

# Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2023:07

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

Dear Board members,

## Re: Post-Implementation Review – IFRS 15 Revenue from Contracts with Customers

The Swedish Financial Reporting Board is responding to your invitation to comment on the *Post-implementation Review IFRS 15 Revenue from Contracts with Customers*.

### Overall assessment

We think the standard has achieved its objective and is working well. The core principle and the supporting five-step revenue recognition model provide a robust and appropriate guidance for revenue accounting and the standard has a well-arranged and clear structure accompanied by useful application guidance and clarifying illustrative examples. The disclosure requirements are reasonable and well-balanced, and generally provide useful information for users of financial statements. In our view, the implementation of the standard was very time and resource consuming and in many cases the standard did not lead to significant changes. Considering this and that IFRS 15 in general is working well, we encourage the Board not to make any significant changes to the standard. However, to improve the practical application of the standard, certain areas would benefit from some clarifications, mainly by adding a targeted and limited number of additional illustrative examples. Our key concerns relate to the following areas:

- There is a need to further explain how to apply the guidance for **principal versus agent** to capture the rapid changes in business models, for example electronic and digital services and for intangible assets such as IP or licenses within software, telecommunications, medical technology, and pharmaceutical industries.
- Accounting for **licenses** is often challenging why we believe there is a need for some additional illustrative examples explaining whether the license is a

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separate performance obligation or whether the license is a right to use or a right to access.

- Further explain **interaction with other standards** like for example IFRS 10 and 16, and to clarify that when goods or services are sold within corporate wrappers as part of the ordinary activities, such transactions are in the scope of IFRS 15.

Please, see our detailed comments on the PIR below.

## **Identifying performance obligations in a contract**

Identification of performance obligations in a customer contract includes significant judgment and, particularly in the assessment of whether promised goods or services are distinct in the context of a contract according to paragraph 29. Implementation of the standard required extensive analysis and was in many cases very time consuming related to this area. Even so, we believe that the principle-based guidance in the standard on performance obligations is working well and we would therefore not favor any changes to the standard.

However, if the IASB should decide to clarify the requirements for identification of performance obligations, we recommend the Board to explain how to apply the principles by adding a limited number of illustrative examples. If the Board decide to add some illustrative examples, we believe that it could be helpful relating to bundled arrangements and regarding new business models such as different types of cloud arrangements.

## **Principal versus agent considerations**

In our experience, assessing whether an entity is acting as a principal or agent is one of the most difficult and challenging areas when applying IFRS 15 and where there is diversity in practice. This is especially the case for services and intangible assets.

Given that IFRS 15 is based on the control concept, we find it reasonable that the principle/agent guidance is being built on the same basis and the three control indicators in B37 provide good principles-based guidance. Therefore, we do not think the IASB should amend the standard with regards to the challenges identified. However, considering the development of business models over the last couple of years, we think the guidance needs to be supported by some new targeted illustrative examples to help preparers determine whether an entity is a principal or an agent. The need is in our view most important for assessment of electronic and digital services, and for intangible assets such as IP and licenses.

In the telecommunication and medical technology industries, these types of services and intangible assets are often sold in bundles with tangible goods, supporting and integrating services as well as other separate services, which makes the control

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assessment complex. The control indicator guidance in paragraph B37 (a) (i.e., if the entity is primarily responsible for fulfilling the promise to provide the specified service) is in these cases often considered the most important indicator but is also the most difficult one to apply. We therefore recommend the Board to provide some additional illustrative examples for electronic and digital services, IP and bundled offerings including content and licenses.

Another issue is that there seems to be a view among some stakeholders that the control indicator in paragraph B37 (c) (i.e., if the entity has discretion in establishing the price for the specified good or service), does not have the same level of importance as the other two control indicators in (a) and (b). We cannot find any support for such view in the standard, and therefore recommend the IASB to clarify if, and if so how, the control indicators in B37 should be weighted.

## **Licensing**

Licensing is another area that is difficult to apply in practice, especially within the software, pharmaceutical and media and entertainment industries. Licenses themselves can in many cases be technically complex to understand and are in many cases sold in bundled offerings and arrangements which makes it challenging to interpret the substance of the transaction from a revenue recognition perspective. Overall, we believe that the license principles in IFRS 15 provide a sufficient basis and therefore we do not see any need for amending the standard itself. Instead, we prefer that the IASB addresses the practical application challenges by providing some additional illustrative examples focusing on specific complex license situations. The following three areas are in our view most challenging:

1. Determining whether the license represents a separate performance obligation
2. Determining whether the license is a right to use or a right to access
3. Determining whether the entity acts as a principal or agent when providing the license

Determining whether a license is a distinct separate performance obligation or not generally requires judgment which is complex for bundled arrangements including SaaS (Software as a Service) solutions including licenses. We recommend the Board to add some illustrative examples covering more complex bundled software arrangements including licenses.

The tests in paragraph B58, which are the basis for assessing whether a license is a right to use or a right to access, are difficult to understand and apply in practice. Based on the combination of complex technical licenses and difficulties in the application of the accounting guidance, again we think there is a need for further guidance by adding some illustrative examples clarifying how to apply the principles in practice. One example is a sale of a software license together with a promise to deliver continuous updates, similar to an antivirus program.

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We understand that there is a view among some stakeholders, including informal practice guidance, that continuous software updates would in practice mean that the license represents a right to access and thereby always should be recognised as revenue over time. We cannot find any direct support for such view in the standard

and would therefore recommend the IASB to clarify if this interpretation is in line with the standard.

For comments relating to principal or agent, please refer to separate section above.

## **Disclosure requirements**

The disclosures required by the standard are in our view substantially informative and provide more transparent information about the different revenue streams generated by an entity compared to IAS 18, as well as enhance the comparability between entities. The increased disclosure requirements are regarded as reasonable and well-balanced considering how important the revenue understanding is for users of the financial statements.

## **Interactions with other standards**

*IFRS 16 Leases* is a standard where we have experienced questions and challenges in determining which standard apply, i.e., IFRS 15 or 16. One example is related to the sale of mobile phones with a financing arrangement and where the customer has the right to return the phone after a period of time (for example one year), but before the total transaction price has been paid. This situation requires assessment of whether the transaction represents a sale under IFRS 15 or a lease under IFRS 16. Another common example is related to assessment of whether a customer contract represents a finance lease or an installment sale. For both situations, as the accounting treatment may be different depending on whether IFRS 15 or 16 is applied, we believe it would be helpful with further guidance in IFRS 16 to assist in the assessment of whether the arrangement represents a lease or a sale.

We have also seen diversity in practice between entities that construct and/or sell a single asset (for example a construction contract of real estate) as part of their ordinary activities through a corporate wrapper. The uncertainty addressed by the IFRS Interpretations Committee some years ago remain, and it is not clear whether these are transactions within the scope of *IFRS 10 Consolidated Financial Statements* or if they are within the scope of IFRS 15. The substance of the transaction and not the form should be reflected in the accounting, and we therefore believe that when goods or services are sold within corporate wrappers such transactions are in the scope of IFRS 15. Accordingly, we recommend the IASB to clarify that IFRS 15 should be applied when the substance of the transaction is a sale of goods or services under IFRS 15.

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## Convergence with Topic 606

In general, we believe that convergence between IFRS 15 and US GAAP Topic 606 is desirable as far as possible as it increases the global comparability. However, we consider that in the present situation there should not be any changes to the

standard to achieve full convergence. We therefore see no need for elimination of existing differences between the standard and US GAAP.

## Other matters

We have observed application difficulties relating to the guidance stated in paragraph 95 for costs to fulfil a contract. It is our understanding that there is difference in application practice when it comes to determining the type of costs that meet the criteria for recognition as an asset.

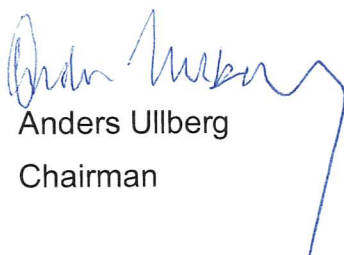
We are not providing any specific comments to the questions regarding “Determining the transaction price”, “Determining when to recognise revenue” and “Transition requirements”, as we believe the related principles and application guidance in general are working well.

If you have any questions concerning our comments, please address our Executive member Fredrik Walméus by e-mail to:

[fredrik.walmeus@radetforfinansiellrapportering.se](mailto:fredrik.walmeus@radetforfinansiellrapportering.se).

Stockholm, 9 October, 2023

Yours sincerely



Anders Ullberg  
Chairman

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