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Our Comments to the Request for Information:

Post-implementation Review of IFRS 15 Revenue from Contracts with Customers

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to provide our comments to the International Accounting Standards Board (“the IASB”)’s Request for Information: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* (“the RFI”), issued in June 2023.
2. The ASBJ issued the “Accounting Standard for Revenue Recognition” under Japanese GAAP in 2018, which was developed under the policy of basically incorporating all of the requirements in IFRS 15. This policy was drawn based on the purpose of enhancing international and domestic comparability, considering the fact that IFRS 15 was substantially converged with Topic 606 *Revenue from Contracts with Customers* under U.S. GAAP.
3. This comment letter is based on the feedback that the ASBJ staff received through its outreach with stakeholders in our jurisdiction and, therefore, includes views of our stakeholders in addition to the views of the ASBJ regarding the questions in the RFI.

Overview of the outreach

4. The ASBJ staff reached out to stakeholders in our jurisdiction to obtain specific feedback on their experience with applying IFRS 15 and its corresponding standard under Japanese GAAP (hereafter referred to as “its corresponding standard”). Specifically, the ASBJ staff made written enquiries with financial statement users (hereinafter referred to as “users”), financial statement preparers (hereinafter referred to as “preparers”), auditors and academics. Additionally, the ASBJ and its related Technical Committees, all consisting of users, preparers, auditors, and academics,

held discussions regarding the contents of this comment letter based on the above-mentioned feedback.

Overall assessment on IFRS 15

5. Stakeholders stated that a significant amount of time and effort was required to implement IFRS 15 or its corresponding standard. Some preparers further indicated that one of the main factors that was required a significant amount of time and effort to them involved the significant judgement needed to apply IFRS 15 or its corresponding standard. These preparers thought that additional guidance would have assisted their judgement and thus might have resulted in reducing their time and effort in implementing IFRS 15 or its corresponding standard.
6. At the same time, stakeholders noted that, if the IASB were to amend IFRS 15 and corresponding changes were to be made under Japanese GAAP, more time and effort would be needed to implement the revised requirements. Accordingly, our view is that any change to the existing requirements under IFRS 15 would require sufficient evidence regarding the benefits of implementing the change compared to the expected costs for implementing the change.
7. Additionally, stakeholders considered that convergence between IFRS 15 and Topic 606 was of significant importance and indicated that IFRS 15 and Topic 606 should remain converged after any reconsideration as a result of the post-implementation review process.

Comments on specific question items

8. During our outreach, we received many comments from stakeholders based on their experience in implementing IFRS 15 or its corresponding standard. These comments included suggestions to change the existing requirements in IFRS 15 and to develop additional guidance.
9. However, in light of our overall assessment in IFRS 15 or its corresponding standard stated in the preceding paragraphs, we have limited the comments on the specific questions to those that might improve IFRS 15 even when we considered the additional costs incurred to implement the changes to IFRS 15.
10. For our comments on the specific questions in the RFI, please see the Appendix of this letter.



11. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "Y. Kawanishi". The signature is written in a cursive, flowing style.

Yasunobu Kawanishi
Chair
Accounting Standards Board of Japan

Comments on the Specific Questions in the RFI

Our comments on the specific questions in the RFI 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.

(Question 1(a) – the objective of IFRS 15)

1. In light of the feedback received from stakeholders in our jurisdiction, we are of the view that IFRS 15 has generally achieved its objective of establishing the principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with its customers.

(Question 1(b) – the understandability and accessibility of IFRS 15)

2. Our view is provided in our response to Question 1(c).

(Question 1(c) – the ongoing cost and benefit)

3. We did not receive any feedback that the costs of applying IFRS 15 and the benefits to investors were significantly different from the effects expected by the IASB's analyses of the effects.
4. Regarding the cost of applying the requirements in IFRS 15 or its corresponding standard, stakeholders stated that a significant amount of time and effort was required to implement IFRS 15 or its corresponding standard. Further comments from preparers included the following:
 - (a) Some preparers indicated that one of the main factors that was required a significant amount of time and effort to them involved the significant judgement needed to apply IFRS 15 or its corresponding standard. These preparers thought that additional guidance would have assisted their judgement and thus might have resulted in reducing their time and effort in implementing IFRS 15 or its corresponding standard.
 - (b) Some preparers noted specific areas where additional guidance might be useful. However, there was diversity among preparers regarding such areas and there was no area identified by many stakeholders.
 - (c) Some preparers noted that implementation was required a significant amount of time and effort not only because of the difficulty in understanding the concepts and terminology in IFRS 15, but also because of the complexity in the transactions themselves and the difficulty in analysing the economic substance of those transactions.

5. Furthermore, stakeholders noted that, if the IASB were to amend IFRS 15, and corresponding changes were to be made under Japanese GAAP, more time and effort would be needed to implement the revised requirements. Accordingly, our view is that any change to the existing requirements under IFRS 15 would require sufficient evidence regarding the benefits of implementing to the change compared to the expected costs for implementing the change.

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?**

6. We did not receive any specific feedback from stakeholders in our jurisdiction stating that IFRS 15 does not provide a clear and sufficient basis to identify the performance obligations in a contract.

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?**

(Question 3(a) – ‘Negative’ revenue)

7. We received comments from stakeholders in relation to the accounting for consideration payable to a customer when it exceeds the amount of consideration expected to be received from the customer:

- (a) Some auditors noted that IFRS 15 was not necessarily clear on how to account for consideration payable to a customer when it exceeds the amount of consideration expected to be received from the customer. An example included a case where an entity that established a new platform business offered a commission-free period as well as cash incentives to attract new customers to participate in the platform. These auditors observed diversity in practice in the accounting for the cash incentive, including reduction in revenue, recognition of expenses, and recognition of an asset.

(Question 3(b) – suggestions for resolving the matters)

8. Stakeholders noted that the diversity existed largely because the requirement under paragraph 70 of IFRS 15 was not necessarily clear when the reduction of consideration payable to the customer from the transaction price resulted in “negative” revenue.

9. Therefore, we suggest that the IASB consider clarifying that there may be cases where the accounting for the consideration payable to the customer would result in recognising expenses, losses or an asset, instead of recognising “negative” revenue, depending on the relevant facts and circumstances and providing additional guidance to assist in identifying such cases.

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.

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

10. We did not identify any significant concerns on the application of IFRS 15 to be included in our comment letter when we considered the additional costs incurred to implement the changes to IFRS 15.

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?**

11. We did not identify any significant concerns on the application of IFRS 15 to be included in our comment letter when we considered the additional costs incurred to implement the changes to IFRS 15.

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?**

(Question 6(a) – Licensing)

12. We received feedback from stakeholders on the application challenges related to the accounting for contracts involving licences:

- (a) Some auditors and preparers noted that, it was not necessarily clear as to when

an entity should apply the application guidance for licensing under IFRS 15. The understanding of these auditors and preparers was that paragraph B52 of IFRS 15, which stated that “a license establishes a customer’s rights to the intellectual property of an entity”, covered only limited examples of licenses of intellectual property, such as licenses of “software and technology” and “franchises”. One example would be a case where an entity provided software to be hosted on the platform or infrastructure operated by a third party. These auditors and preparers observed that there was some level of diversity in practice in the accounting for such transaction, either as a provision of service or as a license.

(Question 6(b) – suggestions for resolving the matters)

13. Stakeholders further indicated that the diversity existed largely because of the lack of a clear definition of “licenses” in IFRS Accounting Standards. Accordingly, we suggest that the IASB consider clarifying the definition of “licenses” that would be applied throughout IFRS Accounting Standards and providing additional guidance to assist in determining when to apply the application guidance for licensing under IFRS 15.

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?

(Question 7(b) – disclosure requirements which are considered costly)

14. We received mixed views from stakeholders on the costs and benefits of the disclosure requirements related to the transaction price allocated to the remaining performance obligations. While users noted the usefulness of the information provided by such disclosure requirements, some preparers questioned whether the benefits to the investors outweighed the costs for preparing such disclosures.
15. In addition, some stakeholders noted that the practical expedient in Topic 606 which allowed entities not to provide the disclosures of remaining performance obligations related to variable consideration when certain conditions were met would be worth consideration for inclusion in IFRS 15. We think that the practical expedients might reduce the ongoing costs to prepare the disclosures under specific conditions without reducing the usefulness of the information significantly.

(Question 7(a) and 7(c) – usefulness and variations in the quality of disclosure)

16. We did not receive any feedback for these questions.

Question 8 — Transition

(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.

17. We did not receive any specific feedback regarding this question.

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?**

(Question 9(a) and 9(b) – applying IFRS 15 with other IFRS Accounting Standards)

18. We received feedback from stakeholders that the IASB should consider that the application challenges arising from the interaction of IFRS 15 with the following two IFRS Accounting Standards:

- (1) IFRS 9 *Financial Instruments*, and
- (2) IFRS 16 *Leases*.

Interaction with IFRS 9

19. Some auditors commented that the accounting for the liabilities arising from transactions subject to IFRS 15 was not necessarily clear, especially whether an entity would ever apply IFRS 9 and IFRS 7 *Financial Instrument: Disclosures*. This was because paragraph 2.1.(j) of IFRS 9 exempted rights and obligations within the scope of IFRS 15 that are financial instruments unless IFRS 15 specifies that they are accounted for in accordance with IFRS 9 from the scope of IFRS 9.

20. In particular, these auditors raised the following examples:

- (a) A refund liability is recognised under IFRS 15 when (a) the entity receives consideration from the customer and is expected to refund some or all of that consideration to the customer or (b) the entity transfers its products with a right

of return. It is unclear whether an entity would ever apply IFRS 9 even when the amount that the entity must refund is fixed.

(b) Some entities in the information and telecommunications (IT) industry or air transportation industry in our jurisdiction operate customer loyalty programmes that allow their customers to redeem the points for (a) goods and services provided by the entities themselves or (b) those provided by third parties. If the points were redeemed for goods or services provided by third parties, the entity would need to compensate for the points to the third party in cash. It is unclear whether an entity would ever apply IFRS 9 for contractual liabilities recognised under IFRS 15 when they meet the definition of financial liabilities under IAS 32 *Financial Instruments: Presentation*.

21. In addition, these auditors questioned whether an entity would be required to provide disclosures in accordance with IFRS 7 for such liabilities because a scope exemption similar to paragraph 2.1.(j) in IFRS 9 is not provided for IFRS 7.

22. As for the application challenges stated in the preceding paragraphs, we received mixed views from stakeholders related to the possible changes to existing requirements in IFRS 15. These views included the following:

(a) Some auditors suggested that the IASB consider clarifying whether an entity would ever apply IFRS 9 and IFRS 7 to the liabilities arising from IFRS 15, including the refund liabilities and contract liabilities referred to in paragraph 20 of this letter. These auditors held the view that there might be cases where liabilities originally recognised under IFRS 15 would subsequently be subject to IFRS 9 and IFRS 7.

(b) Some preparers were concerned that any clarification might result in causing additional implementation costs and disruption of the existing accounting policies.

Interaction with IFRS 16

23. Acknowledging that this is an issue related to the application of IFRS 16 rather than that related to IFRS 15, we have received comments from stakeholders stating that, because IFRS 16 did not include requirements related to principal versus agent, some have applied the requirements in IFRS 15 by analogy when considering the accounting for sublease transactions. These respondents suggested that the IASB consider including requirements related to principal versus agent in IFRS 16.

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?**

(Question 10(a) – convergence with Topic 606)

24. We received positive feedback regarding the convergence between IFRS 15 and Topic 606. Stakeholders noted that the convergence improved the comparability of financial statements and also reduced the costs for preparing the consolidated financial statements especially for entities operating businesses on a global basis.
25. Additionally, when the ASBJ developed the revenue recognition accounting standard under Japanese GAAP, the fact that the requirements in IFRS 15 and Topic 606 were substantially converged was one of the main reasons the ASBJ decided to basically incorporate all the requirements in IFRS 15.
26. Accordingly, convergence between IFRS 15 and Topic 606 is of significant importance and that IFRS 15 and Topic 606 should remain converged after any reconsideration as a result of the post-implementation review process.

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.

27. We did not identify any significant concerns on the application of IFRS 15 to be included in our comment letter when we considered the additional costs incurred to implement the changes to IFRS 15.

