EFRAG
Financial reporting

Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

27 October 2023

Dear Dr Barckow,

Re: Request for Information – Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*

Overall suitability and understandability: EFRAG considers that IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15' or 'the Standard') is generally working well in practice and the intended objectives of adopting the Standard were attained. The five-step revenue recognition model and its accompanying application guidance are generally seen as robust and principle-based requirements suitable for contracts with customers of varying complexity. However, there are also potential areas for targeted improvements.

Some stakeholders observed that several aspects of the Standard were initially challenging (e.g., the estimation of the transaction price including determining the estimated selling price) but over time, they have acclimated with many of these aspects of the requirements and market practice has matured.

Furthermore, stakeholders have mostly described IFRS 15 as a well-structured and understandable Standard, and they have complimented its numerous illustrative examples. However, there are also suggestions for a few more illustrative examples related to some challenging fact patterns (see our responses to Question 2 - identifying performance obligations; and Question 6 - accounting for licences).

Cost-benefit: EFRAG is cognisant that, at this point in time, stakeholders have little appetite for any significant, disruptive changes to the current revenue accounting requirements. The significant implementation and ongoing costs of the Standard faced by some reporting entities coupled with the observed limited change to the amount and timing of revenue for many reporting entities has led some stakeholders to question whether the whole change has been worth it. On the other hand, some preparers have pointed to the enhancements in contract management/documentation and increased interdepartmental communication, which have led to a better understanding and management of their businesses. Furthermore, users that EFRAG has engaged with and a majority of non-preparer respondents to an EFRAG-supported academic study have highlighted that the combination of the Standard's disclosures and its effects on the financial statements has increased the overall relevance (i.e., for estimating future cash flows, assessing revenue margins and assessing stewardship) and comparability of reported revenue.

Application challenges: Consistent with stakeholders' expectations that only targeted improvements should occur, EFRAG considers that the following issues, in order of priority, should be addressed by the IASB:

- *Principal versus agent (PA) considerations* (Question 5): This was the most frequent application challenge raised by stakeholders, and it relates to a broad range of business models. EFRAG considers the IASB should further emphasise the primacy of the assessment of the transfer of control principle whilst determining whether a reporting entity is a principal or an agent. Hence, the IASB should enhance the prominence of this principle by elevating its articulation from the Basis for Conclusions to the main body of the Standard. We acknowledge that challenges related to the PA determination are cross-cutting across various IFRS Accounting Standards including IFRS 10 *Consolidated Financial Statements*. Nonetheless, this only exacerbates the need to address this issue as it affects the depiction of reported numbers in the primary financial statements.

- *Accounting for contracts involving licences* (Question 6): Accounting for contracts involving licences is a significant practical challenge affecting current and emerging business models. EFRAG considers the IASB could provide illustrative examples for the identified challenging fact patterns. The IASB could also review whether to extend the royalty constraint to the pure sale of intellectual property and it could consider targeted amendments that clarify the treatment of licence renewals.
- *Applying IFRS 15 with other IFRS Accounting Standards* (Question 9). EFRAG suggests that the IASB should prioritise addressing the application challenges from the interaction between the Standard and IFRS 3 *Business Combinations* and IFRS 16 *Leases*. EFRAG suggests a review of whether targeted amendments are needed to ensure consistent accounting between acquirer and acquiree contracts assets and contract liabilities. And for the IASB to provide clarifying guidance or illustrative examples on challenging fact patterns where it is unclear whether IFRS 15 or IFRS 16 is applicable.

  EFRAG also acknowledges that the IASB has indicated that, at a future agenda consultation, it will seek stakeholders' views on the priority of addressing the issues arising from the interactions with IFRS 10 on corporate wrappers and IFRS 11 *Joint Arrangements* on collaborative arrangements. As the interactions with these two Standards are assessed as a high priority, EFRAG suggests that the IASB explores adding a narrow-scope project to address the interaction with IFRS 10 and recommends that the IASB should clarify which collaborative arrangements are considered to be out of the scope of IFRS 15.
- *Identifying performance obligations (Question 2)*: EFRAG suggests the IASB should provide additional illustrative examples of fact patterns related to identifying performance obligations that have posed application challenges including those related to upfront fees, pre-production services, and contracts involving licences.
- *Determining the transaction price (Question 3)*: EFRAG suggests that the IASB should clarify whether and under what circumstances 'negative' revenue should be presented under the 'expenses' categories. In addition, in light of variable consideration featuring across a wide variety of buyer-seller transactions, and the variable consideration estimation constraint not working as intended, the IASB should explore potential improvements to the existing guidance that can ensure the consistent application of the estimation constraint.

Disclosures (Question 7): EFRAG has received mixed feedback on some of the Standard's specific disclosure requirements. Users of financial statements have expressed strong support for the current package of disclosures. They have elaborated on why each of these disclosures is useful and are receptive to the possible improvement of some disclosures. Furthermore, non-preparer respondents to the

EFRAG-supported academic survey including primary users indicate that each of the required disclosures increased the ability to estimate future cash flows albeit to varying degrees. In contrast, some preparers, auditors, and national standard setters have questioned the usefulness of some of the required disclosures (e.g., disclosure of changes of the contract asset and contract liabilities, and remaining performance obligations) and made suggestions to improve the usefulness of others (e.g., improving disaggregation of revenue, removing presentation options for remaining performance obligations, and a reconciliation of transaction price allocated to remaining performance obligations).

Based on the overall mixed views expressed, EFRAG recommends that the IASB consider whether it should conduct a further targeted outreach to both preparers and users to explore if the suggested improvements to some disclosure requirements could improve the overall cost-benefit balance.

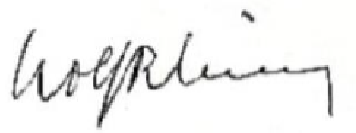
Transition and convergence (Questions 8 and 10): EFRAG's view is that the Standard's transition methods achieved an appropriate balance between minimising transition costs for preparers of financial statements whenever it was appropriate to apply the modified retrospective method versus providing useful information to users of financial statements when entities applied retrospective methods.

EFRAG's constituents have expressed the desirability of convergence with US GAAP whilst recognising and being comfortable with the inevitability of some degree of divergence. EFRAG considers that converged requirements should be sought when these result in more useful information (e.g., for the measurement of acquiree contract assets and contract liabilities).

EFRAG's detailed comments and responses to the questions in the RFI are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Vincent Papa, Juan José Gómez, Monica Franceschini, or me.

Yours sincerely,



Wolf Klinz
Chair of the EFRAG FRB

Appendix - EFRAG's responses to the questions raised in the RFI

IASB RFI Question 1 – Overall assessment of IFRS 15

(a) In your view, has IFRS 15 achieved its objective? Why or why not?

Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.

(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?

If, in your view, the ongoing costs of applying IFRS 15 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain why you hold this view.

EFRAG's response

Question 1 (a) - overall suitability of IFRS 15

2 The RFI indicates that the IASB's intended improvements while developing IFRS 15 included: to provide a comprehensive and robust framework for the recognition, measurement, and disclosure of revenue; improved comparability of revenue recognition among entities, industries, jurisdictions, and capital markets; a reduced need for interpretive guidance to be developed case-by-case to resolve emerging issues; and the provision of more useful information through improved disclosure requirements.

3 Based on the outreach to stakeholders, EFRAG considers that IFRS 15 is working well in practice but there is scope for targeted improvements such as those highlighted in our response to Questions 2, 3, 5, 6 and 9 on application challenges. The five-step revenue recognition model and its accompanying application guidance are generally seen as robust and principle-based approach requirements suitable for contracts with customers of varying complexity. However, some stakeholders observed that there were aspects of IFRS 15 that were initially challenging (e.g., the estimation of transaction price including

determining the estimated selling price) but over time, they have acclimated with many of these aspects of the requirements and market practice has matured. Some stakeholders have emphasised the role of robust field testing to enable an effective cost-benefit analysis and possibly lessen the implementation costs.

4 The Standard's intended improvements noted in paragraph 2 above were attained. As detailed below in our response to Question 1 c, the findings of an EFRAG-supported academic survey confirm that the adoption of IFRS 15 enhanced the relevance (i.e., users' ability to estimate future cash flows, assess margins and assess stewardship) and comparability of reported revenue.

Question 1 (b) - understandability

5 EFRAG's stakeholders have mostly described IFRS 15 as a well-structured and understandable Standard, and they have complimented its numerous illustrative examples. However, there are some challenging fact patterns where further illustrative examples could be helpful (please refer to our responses to questions on identifying performance obligations, accounting for contracts involving licences and principal versus agent determination guidance for potential starting points).

6 Some stakeholders have commended recent IASB webinars on amendments to IFRS Accounting requirements (e.g., on Supplier Finance Arrangements *Amendment to IAS 7 and IFRS 7*) and suggested similar material be made available for future standards. Similarly, stakeholders have noted the pivotal role the Transition Resource Group (TRG) fulfilled in ensuring the understandability of IFRS 15 and facilitating its implementation. Hence, EFRAG recommends that future major Standards should always have this type of implementation support group.

Question 1 (c) - cost-benefit

Costs

7 The feedback EFRAG obtained from stakeholders indicates that the implementation challenges and transition costs were significant for some industries (e.g., telecommunication, software, and construction). In many cases, ongoing incremental costs are minimal but, in some cases, these remain significant. For instance, telecom sector entities expend significant resources managing numerous customer contracts of small amounts but multiple elements including those based on estimates (e.g., accounting for swap arrangements, financing components, principal-agent assessment when handsets are sold through external channels and material rights with build-up of quota for data usage).

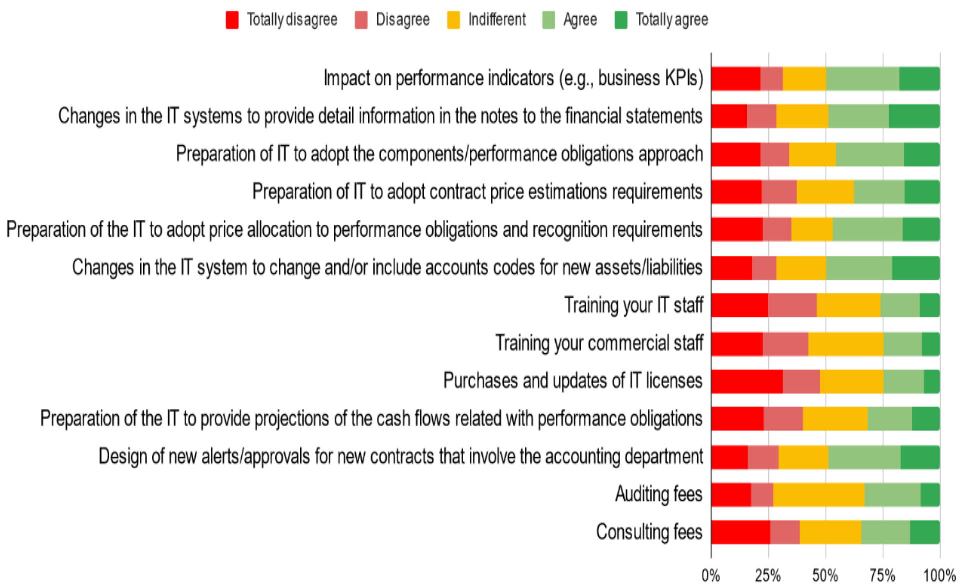
8 Similarly, the findings of the EFRAG-supported academic survey[1] to preparers show that the costs of implementation differed across industries and comprised of.

[1] The EFRAG-supported academic study was led by Beatriz Garcia Osma (Universidad Carlos III de Madrid), Jacobo Gomez-Conde (Universidad Autónoma de Madrid) and Araceli Mora (Universidad de Valencia). The study aims to capture the perspectives of preparers and other stakeholders including users of financial statements on the net benefits (costs) of implementing IFRS 15. EFRAG will separately publish the report *Intended and unintended consequences of IFRS 15 adoption.*

(a) *One-off costs*: As shown in Figure 1, for the sample entities/preparer respondents (i.e., 196 preparer respondents[2]), the most common impacts (i.e., affecting 50% of them) were 1) the changes made to performance indicators (e.g., business KPIs) and 2) changes made to IT systems[3] to provide detailed information in the notes to the financial statements.

(b) *Ongoing costs*: As shown in Figure 2, the most common ongoing costs for the survey respondents are related to changes in performance indicators and staff training[4] (mostly to commercial staff).

Figure 1 Impacts on IT systems

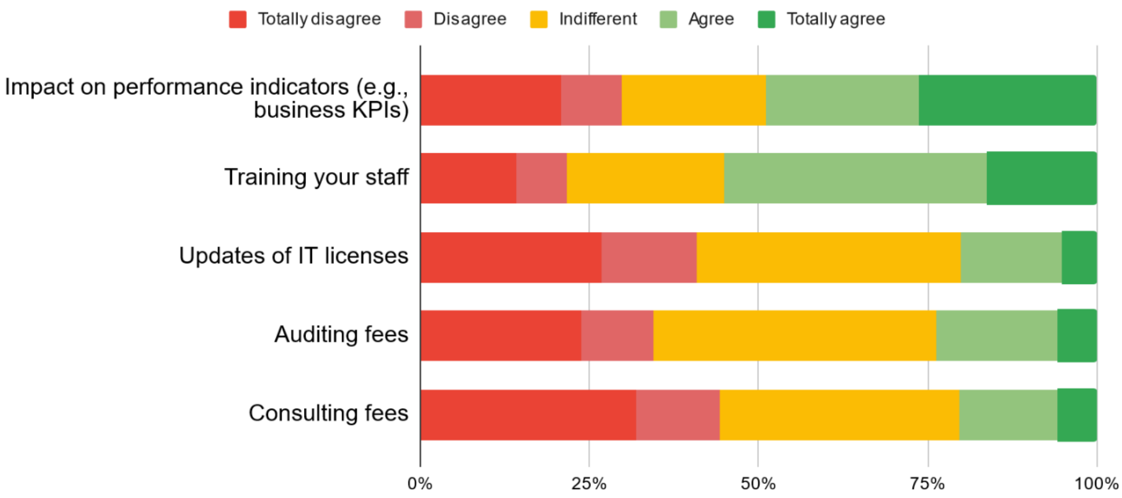


[2] The respondents included individuals with the following functional profile: Controller/Management Accountant (28%); Chief Accountant (26%); Head of Accounting Policies (19%); CFO (14%); Other Preparer of External Financial Reporting (7%); CEO (3%); and other internal roles (3%).

[3] Interviews with preparers indicated that the main costs were payments for licenses and the adaptation of the standardised software and the consequent changes in IT systems, auditing and consulting fees, opportunity cost of human capital, i.e., time spent training the staff, among others.

[4] From interviews, it was ascertained that the cost of training the staff, is not related to the technical accounting issues and/or the accounting staff (whose training must be done with any change in the standards) but other types of training and to staff from other departments (e.g., the commercial department)

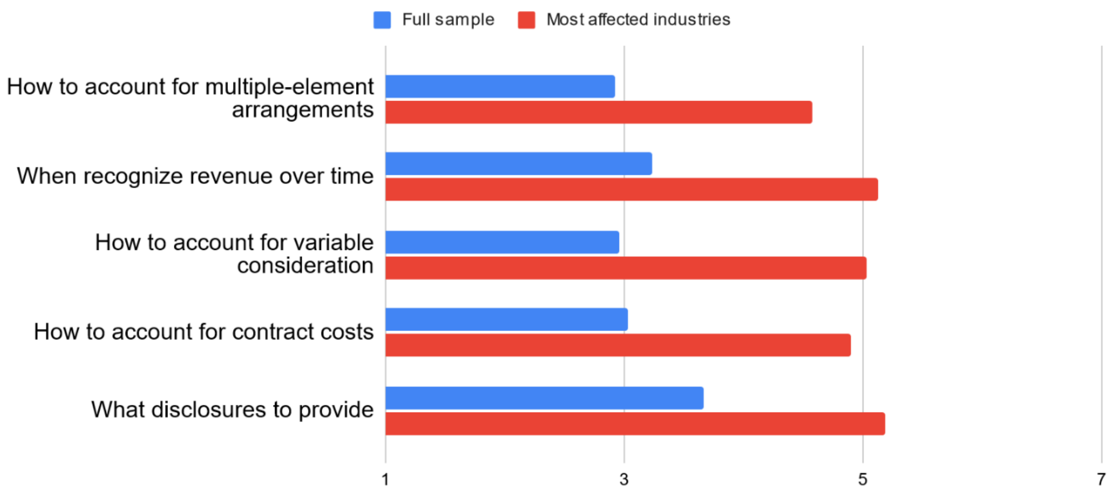
Figure 2: Ongoing costs of the IT systems



9 Furthermore, a majority (53%) of the preparer respondents either introduced new IT systems or updated their existing IT systems. The overall impact on IT systems ranged from moderate to high for approximately 25% of the preparer respondents. Furthermore, more than 25% of the preparer respondents took between 12 and 36 months and approximately 5% took more than 36 months to implement their IT systems.

10 As shown in Figure 3, for the preparer respondents, the IFRS 15 requirements for disclosures, recognising revenue over time, and accounting for variable consideration had the most impacts on IT systems. These impacts were high for the most affected industries.

Figure 3: IFRS 15 requirements impact on IT systems[5]



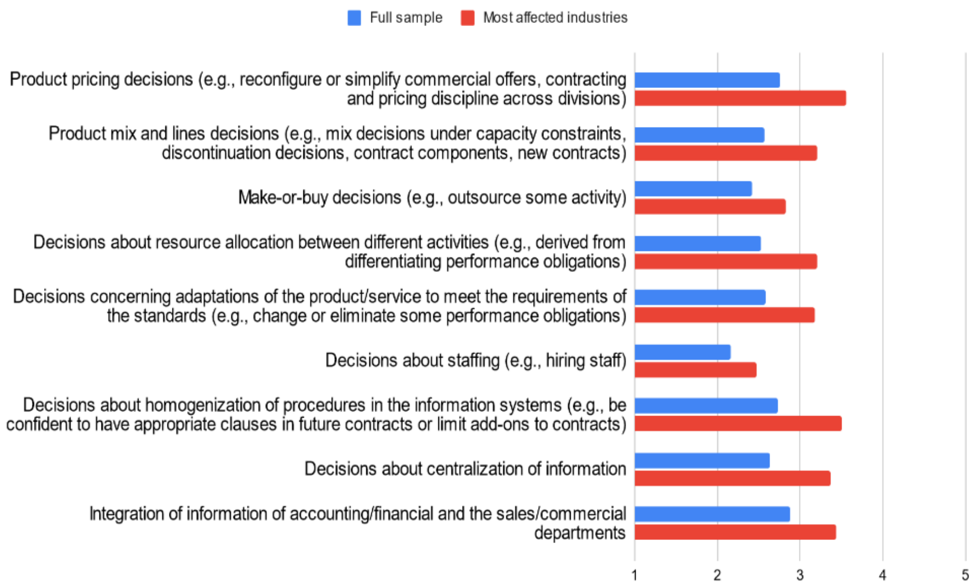
[5] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

Full sample- average impact of all 196 respondents.

Preparer benefits (i.e., "real effects")

11 The feedback EFRAG received indicates that the Standard has led to enhanced contract management/documentation and improvements in interdepartmental communication, which in turn has led to a better understanding and management of their businesses. These benefits are also sometimes described as "real effects". As seen in Figure 4, feedback from the preparer respondents to the EFRAG-supported academic survey corroborates the feedback EFRAG received. It shows the most prominent impacts of IFRS 15 implementation on decision-making were on product pricing decisions (e.g., reconfiguring or simplifying commercial offers, contracting and pricing discipline across divisions). The positive impacts on decision-making are more pronounced in the most affected firms. The latter firms experienced more than moderate impacts in all aspects except 'make or buy' decisions and hiring staff. There is other academic evidence[6] of real effects for EU firms.

Figure 4: Impact on the decision-making process[7]



User benefits

12 Non-preparer respondents to the EFRAG-supported academic survey[8] perceived the following improvements as a result of the adoption of IFRS 15:

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[6] Napier, C.J., and Stadler,C., 2020, The real effects of a new accounting standard: the case of IFRS 15 Revenue from Contracts with Customers, *Accounting and Business Research*, 50 (5): 474-503.

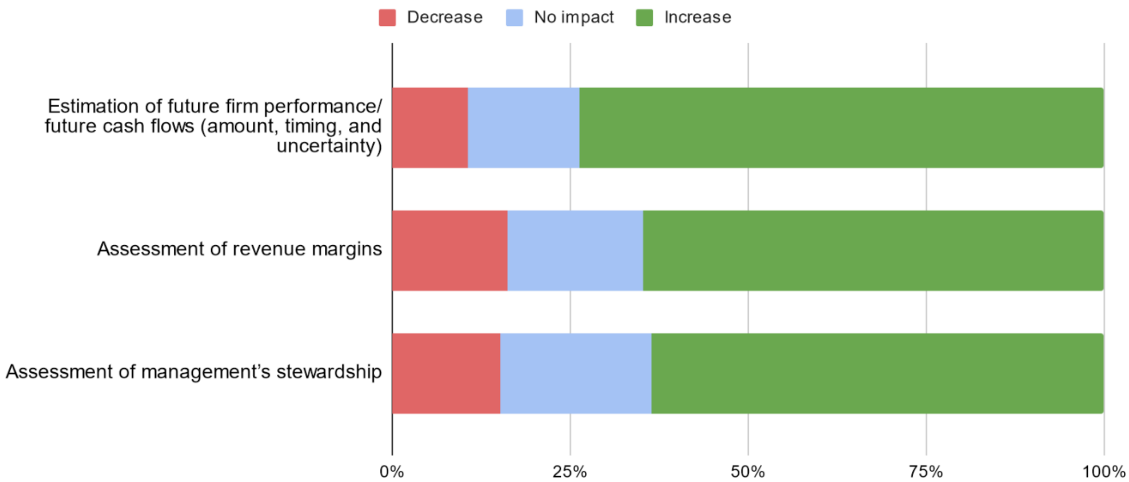
[7] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

8 Feedback from 48 non-preparer survey respondents[8] (i.e., 14% - investment professionals, 17% -other users including retail investors and lenders, and the rest-69%- auditors, academics, consultants, regulators, and supervisors) that took part in the EFRAG-supported academic study.

(a) *Improvements in relevance of information*: As shown in Figure 5, IFRS 15 increased the ability to estimate future cash flows (74% of respondents)[9], assess revenue margins (65% of respondents) and assess management's stewardship[10] (64% of respondents). Furthermore, as detailed in our response to Question 7 on disclosures, a majority of respondents considered that each of the required IFRS 15 disclosures increased the ability to estimate future cash flows.

(b) *Improvements in comparability of information*: Over 60% of the respondents considered that IFRS 15 had improved the comparability with other entities using IFRS while nearly 55% of the respondents considered that IFRS 15 had improved the comparability with entities reporting under US GAAP.

Figure 5: Impact on information usefulness



13 Figure 6 shows the perceived increase in the usefulness of changes to the income statement while Figure 7 depicts the perceived increase of usefulness of the IFRS 15-related line items in the statement of the financial position.

[9] The remaining respondents either indicated that there was no impact or that there was a decrease in usefulness and those that did not have a view are not considered in determining the percentage responses.
[10] 25% of the non-preparer respondents did not express any specific view on the usefulness of information for the stewardship objective.

Figure 6: Usefulness: Income statement

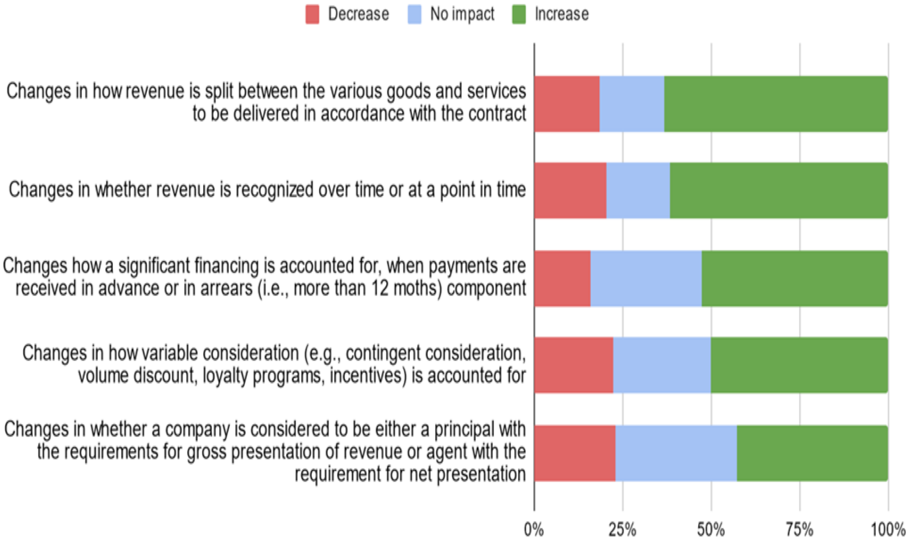
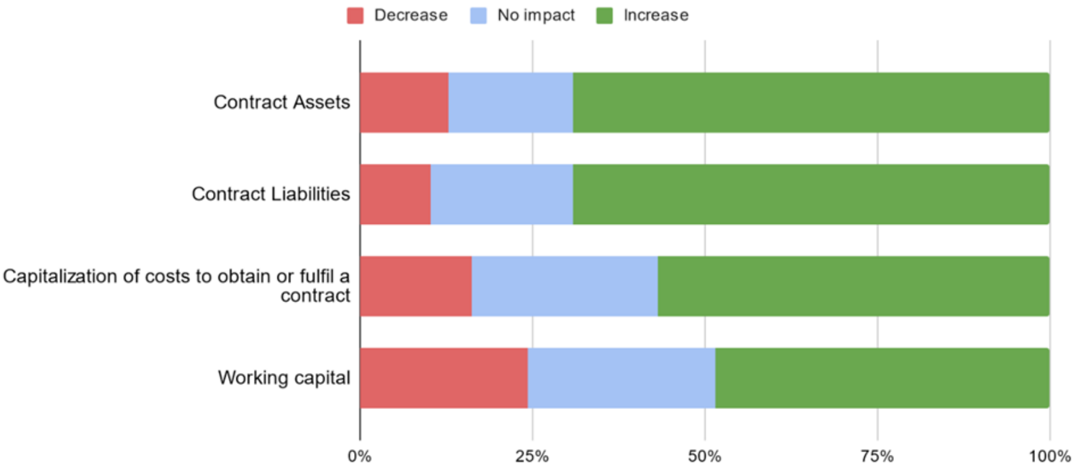


Figure 7: Usefulness: Financial position statement



14 EFRAG is also aware of academic evidence[11] on the information benefits of new revenue recognition requirements albeit these are typically focused on the analysis of US GAAP-Topic 606.

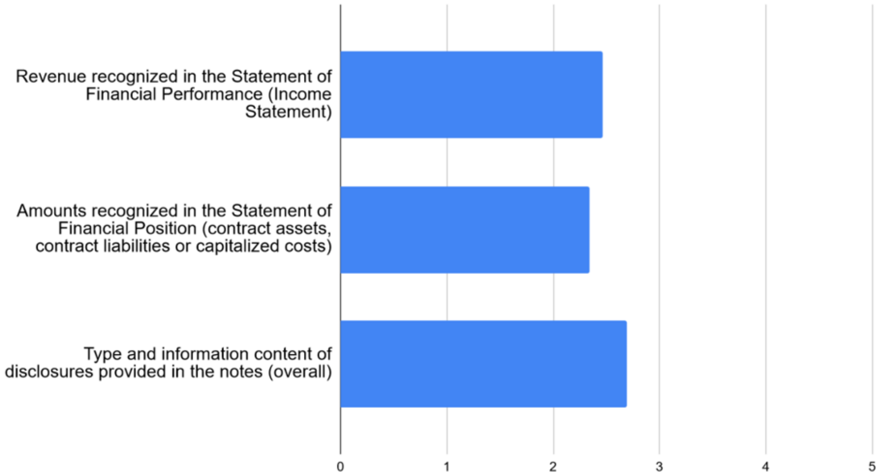
<u>Other considerations</u>

15 Several stakeholders have conveyed that they have little appetite for any further significant, disruptive changes to the IFRS 15 requirements. The significant costs faced by some preparers and the limited effect on the amount and timing of revenue for many companies (see Figure 8 on the low to moderate impacts on financial statements experienced by the preparer respondents to the EFRAG

[11] The European Accounting Association comment letter includes a literature review with an assortment of academic evidence demonstrating the information effects and capital market effects of the new revenue recognition requirements. The bulk of this evidence relates to US GAAP Topic 606.

academic survey and other [12] academic evidence) underpin the reluctance for any further disruptive changes.

Figure 8: Impact of financial statements[13]



IASB RFI 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?

Please describe fact patterns in which the requirements:

(i) are unclear or are applied inconsistently;

(ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or

(iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

[12] Napier, C.J., and Stadler,C., 2020, The real effects of a new accounting standard: the case of IFRS 15 Revenue from Contracts with Customers, *Accounting and Business Research*, 50 (5): 474-503 - This paper reviewed the accounting effects of STOXX Europe 50 companies and found that the effects were immaterial for 48% of the companies, and percentage change of revenue was greater than 1% for only 17% of companies.

[13] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

EFRAG's response

Question 2 (a) – challenging application issues identified

16 EFRAG received feedback on the complexities faced by preparers when identifying performance obligations in an arrangement, particularly in determining whether the promise is distinct in the context of the contract. This issue has been raised by auditors as well as preparers from the telecommunication, construction, and software industries.

17 Specifically, there are application challenges that arise when a non-refundable upfront fee is charged to the customer (e.g., in the telecommunication, pharmaceutical and retail industries). In these situations, it is sometimes difficult to assess whether the payments relate to the transfer of a promised good or service and, if so, whether these promises represent separate performance obligations. Illustratively, situations such as those described below appear similar but often have different accounting outcomes.

(a) Entities from the telecommunication industry that charge an activation fee;

(b) Franchisors that charge a non-refundable fee to the franchisee to enter the franchise network; and

(c) Drug manufacturers that sell their products in other countries by signing an agreement with local third parties that make non-refundable upfront payments for exclusive distribution rights.

We understand that, for fact-patterns (a) and (b), the upfront payment is often not considered a separate performance obligation from the delivery of the product or service.

In contrast, for fact-pattern (c), the upfront payment is often deemed by the drug manufacturer to be a separate performance obligation. There are also cases where drug manufacturers that receive non-refundable upfront payments in exchange for exclusive distribution rights and a commitment to perform related services like research and development activities deem themselves to have a single performance obligation (i.e., there is a constructive obligation to perform the services related to the provision of the distribution rights).

18 Furthermore, entities sometimes face application challenges in identifying performance obligations for contracts where goods must be designed, or prototypes need to be manufactured before being delivered to the customer. The practical challenges arise from determining whether the pre-production costs are costs to fulfil a contract or separate performance obligations or items to be recognised in accordance with IAS 38 *Intangible Assets*. This could happen, for example, in long-term supply arrangements that might require an entity to undertake up-front engineering and design to create new technology or adapt existing technology to the needs of the customer.

19 EFRAG has also learnt that, in certain jurisdictions, due to the withdrawal and unavailability of guidance equivalent to IFRIC 18 *Transfers of Assets from Customers*, entities that are subject to rate regulation in the utilities sector have to apply complex judgment to determine if connection fees received or transfer of assets from customers represent consideration for a separate performance obligation. In these jurisdictions, entities in the utilities sector are entitled to consideration (in the form of a fee or a physical asset) when connecting a new property to the network. Thus, these entities have to determine if the connection

of a new customer to the network represents the satisfaction of a performance obligation and there is current diversity in practice on this matter.

20 The challenge of identifying performance obligations also arises in the accounting for contracts involving licences as discussed in our response to Question 6.

21 In addition, EFRAG considers the two IFRS Interpretations Committee ('IFRS IC') agenda decisions on whether a good or service is distinct in the context of the contract (*Revenue recognition in a real estate contract that includes the transfer of land*[14] and *Assessment of promised goods or services*[15]) to be indicative of the general challenges that preparers have faced with identifying distinct performance obligations.

Question 2 (b) – suggestions for resolving identified issues

22 Given the importance of identifying performance obligations for multiple-element arrangements including contracts involving licences, and the widespread applicability of this issue across a variety of existing and emerging business models, EFRAG suggests that the IASB could consider updating the illustrative examples related to the identified fact patterns that preparers struggle with (e.g., upfront fees, pre-production services, connection fees for entities in the utilities sector, and contracts involving licences as discussed in our response to Question 6).

IASB RFI 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?

Please describe fact patterns in which the requirements on how to account for incentives paid by an agent to the end customer or for negative net consideration from a contract (see Spotlight 3) are unclear or are applied inconsistently.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

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[14] The IFRS IC issued the agenda decision (here) in March 2018. The IFRS IC assessed, among other things, the application of paragraphs 22-30 of IFRS 15 (identification of performance obligations in the contract) in a sale of land and a building to be constructed on the land. The Committee concluded that the promise to transfer the land would be separately identifiable from the promise to construct the building on that land if the entity concluded that (a) its performance in constructing the building would be the same regardless of the transfer of the land; and (b) it would be able to fulfil its promise to construct the building even if it did not also transfer the land, and would be able to fulfil its promise to transfer the land even if it did not also construct the building.

[15] The IFRS IC issued the agenda decision (here) in January 2019. In the fact pattern, a stock exchange charged the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The request asked whether the upfront fee related to activities the stock exchange undertook at or near contract inception represented a promise to transfer a service different from the listing service. The Committee concluded that the stock exchange did not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

EFRAG's response

23 The response to this question is split into two parts. In the first part of our response, we address the issues in determining the transaction price explicitly identified in the IASB RFI and, in the second part of the response, an issue related to the determination of transaction price not mentioned in the RFI that EFRAG considers to be a high priority is addressed.

Issues related to determining transaction price identified in the IASB RFI

Question 3 (a)- Consideration payable to a customer

24 EFRAG received feedback from preparers, auditors, and national standard setters that there is a lack of guidance on whether incentives/penalties to end customers by intermediaries should be presented as reductions of revenue or as expenses.

25 In addition, EFRAG's constituents indicated that there is a lack of guidance in instances where the consideration payable to a customer exceeds the amount of consideration expected to be received from it. For example, in a three-way arrangement, a fintech company may pay an incentive to attract end customers higher than the consideration they will receive from the supplier.

26 However, the 'negative' revenue issue is not only circumscribed to three-party arrangements. The IFRS Interpretations Committee received a request about an airline's obligation to compensate customers for delayed or cancelled flights[16]. The Committee however did not address the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. In particular, whether any compensation payment beyond the ticket price should be recognised as an expense or as negative revenue.

27 This issue was also raised in 2015 with the Transition Resources Group (TRG) for Revenue Recognition but it was not resolved.

28 Based on the above, EFRAG considers this issue to be a high priority for addressing by the IASB as it relates to the measurement of revenue, it affects the presentation of revenue amounts and could affect users' analysis of performance, and, hence, their valuation of entities (e.g. when valuation is based on revenue-based multiples).

Question 3 (b) – suggestions for resolving identified issues - consideration payable to a customer

29 EFRAG suggests that the IASB considers clarifying whether and under what circumstances 'negative' revenue should be presented as an expense.

Issue on determining transaction price not identified in IASB RFI

Application challenge on variable consideration

30 EFRAG has received feedback on the challenges related to the estimation of variable consideration whilst determining the transaction price. This feedback

[16] The request asked whether the entity accounts for its obligation to compensate customers as variable consideration applying paragraphs 50-65 of IFRS 15, or applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, separately from its performance obligation to transfer a flight service to the customer. The Committee concluded that compensation for delays or cancellations, as described in the request, is variable consideration in the contract. Accordingly, the entity applies the requirements in paragraphs 50-59 of IFRS 15 in accounting for its obligation to compensate customers for delays or cancellations. See Agenda decision here.

came from preparers, particularly in the software, construction, pharmaceutical and telecommunication industries, regulators, and national standard setters.

31 Illustratively, it was highlighted that it is difficult to estimate the variable consideration of products like gene therapies or vaccine therapies that are sold and there is a need to track the success of those products over long time periods. In addition, these estimates are often highly judgemental and subject to significant debates between the preparers and auditors. Preparers also highlighted that the assessment of the "highly probable" threshold that the revenue will not be reversed in the future (i.e., the estimation constraint) is challenging[17] and it sometimes involves external legal/technical advisors to assess this criterion.

32 EFRAG also received feedback that the estimation constraint on recognising variable consideration is not working as intended. The notion of "highly probable" with respect to the reversal of revenue in the future tends to be applied inconsistently during both the initial and subsequent[18] recognition and measurement of variable consideration. This results in diversity in practice in accounting for similar transactions. The below observations and examples substantiate this concern:

(a) Often when the estimation constraint is applied, the catch-up revenue adjustment will only be recognised when the customer is invoiced rather than whenever the “highly probable” threshold of revenue not reversing is met (i.e., there is limited continuous assessment).

(b) An example of the requirements not being applied as intended during initial recognition came from the construction industry, where variable consideration arrangements (i.e., penalties) are common and should reduce the total transaction price unless their likelihood is remote. EFRAG has learnt that, in practice, many contractors do not account for these penalties until near the end of the construction phase.

(c) EFRAG also learnt of other situations where preparers were reluctant to apply the “highly probable” threshold constraint due to the overall significant outcome uncertainty (i.e., uncertainty on amount and timing of revenue) and measurement uncertainty (i.e., no observable or historical data that is predictive is available, and it is difficult to estimate future revenue)[19]. For example, the preparer of a media company that uses a third party for collecting revenues on its behalf for songs played indicated amounts related to this revenue stream only became known much later. This

[17] EFRAG notes that, for cost-benefit reasons, the IASB staff analysis and IASB tentative decisions during its redeliberations on the 2021 Exposure Draft *Accounting for Regulatory Assets and Regulatory Liabilities* rejected the option of extending the IFRS 15 estimation constraint on variable consideration towards the recognition of total allowed compensation components where there is significant measurement uncertainty (i.e., allowable expenses based on benchmark expenses and long-term performance incentives). See February 2023 IASB Agenda Paper 9D on allowable expenses based on benchmark expenses and April 2023 IASB Agenda Paper 9A on long-term performance incentives.

18 Even though an entity might not recognise variable consideration initially because the 'highly likely' threshold is not clearly met, it could recognise it over time as the uncertainty diminishes, but it is highly judgmental to determine when this moment takes place.

[19] Paragraph 6.61 and the Appendix to the Conceptual Framework for Financial Reporting (Conceptual Framework) defines outcome uncertainty as the uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability. The Conceptual framework (paragraph 2.19 and the Appendix) defines measurement uncertainty as the uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.

preparer highlighted the challenge of applying the estimation constraint while recognising variable consideration.

(d) There are not many changes in reporting outcomes on variable consideration compared to the previous revenue recognition requirements, which is indicative of the Standard's requirements not being applied as intended.

33 Besides the challenge of the estimation constraint not working as intended, some stakeholders have questioned its appropriateness for providing relevant information. Specifically, it has been noted that the "highly probable" threshold requirement conflicts with the overarching accounting principles of neutrality because it is overly prudent or conservative.

34 However, for the fact patterns of some business models, the outcomes of applying the "highly probable" threshold in the variable consideration estimation constraint may be akin to the restrictions to the recognition of contingent assets (i.e., whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the entity). Hence, a "highly probable" threshold for recognising variable consideration may be considered useful for the consistent and comparable reporting of economically similar items (i.e., for the recognition of contingent economic benefits). Moreover, based on past feedback and the IASB's argument in IFRS 15. BC 207[20], EFRAG's understanding is that users expect prudence in the recognition of variable consideration to avoid overstating revenue or recording potentially reversible revenue. Furthermore, EFRAG is cognisant that the purpose of the PIR is not to reopen discussions on the appropriateness of the Standard's recognition and measurement requirements.

Suggestions for IASB action on variable consideration

35 For the reasons noted in Paragraph 34, EFRAG is not expecting a change in the estimation constraint on variable consideration. However, due to the noted diversity in practice in Paragraph 32, we suggest that the IASB explores possible improvements to the existing application guidance to help ensure the consistent application of the estimation constraint, including when variable consideration is negative.

IASB RFI 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?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

[20] BC 207 indicates that the IASB decided that the bias of constraining estimates of variable consideration was reasonable because users of financial statements indicated that revenue is more relevant if it is not expected to be subject to future reversals.

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

EFRAG's response

Question 4 (a) Application challenge- determining when to recognise revenue

36 Most EFRAG stakeholders did not identify any application challenges in determining when to recognise revenue (i.e., over time or at a point in time) after assessing the pattern of transfer of control of a good or service. Nonetheless, an enforcer has highlighted challenges in the assessment of whether an entity's performance creates an asset with an alternative use (i.e., IFRS15.35(c)) that has led to diversity in practice. Specifically, the enforcer highlighted the difficulties in judgment faced by entities in the automotive industry, where there are automotive suppliers who deliver specific parts to original equipment manufacturers (OEMs)[21] and a limited number of these specific parts that could be sold in a secondary market (aftermarket). As a result, there is diversity in practice in the revenue recognition practices related to the sale of the parts. This is because automotive supplier entities can consider these parts resulting from one purchase order as either;

(a) distinct goods (or a bundle of goods); or

(b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. For this characterisation, each distinct good in the series that the entity promises to transfer to the customer should meet the criteria in IFRS 15.35 to be deemed a performance obligation satisfied over time. When making this determination for this fact pattern, the key assessment is whether or not the aftermarket for the parts is an alternative use to the entity.

37 For the above fact pattern, even though the specific parts have an alternative use, an entity might be practically limited from readily directing the asset for another use as it would incur significant economic losses. The outcome of this assessment may differ in practice depending on the level at which it is performed; one unit, a purchase order or via a master supply agreement (MSA). Production under an MSA would not be viable if the entity had to use a secondary market for its output (as it is very limited).

38 The difficulty in assessing whether an entity's performance has created an asset with alternative use was also raised during EFRAG's engagement with national standard setters of other jurisdictions[22] outside the EU.

39 Furthermore, citing two challenging fact patterns from a) an entity that developed and installed systems for lifting and transporting ships[23] and b) the ship-building industry; the enforcer also suggested the IASB should provide additional guidance to help assess whether an entity has an enforceable right to payment for performance obligations completed to date (i.e., IFRS15.35 (c)). Such additional guidance could be based on the 2018 IFRS IC agenda decisions

21 OEM stands for original equipment manufacturer, which parts are made by the same company that makes the vehicle. Meanwhile, aftermarket parts are produced by a different parts company and are often designed to be compatible with as many makes and/or models as possible.

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23 For this entity, the contracts with customers included a 'termination for convenience' clause under which the customer could terminate the contract at any time but had to pay for the value of the work. However, the customer could demand a reduction if the issuer was not performing any measures to mitigate losses like reselling materials and goods.

including the *Right to payment for performance completed to date*[24] agenda decision.

40 EFRAG agrees with the suggested strengthening of the guidance for assessing the enforceability of customer payments for completed performance obligations. We note the 2018 IFRIC agenda decisions on how an entity applies the criteria included in Paragraph 35 c are indicative of the challenges faced by preparers in applying these criteria. Furthermore, the suggested strengthening of the guidance will be beneficial for other Standards that may be inspired or incorporate[25] the content of paragraph 35 c into their requirements for assessing the enforceability of arrangements (e.g., the forthcoming rate-regulated activities final Standard requirements related to the recognition of regulatory assets and regulatory liabilities arising from long-term performance incentives).

IASB RFI Question 5 – Principal versus 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?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 5 (a) - The concept of control and related indicators

41 EFRAG has received feedback from most stakeholders and in relation to a wide range of industries on the challenges arising from the IFRS 15 requirements on principal versus agent (PA) considerations. The concerns have arisen across a variety of business models including those with multi-layers of intermediaries, fintech companies and in respect of the construction, telecommunication, software, and pharmaceutical sectors. The PA issue has been raised by preparers, audit firms and national standard setters. EFRAG also acknowledges that challenges related to PA determination are cross-cutting across various IFRS Accounting Standards including IFRS 10 *Consolidated Financial Statements*. And this only exacerbates the need to address issues around the PA determination as

[24] The agenda decision indicates 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.

[25] In February 2023, in its redeliberations on the feedback to the Exposure Draft *Accounting for Regulatory Assets and Regulatory Liabilities*, the IASB made a tentative decision to incorporate the IFRS 15. 35 C requirements on assessment of enforceability of customer payments for completed performance obligations within the final rate-regulated activities Standard so as to strengthen the guidance for assessing the enforceability of rights and obligations to increase/reduce rates arising from regulatory agreements. https://www.ifrs.org/content/dam/ifrs/meetings/2023/february/iasb/ap9c-enforceability-and-recognition.pdf

it often has a significant impact on the numbers reported in primary financial statements.

42 The challenges identified stem from the application of the transfer of control principle and the related indicators in identifying whether an entity is a principal or an agent (Spotlight 5 of the IASB's RFI). Specifically, the difficulties in applying the transfer of control indicators in IFRS15.B37 has led to diversity in practice. EFRAG stakeholders have conveyed that these indicators do not often provide evidence of an entity's prior control of goods or services before their transfer. Below is an elaboration of concerns related to the insufficiency of the three criteria:

(a) Primarily responsibility for fulfilment (IFRS 15.B37(a)): there is no link between prior control as defined in IFRS 15.B35 and the question of whether the entity or the supplier is primarily responsible towards the customer. The fact that an entity is primarily responsible for fulfilling the contract, including providing customer support, resolving customer complaints, and accepting responsibility for the quality or suitability of the product or service does not always provide evidence that it controls the good or service before is transferred to a customer.

(b) Inventory risk (IFRS 15.B37(b)): the standard refers to risk "after transfer of control to the customer (for example, if the customer has a right of return)". Having the inventory risk does not provide any evidence as to whether an entity controls the goods or services before they are transferred to the customer.

(c) Price discretion (IFRS 15.B37I): whether or not an entity has discretion in determining the selling price does not technically indicate prior control.

43 Therefore, an entity that is primarily responsible for fulfilling the promise to provide the specified good or service to the customer, has inventory risk (especially after the transfer of control to the customer) and has the discretion to establish the price will likely have to assess whether it controls the underlying goods or services before they are transferred to the customer. Below are some examples of where PA determination challenges arise:

(a) Situations where an entity sells a licence of intellectual property and does not have physical possession of the good. For example, an eBook publisher that sells digital eBooks to end customers through an online retailer; and

(b) Situations where an entity sells a service. For example, an online newspaper that sells advertisement space to end customers through an advertisement agency.

44 Furthermore, EFRAG considers that the IFRS IC, May 2022 IFRS 15-related agenda decision (*Principal versus Agent: Software Reseller*) assessed the different indicators included in IFRS 15.B37 but it did not conclude whether the reseller was acting as a principal or as an agent. In addition, the agenda decision did not give enough prominence to the assessment of control as defined in IFRS 15.33 in the specific fact pattern.

45 Overall, EFRAG considers addressing the challenge in PA determination related to applying the indicators of transfer of control a high priority that should be addressed by the IASB.

Question 5 (b) - suggestions for resolving identified issues

46 EFRAG suggests the IASB should give greater prominence to the assessment of transfer of control being the primary assessment whilst determining whether a reporting entity is a principal or agent. In addition, the May 2022 IFRS IC agenda decision seems to give more prominence to the indicators than to the assessment of control when applying IFRS 15 to the fact pattern even when the indicators do not lead to conclusive outcomes. Thus, EFRAG proposes that the IASB should elevate paragraph BC385H to the application guidance. This way, the application guidance would convey in a clearer way that the indicators (1) do not override the assessment of control; (2) should not be viewed in isolation; (3) do not constitute a separate or additional evaluation; and (4) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.

47 Given the emergence of new business models, EFRAG also suggests that the IASB provides additional targeted examples related to digital services and intangible assets like intellectual property or software licenses. In some industries, like telecommunications and medical technology, these types of services and intangible assets are often sold in bundles with tangible goods or other separate services, which makes the control assessment complex. Hence, we also suggest the IASB provides illustrative examples of bundled offerings including licenses.

IASB RFI Question 6 – Licensing

(a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to matters described in Spotlight 6.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 6 (a) - application challenges-accounting for contracts involving licences

48 EFRAG has received feedback on several challenges related to the accounting for contracts involving licences. The issues described below have been raised by several preparers from the pharmaceutical and software industries, national standard setters, and auditors.

49 *Determining whether a licence is a distinct performance obligation*: Similar to the accounting challenges highlighted in our response to question 2 (identifying performance obligations), EFRAG has received feedback on circumstances where determining whether the promise to grant a licence to a customer is distinct from other promised goods or services in the contract can be challenging.

This difficulty arises with complex and multiple-element IP-licensing arrangements whereby a licensor provides additional services that are linked to the rights granted under the terms of the licence (e.g., manufacturing services, updates to the intellectual property, research and development activities). For instance, it can occur for a drug manufacturer that licenses the rights to the distribution of its drugs and also promises to manufacture the drug for the customer/licensee. For this fact pattern, determining whether the drug manufacturer's right to sell the product is a distinct performance obligation and the appropriate accounting thereafter can be challenging. It entails determining whether either the five-step model to recognise revenue or the Standard's application guidance on licensing (i.e. IFRS 15.52-63B that guide on whether to recognise revenue at a point in time or over time) apply and this requires careful analysis of the contract terms (e.g., whether there is a minimum level of purchases) and the nature of the drug (i.e., whether it is a generic drug).

Similarly, in cases where software developers enter into contracts with customers to transfer software licences and provide related maintenance services (e.g. SaaS), significant judgement is often required to determine whether the licence is a distinct performance obligation.

In other words, apart from the challenges of identifying separate performance obligations addressed in our response to Question 2, in the above-noted situations, extensive analysis and judgment are required to ascertain whether to apply the application guidance on licensing and stakeholders have called for illustrative examples.

50 *Determining whether a licence is a right to use or right to access:* Stakeholders have conveyed that for some complex licensing arrangements (e.g., sale of a software licence together with a promise to deliver continuous updates), there are difficulties in applying the tests of IFRS15.B58[26] to determine whether the licence is a right to use or a right to access. The stakeholders have called for illustrative examples to guide the practical application of the Standard's licensing guidance.

51 *Determining whether licensing of IP is the predominant component of a single performance obligation*: EFRAG has received feedback on the challenges faced by preparers under fact patterns that require the assessment of whether a license is a primary or predominant component of a single performance obligation. For example, according to IFRS 15. B63A, the "sales-based or usage-based royalties constraint" applies when the royalty relates to either a licence of IP or to a performance obligation of which a licence of IP is the predominant component (e.g. when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates). Though the Basis for Conclusions discusses the assessment of whether the licence is the primary or dominant component of a single performance obligation, the Standard does not provide any specific criteria for making this determination.[27]

[26] The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:
a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A);
b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and
c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).

[27] IFRS 15. BC 414X includes the IASB analysis of an example of a 10-year licence that is not distinct from a one-year service arrangement and the paragraph notes that IFRS 15. BC 407 further highlights that an entity considers the nature of its promise in granting the licence if the licence is the primary or dominant component of a single performance obligation.

52 *Out-licensing arrangements versus sale of IP*: EFRAG has received feedback from pharmaceutical industry preparers that it can be challenging to distinguish their out-licensing arrangements, which typically include sales-based royalties that are paid to the entity if the drug is successfully developed, from the pure sale of the patents of a drug (intangible asset). Some out-licensing arrangements are in substance economically equivalent to a sale of IP. Yet, there is diversity in practice in accounting treatment and outcomes depending on whether entities consider the legal form or the economic substance of the transaction. [28]

53 *Licence renewals:* EFRAG has received feedback on challenges in the accounting for the extension of right-to-use licence agreements and these typically arise in the software and pharmaceutical industries. The challenge relates to determining whether to recognise the point in time revenue when the renewal is agreed upon or when the new license period starts and stakeholders have pointed to the lack[29] of guidance on this aspect in IFRS 15. It is worth noting that the FASB amended Topic 606 and has implementation guidance[30] that specifically requires revenue to be deferred until the renewal period begins with an accompanying illustrative example. Unlike US GAAP, Paragraph B61[31] of IFRS 15 does not refer to licence renewals.

54 *Licence in PA arrangements:* The challenge of accounting for contracts involving licences also arises in the PA arrangements for new types of business models as discussed in our response to Question 5.

Question 6 (b) - suggestions for resolving identified issues

55 EFRAG suggests that the IASB could provide additional illustrative examples for the more complex fact patterns where preparers face accounting challenges as described in the above paragraphs. Consistent with our suggestions in Question 2, the IASB could provide illustrative examples relating to identifying separate performance obligations for fact patterns involving licences. Furthermore, there could be an example that enables entities to identify whether a licence is the predominant component of a promise in a more complex scenario than the one depicted in illustrative example 60 of IFRS 15. In addition, the IASB could consider providing guidance for determining whether the licence of IP is the predominant item of a promise to customers to enable the consistent application of the IFRS 15 requirements by entities.

[28] If the transaction is an out-licensing arrangement, the royalties' constraint will apply and the royalties will not normally be recognised until the sale occurs (IFRS15.B63). However, if the nature of the transaction is a sale, an entity recognises an estimate of these royalties as part of the consideration to be received in accordance with the variable consideration principles of IFRS 15 (IAS38.116).

[29] Paragraph B61 of IFRS 15 states that revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. However, there is no specific guidance on licence renewals.

[30] ASC 606-10-55-58C states that *'an entity would not recognize revenue before the beginning of the license period even if the entity provides (or otherwise makes available) a copy of the intellectual property before the start of the licence period or the customer has a copy of the intellectual property from another transaction. For example, an entity would recognize revenue from a licence renewal no earlier than the beginning of the renewal period'*. Case B of ASC 606-10-55-392A then includes an illustrative example demonstrating how this should be applied.

[31] Paragraph B61 of IFRS 15 states that revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. However, there is no specific guidance on licence renewals.

56 To address the challenge outlined in Paragraph 52 of IFRS 15 and reduce the noted diversity in practice, EFRAG suggests that the IASB could further assess whether amendments that extend the sales-based and usage-based royalty constraint to fact patterns similar to the pure sale of IP could be made.

57 On the license renewals issue identified above, EFRAG recommends that the IASB amends Paragraph B61 to clarify when the revenue related to a licence renewal should be recognised.

IASB RFI 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?

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.

(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?

EFRAG's response

Question 7 (a) - usefulness of disclosures

58 IFRS 15 disclosures were intended for the benefit of the users of financial statements. However, EFRAG has received contrasting views from different stakeholders on the usefulness and the balance between the costs and benefits of the required disclosures.

59 Users of financial statements that were contacted during the consultation period expressed strong support for the current package of disclosures. They elaborated on why each of these disclosures was useful, and they were largely receptive to the possible improvement of some disclosures. As noted in our response to Question 1, the feedback by the non-preparer respondents (i.e., investment professionals, auditors, academics, and other non-preparers) to the EFRAG-supported academic survey conveyed that the changes in disclosure requirements relative to the prior IFRS requirements had a positive impact on the usefulness of reported information. The majority of respondents conveyed that the required IFRS 15 disclosures increased the ability of users to:

(a) make estimates of future cash flows;

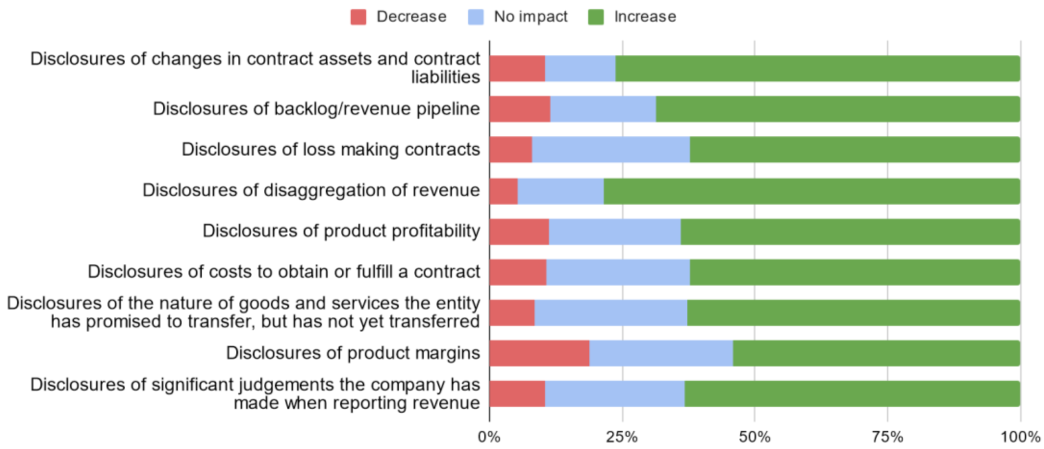
(b) assess revenue margins; and

(c) assess management's stewardship.

60 Furthermore, as depicted in Figure 9 below, the respondents conveyed that different disclosures were useful for the estimation of future cash flows. At least half the respondents considered all the disclosures to have increased the respondents' ability to estimate future cash flows, with the most useful being the

disaggregation of revenue. Another academic study [32]has also ascertained the usefulness of the disaggregation of revenue disclosure.

Figure 9: Usefulness of disclosures



61 In contrast to the above findings, as detailed below, some stakeholders including preparers, auditors, and national standard setters have questioned the usefulness of some of the disclosures and/or made suggestions for their improvement:

<u>Concerns expressed on specific disclosures</u>

(a) *Concerns about the disclosure of changes in contract assets and contract liabilities*: Several stakeholders including standard setters and preparers (e.g., from the pharmaceutical industry) have opined that the costs of preparing a disclosure of changes in contract assets and liabilities could outweigh the benefits this disclosure provides for users. The costs arise as the underlying information has to be manually derived in several cases. In addition, it has been noted that the information in this disclosure is not needed by management in running the business raising questions on its benefits for users. Furthermore, a suggestion has been made to limit this disclosure to entities with business models that involve long-term contracts.

In contrast to the noted concerns, users have expressed strong support for this disclosure and conveyed its importance, especially for business models that are based on long-term contracts. For instance, it gives visibility to disputes that may arise (e.g., a "stalled" contract asset balance could signal an unresolved dispute with the customer). This disclosure also provides transparency on the fair value adjustments related to the acquiree's contract assets and contract liabilities (i.e., the difference between the fair value and transaction price of the acquiree's contract assets and contract liabilities, as discussed in respect of the Standard's interaction with IFRS 3 *Business Combinations* in Question 9). And users can thereafter make analytical adjustments to unwind the differing depictions of financial performance, which depend on whether a company's business is growing organically or

[32] Hinson, L.A.; Pundrich, G.P., and Zakota.M. (2022), The decision usefulness of ASC 606 Revenue Disaggregation, University of Florida. This academic working paper provides evidence of the usefulness of disaggregation of revenue disclosures as it finds that there is higher (lower) analyst sales forecast accuracy (dispersion) for disaggregating firms. These benefits are primarily present when disaggregation is accompanied by detailed qualitative disclosures, when disaggregated revenues are comparable, and when the granularity of segment information is low. <u>The working paper is related to US GAAP Topic 606 that has similar disclosure requirements to IFRS 15.</u>

via acquisitions. Moreover, some stakeholders disagreed with the earlier-noted proposal of limiting the disclosure of changes in contract assets and contract liabilities to certain business models (i.e., those with long-term contracts). They note that the application of the IAS 1 materiality requirements suffices for entities to determine when it is decision-useful to provide this disclosure.

(b) *Concerns on remaining performance obligations disclosures*: A national standard setter has noted that, as these disclosures offer a presentation option (IFRS 15.120b) and including a practical expedient on an individual contract basis (IFRS 15.121), it hampers the comparability and the ability to reconcile remaining performance obligations. This stakeholder has called for a review of the IFRS 15 requirements ostensibly to make this disclosure more useful.

Correspondingly, during EFRAG's consultation, users have affirmed the importance and usefulness of the remaining performance obligations disclosure to make estimates of future cash flows and margins, and to aid their understanding of the reporting entity's business model. They have indicated this disclosure is especially useful for the construction and engineering sectors.

<u>Suggested possible improvements of other IFRS 15 disclosure requirements</u>

(c) *Possible improvements to disaggregation of revenue disclosure*: Stakeholders have suggested improvements to the disaggregation of revenue disclosure and made the following points:

(i) The disaggregation of revenue is often not done at a useful level as it is too standardised and may fail to represent the entity-specific circumstances in a decision-useful manner (e.g., by failing to split between direct sales vs collaboration revenue in the pharmaceutical industry). A view was expressed that ensuring the appropriate level of disaggregation is an enforcement issue.

In response, users generally agreed with the principle of improving the current disaggregation of revenue to ensure relevant and consistent information is disclosed across reporting periods. They pointed to circumstances (e.g., within the telecommunication industry), where, relative to prior disclosure under IAS 18, the IFRS 15-based disclosure reduced the information relating to the distinction between the fixed and variable components of revenues. Furthermore, they highlighted difficulties in reconciling the IFRS 15 disaggregation with the information provided for the operating segments.

(ii) The disaggregation of revenue disclosure requirements[33] are better suited for entities in the scope of IFRS 8 *Operating Segments* (e.g., listed entities) rather than for small-medium entities. Hence, these requirements should be differentiated based on the type or size of the

[33] For examples, IFRS 15.114 states "An entity shall 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. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue."

reporting entity (i.e., the principle of proportionality should be applied).

(iii) The disclosure of risk factors related to different disaggregated revenue streams would be useful.

(d) *Possible improvement to transaction price allocated to the remaining performance obligations*: It has been suggested that a reconciliation of the transaction price allocated to the performance obligations that are unsatisfied at the beginning and the end of the reporting period could improve the information content of the transaction price allocated to the remaining performance obligation. Such a reconciliation would enable users to identify unusual movements (e.g., changes in the scope of consolidation and relevant foreign exchange translation differences) and it could aid users' assessment of the effectiveness of management in respectively churning revenue from new versus legacy/older business contracts. Mixed feedback was received on this suggested improvement with concerns voiced by some national standard setters and a user about the costs of such a disclosure but with other users indicating the information would be useful.

62 Based on the overall mixed views expressed above, EFRAG recommends that the IASB considers whether it should conduct a further targeted outreach to both preparers and users to explore if the suggested improvements (i.e., enhancing disaggregation of revenue requirements, eliminating the presentation options for remaining performance obligations, and requiring a reconciliation of transaction price allocated to remaining performance obligations) could improve the overall cost-benefit balance.

Questions 7 (b) and 7(c) - ongoing costs of disclosure and observations on variation in the quality of disclosure

63 Our response to Question 1 includes findings of the EFRAG-supported academic survey on the ongoing costs of implementing IFRS 15 including disclosures. It shows that, at an aggregate level, for the survey's preparer respondents, providing disclosures was the costliest component of the IFRS 15 requirements.

64 Furthermore, some national standard setters noted the ongoing costs associated with:

(a) often manual gathering of information about the main changes in contract assets and contract liabilities; and

(b) time-consuming and costly allocation of the transaction price to the remaining performance obligation.

IASB RFI Question 8 – Transition requirements
(a) Did the transition requirements work as the IASB intended? Why or why not?
Please explain:
(i) whether entities applied the modified transition method or the practical expedients and why; and
(ii) whether the transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

EFRAG's response

Question 8 (a) - transition requirements

65 Consistent with the findings of an academic study[34], EFRAG received feedback indicating there was diversity in the transition method applied by preparers. Some preparers, who applied the full retrospective approach, indicated that this was due to the limited number of active contracts that had to be analysed. While other preparers adopted the modified retrospective approach as it was considered less complex than the full retrospective approach. Furthermore, due to legacy contracts' information constraints, staffing constraints, and the challenges arising from the concurrent, first-time application of other IFRS standards (i.e., IFRS 9 *Financial Instruments* and IFRS 16 *Leases*); several preparers welcomed the Standard's allowed practical expedients[35] for the retrospective method.

66 Users' needs for comparable information were likely met by the retrospective method. In this regard, EFRAG is aware of an academic study[36] that assessed the usefulness of the transition methods, which concluded that the full retrospective method improved analysts' forecasting accuracy.

67 Overall, EFRAG considers that, through the two allowed methods and practical expedients, the IFRS 15 transition requirements achieved an appropriate balance between minimising transition costs for preparers of financial statements while providing useful information to users of financial statements.

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[34] Krupova, L., and Partum.M (2022), Impact of IFRS 15 *Revenue from Contracts with Customers* on Construction Industry, Anglia Ruskin University. This academic working paper reviewed 68 annual reports of construction companies in the EU and found 71% of these companies applied the modified retrospective approach while 28% applied the retrospective approach.

[35] IFRS 15.C5 details the practical expedients that were allowed when applying the Standard retrospectively including that there was no need to restate completed contracts that begin and end within the same annual reporting period; or are completed at the beginning of the earliest period presented. Other practical expedients allowed (see IFRS 15.C5 (b)-(e)) related to the treatment of variable consideration, contract modifications and disclosure of transaction price allocated to remaining performance obligations for all reporting periods presented before the date of initial application.

[36] Ferreira, P., Jeong, J., and Landsman, W.R., 2022, The Effects of ASC 606 Retrospective Adoption on a Firm's Information Environment, Working Paper, Rice University and University of North Carolina, Chapel Hill. This study provides evidence that retrospective adoption of an accounting standard, which increases within-firm comparability, improves the ability of investors and other financial statement users to assess a firm's relative performance in the years surrounding adoption. In particular, the authors find that, in the year following adoption of ASC 606, analysts' revenue forecasts of firms that retrospectively adopt the standard exhibit greater accuracy and agreement and that stock price liquidity of these firms is higher. Additional findings show that analysts use less ambiguous language on earnings conference calls, and this increases confidence that analysts benefit from retrospective adoption. Post-adoption revenue response coefficients are larger for retrospective adopting firms, suggesting their investors can more easily interpret revenue at the earnings announcement. <u>This study relates to US GAAP Topic 606, but its findings provide insights that can be considered for users of financial statements based on IFRS requirements</u>.

IASB RFI 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?

Please describe and provide supporting evidence about fact patterns in which it is unclear how to apply IFRS 15 with the requirements of other IFRS Accounting Standards, how pervasive the fact patterns are, what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. The IASB is particularly interested in your experience with the matters described in Spotlights 9.1–9.3.

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

EFRAG's response

68 The response to this question is split into two parts. In the first part of our response, we address the issues related to the Standard's interaction with two other IFRS Standards explicitly identified in the IASB RFI that EFRAG considers to be a high priority. In the second part of our response, the interactions with two other Standards that are a high priority for EFRAG but not included in the RFI are addressed.

Interaction with other IFRS Standards identified in the RFI

Question 9 (a) - the interaction of IFRS 15 and other IFRS requirements

69 Based on the feedback received, EFRAG considers the application challenges arising from the interaction between IFRS 15 and the following two standards to be a high priority (also included in the RFI):

(a) IFRS 3 *Business Combinations*

(b) IFRS 16 *Leases*

70 EFRAG also received feedback on the application challenges arising from the interaction between IFRS 15 and IFRS 9 and these are summarised in Question 11-Other Matters as EFRAG did not consider them a high priority.

Interaction with IFRS 3

71 EFRAG received feedback (from auditors and national standard setters) about the inconsistency in the recognition of contract assets and liabilities from revenue contracts in the context of a business combination. In particular, the accounting[37] for such assets and liabilities related to acquired revenue contracts could differ from those related to revenue contracts originated by the acquirer, even when the contracts are similar.

72 The complexities highlighted during EFRAG's outreach arise due to the application of different accounting treatments for similar contracts. For example, it was noted that, if the expected consideration subsequent to the business combination is expected to be above market price, the difference between the remaining performance obligation and the amount paid is generally recognised

[37] Under IFRS, the contract assets and liabilities arising from a business combination are accounted for at their fair value in accordance with IFRS 3. This accounting treatment could consequently differ from that the acquirer would use as if it had entered into the original contract at the same date and on the same terms as the acquiree (i.e., application of different accounting standards, usage of different assessments or estimates etc.). Therefore, the revenue recorded by the acquirer post-acquisition could differ from the revenue recognition of the acquiree prior to the acquisition.

as an intangible asset that is amortised on a straight-line basis (below EBITDA). Otherwise, if the expected consideration is below market price, a contract liability, which will be reversed as additional revenue in the following year, is recognised.

73 Furthermore, the EFRAG User Panel has expressed a general concern about some of the effects of acquisition accounting under the IFRS requirements. Specifically, how fair value adjustments related to acquiree assets and liabilities can distort the depiction of an entity's performance (i.e., financial performance is depicted differently depending on whether growth has occurred organically or via acquisition). Though this concern relates to a broader issue than the interaction of IFRS 15 and IFRS 3 (i.e., it affects other assets and liabilities), it is also at play in the accounting for the acquiree's contract assets and liabilities. And in this regard, the EFRAG User Panel has indicated that the measurement of the contract assets and contract liabilities at the acquiree's transaction price would result in the most useful information, and this view is consistent with EFRAG's suggestions for resolving the issue as outlined in paragraph 77 below.

74 Based on the feedback received, EFRAG considers this issue to be of high priority as it is applicable to a variety of business models with long-term contracts with contract assets and contract liabilities.

Interaction with IFRS 16

75 EFRAG received feedback from auditors, national standard setters, and a real estate preparers' association about application challenges arising from applying IFRS 15 and IFRS 16. This feedback points to difficulties in:

(a) assessing whether, in a sale and leaseback transaction, the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. There is a lack of specific or additional guidance within IFRS 16 about how to make this assessment. It was noted that, for determining when a performance obligation is satisfied (i.e. when the control of an asset is transferred to the customer), reporting entities tend to apply IFRS 15 (paragraphs 31-34 and 38). The following assessment difficulties were noted:

(i) In some cases (e.g., a sale contract which includes a call option), the lessee to lessor asset transfer leg (leaseback) clearly does not meet the IFRS 15 requirements and the transaction is accounted for as a financing transaction[38]. However, there could be circumstances where some contractual conditions (e.g., if the lessee has a renewal option to extend the lease term to be substantially equivalent to the remaining economic life of the underlying asset) could impact the economic substance of the leaseback transaction.

(ii) There could be circumstances where determining the unit of account is challenging (e.g., a sale of a four-floor building with one floor being leased back).

(b) assessing whether the contract (or a part of it) is either in the scope of IFRS 15 or IFRS 16 (e.g., the split of operating income due to leasing under IFRS 16 and arrangement of operating services under IFRS 15 or those contracts

[38] In a financing transaction, the seller-lessee does not derecognise the asset but instead recognises a financial liability under IFRS 9 for any amount payable to the buyer-lessor. Concurrently, the buyer-lessor recognises a financial asset under IFRS 9 for amounts receivable from the seller-lessee.

where it is difficult to make the distinction between the sale of an asset with deferred payments and a lease). A real estate industry stakeholder noted that such an assessment depends on preparers' interpretation of current requirements, and this has led to diversity in practice across entities operating in the same industry. A similar issue was also addressed by a 2020 ESMA enforcement decision (EECS/0120-08 – *Identifying components in lease contracts*[39]).

76 Based on the feedback received, EFRAG considers that this issue is of high priority, especially in relation to the sale and leaseback transactions as detailed in paragraph 74 (a) above.

Question 9 (b) – suggestions for resolving identified issues of interaction with IFRS 3 and IFRS 16.

77 *Interaction with IFRS 3*: EFRAG suggests that the IASB explores adding a narrow-scope project on the accounting for the acquirer and acquiree contract assets and contract liabilities. In this regard, we note that the FASB issued the Accounting Standards Update (ASU) No. 2021-08 – *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which clarified that an acquirer of a business shall recognise and measure an acquiree's contract assets and contract liabilities in a business combination in accordance with Topic 606 – *Revenue from Contracts with Customers*. Hence, an amendment as proposed would also result in converged requirements and more comparable information for users.

78 *Interaction with IFRS 16*: EFRAG recommends that the IASB provides clarifying guidance and/or illustrative examples to help address the sale and leaseback transaction application challenges identified in paragraph 75(a). Furthermore, EFRAG suggests that the IASB provides further guidance within IFRS 16 (rather than in IFRS 15) to assist an entity in assessing which standard has to be applied to the accounting for the challenging fact patterns identified in paragraph 75(b).

Interaction with other IFRS Standards not identified as challenging in the RFI

79 In the sections below, EFRAG also highlights the interaction with the following standards that were not part of the RFI:

(a) IFRS 10 *Consolidated financial statements*

(b) IFRS 11 *Joint Arrangements*

Interaction with IFRS 10

80 EFRAG received feedback about the challenges arising from the interaction between IFRS 15 and IFRS 10 in the case of a sale of a single asset (that could be part of its ordinary activities) through a corporate wrapper.

81 Constituents (auditors and national standard setters) have highlighted that applying different standards to similar transactions with only differing legal forms

[39] esma - 24th extract from the eecss database of enforcement.pdf (europa.eu) – page 17-18. The issuer is a commercial real estate company whose core business covers the management and development of properties. Gross revenue comprises rental income and operating costs charged to tenants. The lessor and the tenant can specify the operating costs of the building as a whole (e.g., chimney sweeper, elevator service) and of the specific rental unit (e.g. warm water supply, gas and electricity for the specific unit) that will be charged to the tenant. The enforcer discussion included the issuer's accounting treatment for the operating costs of the building (e.g., elevator service) and for the service to arrange for the operating services of the rental unit (e.g., gas) and whether these services are or not separate non-lease components.

has resulted in the inconsistent accounting treatment[40] of transactions with the same commercial substance. And this affects the timing of recognition, measurement, presentation, and disclosure of these transactions.

82 Of note, previous IFRS IC discussions concluded that IFRS 15 scopes out contracts with customers that fall within the scope of IFRS 9 or IFRS 10 and, as such, the entity shall account for the transaction under IFRS 10. However, EFRAG stakeholders have noted that diversity in practice is still in place, especially within the real estate industry.

83 Based on the above, EFRAG considers this issue to be of high priority.

Interaction with IFRS 11

84 EFRAG received feedback that it is often difficult to determine whether collaborative arrangements (or portions of these contracts) that are common in some sectors[41] fall under the scope exception of IFRS 15. IFRS15.5 states the Standard is not applicable for some contracts, and it is only applicable to a contract if the counterparty to the contract is a customer. IFRS 15.6 states there could be circumstances where the counterparty to the contract would not be a customer. For example, if, rather than to obtain the output of the entity's ordinary activities the counterparty has contracted with the reporting entity to participate in an activity or process as part of a risk-sharing arrangement.

85 Preparers from different sectors (pharmaceutical, software, telecommunication) and auditors have pointed to the limitations of IFRS 15.6 in identifying whether a collaborative arrangement contract is within the scope of IFRS 15. However, there is a need to further identify under what specific fact patterns, the challenges with determining whether collaborative arrangements are in the scope of IFRS 15 arise. We note that in the March 2023 IASB agenda paper, the IASB staff noted questions had arisen from stakeholders on the interaction between IFRS 15 and IFRS 11 in respect of:

(a) how to determine what is a collaborative arrangement and how to distinguish it from a supplier-customer relationship.

(b) how to recognise revenue when no joint control is established and when neither party is seen as a customer. Some stakeholders suggested there may be diversity in practice related to this matter.

(c) whether companies from the same group can have a customer-supplier relationship.

Furthermore, it was noted in the aforementioned IASB agenda paper that the question on accounting for collaborative arrangements came up in the context of the PIR of IFRS 11. And the matter was not included in the 2021 Third Agenda Consultation and the IASB staff recommended its inclusion in a future agenda consultation.

[40] Under IFRS Standards, the sale of a subsidiary that only contains an asset (e.g., inventory) to a customer is accounted for in accordance with IFRS 10. Applying the deconsolidation rules under IFRS 10 for the disposal of a subsidiary where the underlying does not constitute a business when compared to the disposal of the same underlying assets without a corporate wrapper following other relevant standards (e.g., IFRS 15 or IFRS 16) might lead to different accounting.

[41] Collaborative arrangements are frequent in the pharmaceutical, automotive, oil, gas & mining and telecommunication industries and are mainly related to the development of an asset (e.g., a new technology) and these can also be related to providing goods or services as part of an entity's ordinary activities.

86 Due to the cross-cutting nature of collaborative arrangements, EFRAG considers this issue a high priority. Furthermore, as the PIR of IFRS 11 focused on gathering information on collaborative arrangements outside the scope of IFRS 11 and the June 2022 PIR IFRS 11 feedback statement[42] does not touch on the issues that may arise in the context of IFRS 15, there is a need to further clarify under what specific fact patterns, the challenges with determining whether collaborative arrangements are in the scope of IFRS 15 arise.

EFRAG's suggestions for resolving identified issues for interaction with IFRS 10 and IFRS 11

87 *IFRS 10*: EFRAG acknowledges that the accounting for sales of assets via corporate wrappers is a cross-cutting issue and, therefore, developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards. EFRAG is also cognisant that the IASB has considered that this topic should be raised in a forthcoming agenda consultation and that it had also been considered by the IASB in respect of the PIR of IFRS 10, IFRS 11 and IFRS 12 *(*see Feedback Statement[43]*)*.

Nonetheless, EFRAG considers that clarifications on the applicable treatment under IFRS 15 or IFRS 10 (or other standards) would promote consistency with regards to a) the net or gross presentation of the sale of subsidiaries which are single asset entities through selling their equity interest; and b) timing of revenue recognition. Furthermore, this is an area where convergence with US GAAP[44] could be attained. Hence, EFRAG suggests that the IASB explores adding a narrow-scope project that would require an entity to apply IFRS 15 instead of IFRS 10 for the sale of a single-asset subsidiary to a customer.

88 IFRS 11: EFRAG recommends that the IASB should clarify which collaborative arrangements are considered to be outside of the scope of IFRS 15 (i.e., which arrangements meet the requirements included in IFRS 15.5(d)).

IASB RFI Question 10 – Convergence with US GAAP Topic 606

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

EFRAG's response

Question 10 (a) - convergence with US GAAP

89 EFRAG received positive feedback on the convergence between IFRS 15 and US GAAP with stakeholders acknowledging that it improved the comparability of entities across the globe. Furthermore, in the academic study sponsored by

[42] https://www.ifrs.org/content/dam/ifrs/project/pir-10-11-12/pir-ifrs10-12-fbs-june2022.pdf (Page 20)

[43] Appendix C of the June 2022 IASB feedback statement states "*The IASB was concerned it might not be able to successfully resolve this matter within the scope of IFRS 10, particularly as the matter extends beyond the scope of this Post-implementation Review. For example, the matter might also affect IFRS 15 Revenue from Contracts with Customers or IFRS 16 Leases. The structure of 'corporate wrappers' also depends on jurisdictional laws and/or regulations. Therefore, identifying matters to be addressed by the IASB could require substantial resources for both the IASB and its stakeholders. If identified as a priority in the next agenda consultation, the IASB could either:*

(a) research whether it is appropriate and, if so, whether it is possible to develop a pri*nciple for transactions that involve 'corporate wrappers'; or*

(b) focus only on particular transactions that involve 'corporate wrappers'."

[44] Of note, the deconsolidation guidance under US GAAP (*Topic 810 – Consolidation)* provides for an exception for those transactions that are in substance addressed by *Topic 606 – Revenue from Contracts with Customers*.

EFRAG, nearly 55% of the non-preparer respondents (i.e., investment professionals, auditors, and academics) considered that IFRS 15 had improved the comparability with other entities reporting under US GAAP.

90 However, although stakeholders have generally expressed that convergence (i.e., either enhancing or retaining converged requirements) is a desirable outcome, some stakeholders, including users, have also noted and expressed comfort that a level of divergence may inevitably occur. Relatedly, EFRAG considers that further convergence should only occur if it enhances the quality of reported information (e.g., with respect to changes related to the interaction between IFRS 15 and IFRS 3, IFRS 10 as discussed in the responses to Question 9).

IASB RFI 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?

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.

EFRAG's response

Question 11 (a) - Other matters

91 In the preceding sections, we have addressed the matters that EFRAG considers of high priority that were not included in the RFI (e.g., variable consideration and the interaction between IFRS 15 and IFRS 10, IFRS 11). Below are other matters that have been brought to EFRAG's attention.

Sales-based taxes ("SBT")

92 A few stakeholders have highlighted the numerous queries posed on whether reporting entities should include sales-based taxes (e.g., excise taxes on fuel, alcohol and sugar) in the transaction price (i.e., the determination of whether an entity is collecting taxes on behalf of an authority or on behalf of itself and thus should include such taxes in the transaction price) and this stems from the limitations of the related IFRS requirements. IFRS15.47 specifies that amounts collected on behalf of third parties, such as some sales taxes, are excluded from the determination of transaction price. Moreover, BC 188A states that entities are required to identify and assess sales taxes to determine whether to include or exclude those taxes from the transaction price.

93 These stakeholders pointed to the challenges of applying the PA[45] guidance for determining whether the entity is acting as an agent collecting on behalf of the authorities. They noted that no clear conclusions can be reached by applying the indicators (i.e., whether the entity bears price risk, inventory risk and has pricing discretion). PA guidance aims to assess whether a party is providing goods or

[45] In 2014, the IASB TRG noted that an entity can apply the PA guidance by analogy whilst determining the accounting treatment of SBT.

services on its own or another party's behalf, and this is different from an assessment[46] of whether the tax amount is collected on behalf of third parties.

94 A constituent noted a diversity in practice in the breweries sector occurring[47] within the same jurisdiction and this diversity seems not to be due to differences in legislation across jurisdictions. Including SBT in the transaction price can significantly increase revenue amounts and there is a noted case of over 40% increase in revenue. The constituent argued against allowing an accounting policy choice[48] as that would reduce the comparability of financial statements.

95 Based on the above feedback on the insufficient IFRS requirements for SBT, EFRAG suggests the IASB provide guidance and illustrative examples on the assessment of whether an entity is collecting taxes on behalf of authorities.

Interaction with IFRS 9

96 EFRAG received feedback on concerns related to the interaction between IFRS 9 and IFRS 15. In addition to the other issues considered by EFRAG to be of low priority (e.g., issues related to commodities and gift cards[49]), constituents raised the below two issues.

Expected credit losses and significant financing component

97 EFRAG received feedback with an observation made that the presentation of credit losses in the income statement could occur twice and with a question of whether this reflects double counting. The presentation of credit losses under different income statement line items can arise because, according to IFRS 15.64, "*when adjusting the promised amount of consideration for a significant financing component, an entity shall use a discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing…After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk*)." Based on IFRS 15.64, the financing component is presented in the income statement as financing/interest income over the financing period. At the same time, IFRS 9.5.5.15a) requires a provision for lifetime expected credit losses which generally will be presented as an operating expense (i.e., a separate line item from financing/interest income). However, EFRAG does not consider this matter a high priority. As highlighted in an IASB meeting paper[50], the discount rate applied for the significant financing component is not a credit-adjusted rate in accordance with the requirements of IFRS 9 (i.e., Appendix A definition of effective interest rate) since the rate is not

[46] Other stakeholders have opined that the IFRS 15 PA guidance is insufficient as it focuses on whether the reporting entity takes control of the underlying good or service before transferring the good or service to the customer. However, for SBT, the transaction with the tax authority is a non-reciprocal transaction (i.e., the tax authority never has control of the underlying good or service, and this limits the usefulness of the PA guidance for determining whether or not to include SBT in the transaction price).

[47] Other stakeholders have noted the use of alternative performance measures.

[48] US GAAP allows an accounting policy choice

[49] For further details please refer to the May 2023 EFRAG FRB meeting issues paper (Paragraphs 167-187).

[50] The IASB Staff paper for the (IASB March 2023 meeting) notes that the discount rate determined applying paragraph 64 of IFRS 15 does not consider expected credit losses measured in accordance with IFRS 9. In other words, that discount rate is not a credit-adjusted effective interest rate as defined in Appendix A of IFRS 9. Therefore, they would not expect the requirements in IFRS 15 and IFRS 9 to lead to double counting for the effect of credit risk for receivables with a significant financing component.

adjusted for subsequent changes in credit characteristics, and thus there ought to be no double counting.

Measurement of joint operator assets

98 An enforcer highlighted some revenue recognition issues faced by joint operators in the oil and gas industry. This arises when, in a reporting period, the output received by these entities differs from their entitled output. The issues faced included: a) whether the sales method[51] or entitlement method[52] should be applied; and b) the measurement of the assets recognised for 'underlift[53]' positions. In March 2019, IFRS IC clarified that the sales method should be applied. However, the IFRS IC did not specify the nature of the assets and liabilities recognised due to the sales method and how to measure these assets. Hence, this respondent suggested the IASB clarify whether assets recognised due to 'underlift' positions should be measured in accordance with IFRS 9 requirements.

Other issues

99 EFRAG received feedback on multiple other issues[54] (i.e., contract modification significant financing component, estimating transaction price, other aspects of principal-agent considerations besides the transfer of control, cost recognition, presentation of amortisation of contract costs, other aspects of interaction with IFRS 9 besides those mentioned in Paragraphs 97 and 98, and the interaction with other Standards including IAS 20 and IAS 37). These other issues are not considered by EFRAG to be of a high priority (i.e., in the feedback, there were neither indications of how widespread these issues were nor were the shortcomings within the related IFRS requirements sufficiently articulated).

[51] Sales method- a joint operator's revenue represents its revenue from the sale of its share of the output arising from the joint operation.

[52] Entitlement method- a joint operator's revenue represents its revenue from the output it is entitled to receive (and sell).

[53] Underlift positions occur when the output received by the joint operator is lower than that to which it is entitled.

[54] For further details please refer to the [May 2023 EFRAG FRB meeting issues paper]().