

September 12, 2023

The Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via Online Submission

Dear Mr Andreas Barckow,

**COMMENTS ON IASB REQUEST FOR INFORMATION POST-IMPLEMENTATION REVIEW
"IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS"**

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on the IASB Request for Information Post-implementation Review "*IFRS 15 Revenue from Contracts with Customers*" ("Request for Information"). We also applaud the effort of the International Accounting Standards Board ("IASB") to enhance the Standard.

In this regard, we are pleased to attach MICPA's comments as set out in the Appendix for your consideration.

We trust our comments are valuable to IASB, for your onward deliberation. MICPA looks forward to further support the effort of the IASB in setting and enhancing the accounting standards. Please do not hesitate to contact the undersigned or the Executive Director of Technical, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully



FOO YOKE PIN (Mr)
Executive Director

Our responses to the specific questions are as follows:

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.

These questions aim to help the IASB understand respondents’ overall views and experiences relating to IFRS 15. Sections 2–9 seek more detailed information on specific requirements.

Comment:

- (a) The IFRS 15 has achieved its objective to enable an entity to apply the principles in the Standard in reporting about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This is because the five-step revenue recognition model provides clear principles that could be applied across various industries and contract types. The core principle and five-step revenue recognition could be applied to complex transactions although more significant judgements are required.

The core principle and the 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.

- (b) To improve understandability and accessibility of IFRS 15, we suggest the IASB to consider:
- (i) Defining the five-step revenue recognition model in the Standard
 - (ii) Providing educational materials for areas requiring more significant judgements such as identifying separate performance obligations and principal versus agent considerations
 - (iii) Including flowcharts or decision-tree diagrams is helpful in providing step-by-step guidance in applying the Standard to complex areas such as licensing
- (c) Based on our observation, the ongoing costs mainly arise from the assessment of new contracts and modification to the terms of contracts. However, the benefits of the resulting information are still greater than the ongoing costs.

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?**

Comment:

In our view, the requirements for the identification of performance obligations in licensing or royalty arrangements are not clear and straightforward. We suggest that the IASB provide guidance or elaboration to clarify this matter.

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?**

Comment:

Generally, the IFRS 15 has provided a clear and sufficient basis to determine the transaction price in a contract.

However, there are uncertainties in the accounting for certain sales incentives involving payment on behalf of customers, such as a real estate entity bearing the legal cost of a purchaser in a sale of a property. Some entities would account for such sales incentives as a reduction in revenue (consideration payable to a customer) and others as marketing cost (contract cost in obtaining a contract).

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 recognizing 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.

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

Comment:

We are of the view that the assessment based on Paragraph 35(c) of IFRS 15 can be challenging as the enforceability of an entity's right to payment is not always clearly identifiable in customer contracts.

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?**

Comment:

We noted there are challenges in applying the Standard in the following areas:

- Unclear how control is transferred in relation to services in the context of principal vs agent consideration.
- Unclear as to the duration an entity is considered obtaining legal title to a specified good only momentarily before the legal title is transferred to a customer. For example, an entity may be arranging transportation for goods to be delivered from its supplier's premises to the customer's premises.
- Fragmented explanations or indicators from Paragraphs B35 to B38 of IFRS 15 which make it difficult to understand and relate to the concept of control in Paragraph B34 of IFRS 15.
- Tendency of entities to apply the indicators rather than the concept of control as it is easier to understand those indicators than the concept of control.
- Applying indicators may point to different conclusions and as such, could result in different accounting treatments despite the same fact pattern.

To resolve the above matter, we suggest the IASB to provide:

- clarification on the application of the concept of control in relation to services in the context of principal vs agent
- clarification on the meaning of 'momentarily' in Paragraph B35 of IFRS 15
- a flowchart to show the application of the concept of control together with the indicators

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?**

Comment:

Please refer to our response to Question 2.

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?**

Comment:

- (a) We observed that the following disclosure requirements are particularly useful to users of financial statements:
- disaggregation of revenue into appropriate categories which provides more information on sources of revenue
 - transaction price allocates to the remaining performance obligations in a contract which provides some visibility on the future performance of an entity
 - significant judgements applied in determining the timing of satisfaction of performance obligations and the transaction price with its allocation
- (b) The requirement to disclose quantitative information to explain the significant changes in contract asset and the contract liability balances may give rise to significant ongoing costs when an entity has many ongoing contracts.
- (c) We did not identify any significant variation in the quality of the disclosed revenue information.

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 retrospective 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.**

Comment:

The available modified retrospective method and practical expedients had eased the adoption of the Standard and helped reduce the costs for preparers.

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?**

Comment:

We noted that there are differences in the principles of measurements for example, in the fair value adjustments and measurements of assets and liabilities in IFRS 15 versus IFRS 3 *Business Combinations*. We suggest that the IASB provide more guidance in this area.

We also observed some difficulties in applying IFRS 15 with IFRS 16 *Leases* in the circumstances where a property developer sold its properties under the sell-then-build model and entered into a guarantee rental return scheme with the purchasers over a 9-year period. Revenue from the sale of properties is recognised over time during the construction period. However, it is unsure how the Right-of-Use Asset under construction will be accounted for as revenue is recognised over time.

Question 10 – Convergence with Topic 606

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

Comment:

We do not have any comments on this.

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.

Comment:

We do not have any other matters.