see through’ the corporate wrapper and focus on the substance of the transaction (i.e., disposal of the real estate in the ordinary course of business). ESMA and European enforcers also noted that the gross presentation of the amount received from the sale (in revenue) provides more useful information than the net presentation (sale of shares), whereby net presentation also generally entails that more detail is provided in the notes.
44. Based on this evidence and further European enforcer discussions, ESMA reiterates its view that the IASB should ensure that the applicable treatment reflects the substance of the transactions. . ESMA considers this issue to be material and widespread and observes that numerous stakeholders raised the issue of accounting for ‘corporate wrapper’ transactions within the post-implementation review (PIR) of IFRS 10.
45. ESMA notes that the ‘corporate wrapper’ issue is of a wider nature and not only limited to real estate transactions or to the interaction between IFRS 10 and IFRS 15. Questions of practical application are also related to the interplay between IFRS 10 and some other IFRS standards (e.g., IFRS 16, IAS 40 and paragraph 15(b) and 22(c) of IAS 12) and concern different types of construction projects and contracts where the asset is packaged in companies for tax-free disposal (e.g., wind power plants, solar panels, or product rights in the pharmaceutical industry). In ESMA’s view, this increases the importance of the issue and the urgency of finding a solution.
46. In addition, ESMA agrees with the respondents that informed the IASB, as mentioned in the Request for Information, that it would be helpful to clarify some issues around the interaction between IFRS 15 and IFRS 9. ESMA and European enforcers have discussed, for example, an issue about the recognition of revenue by a joint operator for output arising from a joint operation when the output it receives in a reporting period is different from the output to which it is entitled. It was discussed in particular (i) which of the two revenue recognition methods, sales method or entitlement method should be applied and (ii) if the sales method should be applied, whether the assets recognised for ‘underlift’ positions, which result from imbalances between the output received by an operator and the output

⁹ [ESMA32-67-716](#) Report *On the application of IFRS 10, IFRS 11 and IFRS 12*, 20 March 2021.

the operator is entitled to, should be measured in accordance with the requirements of IFRS 9.

47. ESMA noted that a similar fact pattern was discussed by the IFRS IC. In the agenda decision published in March 2019, the IFRS IC explained that a revenue recognition method which depicts the output received from the joint operation (i.e., sales method) should be applied. However, the IFRS IC did not specify in its decision the nature of the assets and liabilities recognised as a result of the application of this method and how to measure them. ESMA considers it would be useful to clarify the interaction between the requirements in IFRS 15 and in IFRS 9 regarding the assets recognised by applying the sales method.

1.10 Convergence with Topic 606

Question 10 – Convergence with Topic 606

(a) How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?

48. ESMA considers it important that the two boards maintain their efforts to keep the requirements of IFRS 15 and Topic 606 as convergent as possible.

1.11 Other matters

Question 11 – Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?

49. ESMA considers that the allocation of the transaction price to separate performance obligations is one additional matter that the IASB could also examine as part of the PIR and provide additional guidance or examples. This refers in particular to the estimation of stand-alone selling prices, for example in the software industry, which can in practice be very judgemental.
50. In cases where software and related service obligations need to be separated (see our response to Question 2), additional explanations and examples might be helpful to understand how to determine standalone selling prices and avoid undue frontloading in situations where discounts on list prices differ significantly between contracts or observable prices are not available (e.g., for software updates).
51. ESMA and European enforcers discussed two cases related to entities operating in the telecommunication industry. In one case, a telecom company sold mobile phones and screen insurance acting as an agent in the sale of screen insurance (i.e., its performance

obligation was to arrange for the sale of the insurance). Significant judgement was necessary to determine how an entity should allocate consideration in a contract in which it is both a principal and an agent.

52. In another case, the entity offered contracts consisting in the sale of both an equipment (i.e., a mobile phone) and a subsequent service (i.e., a mobile phone subscription plan, with, for example monthly payments), with a discount on the equipment (as compared to the selling price of the same equipment when sold alone). ESMA and European enforcers discussed different methods used in practice to determine the stand-alone selling price of the equipment and their compliance with the requirements of paragraph 73 of IFRS 15. ESMA considers it would be useful to provide additional guidance or examples on the application of the price allocation requirements to such contracts.