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IASB/RFI/2023/4 Post-implementation Review IFRS 15 'Revenue from Contracts with Customers'

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Request for Information for the Post-implementation Review of IFRS 15 'Revenue from Contracts with Customers'. We have considered the RFI in our response below

Overall, our view is that IFRS 15 (the Standard) is a major step forward from previous revenue recognition guidance. It is easier for preparers to find the applicable guidance and less cross referencing between standards is required. However, due to the inherent complexity of revenue recognition, as well as the added complexity resulting from the five-step model, there are some areas of IFRS 15 that, in our opinion, would be improved by providing either educational materials, clarifications, or illustrative examples to ensure that the Standard is applied consistently and correctly.

In particular, one area where we believe additional educational materials, clarifications, or illustrative examples would be particularly helpful is for the principal versus agent considerations. We have noted that this area is one of the most complex to apply and we have observed that different interpretations have led to significant diversity in practice.

We also believe it is critical to retain the current high level of convergence between IFRS 15 and Topic 606 'Revenue from Contracts with Customers'. In our view, certain Topic 606 improvements, such as the guidance surrounding promises that are immaterial in the context of the contract and additional licensing guidance should be incorporated into IFRS 15. Maintaining convergence will provide many benefits including global comparability, a wider pool of technical experts and resources globally, as well as the ability for the Board to share research and the results of the post-implementation review with the Financial Accounting Standards Board (FASB).

Our comments on this along with our responses to the questions in the RFI are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact me by email (mark.hucklesby@gti.gt.com).

Yours sincerely,

Mark Hucklesby
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Appendix: Responses to the Invitation to Comment questions

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.

1(a) Our view is the core principle of IFRS 15 and the five-step revenue recognition model that supports it are intuitive and provide a consistent basis for revenue accounting decisions. The five-step model was a significant step forward from the previous revenue recognition guidance, which had numerous gaps. Having a single standard covering revenue recognition has made it easier for users to identify which guidance applies. Overall, we believe it has no fatal flaws.

However, although IFRS 15 is a notable improvement from previous guidance, it has also significantly increased complexity for some relatively simple situations. The five-step model also requires significant estimations and judgements and often we see different interpretations of very similar fact patterns, each of which has a strong argument in its favour. Our view is the detailed disclosures required by the Standard are currently sufficient to provide insight into the estimates and judgements that are made by those responsible for approving and authorising the issue of the financial statements. As shown throughout the remainder of our response, any additional examples that the Board provides will be seen as helpful and will further reduce diversity in practice.

1(b) We believe additional educational materials and flow charts issued by the Board could significantly improve understandability and bring increased consistency in the application of IFRS 15. Currently, there are some widely available publications that include interpretations of critical areas of the Standard, but they are not identical. We believe that if the Board issued illustrative examples and more detailed flowcharts that focus on the highly judgemental areas of IFRS 15, some of the diversity that we are seeing in practice would reduce. For example, principal versus agent considerations and the identification of performance obligations, which usually require an extensive element of professional judgement.

Our responses to the remaining RFI questions will include more specific areas we think could be improved with such supplementary guidance.

1(c) Our view is that while there has been significant investments and ongoing costs of applying the requirements in IFRS 15, particularly in certain industries, the benefits are in line with those investments. It can be costly to spend the time to make complex judgements but in doing so and in applying the disclosure requirements of IFRS 15, insight into those judgements has been provided to users of the financial statements, which has resulted in a net benefit.

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?

2(a) In our view, identifying performance obligations is often the most difficult step to apply in the five-step revenue recognition model. There are significant judgements that preparers must make, which can be both time consuming and difficult. For instance, application of the guidance might be unclear in cases where the customer makes an upfront payment. In such cases, it is often not clear as whether the upfront payment is for a specific promised good that is delivered at the start of the contract or whether it is made for an overarching promise. For example, in the biotech industry, the supplier may sell a licence to use a molecule in order develop and distribute a pharmaceutical compound in a dedicated territory. If the contract also includes a promise to manufacture the drug compound, it can be difficult to determine whether the licence should be considered a distinct promise from the one to supply the drug to the licensee.

Additionally, the criteria in IFRS 15.27 continues to be challenging for preparers and can have a significant effect on the subsequent steps if assessed inappropriately. Despite this, we feel there are sufficient guidelines in place, and as such we believe that IFRS 15 provides a sufficient basis to identify performance obligations and we do not have any suggestions for significant changes that need to be made to this part of the Standard.

2(b) Based on our observations, there is some diversity in practice, particularly in certain industries such as software as a service (SaaS). However, the large firm guidance and interpretations have helped with consistency. Similar to our response to question 1(b), we believe that reviewing certain critical interpretations from those publications and determining whether the Board agrees, would help to enhance consistency in areas that require complex judgement.

Additionally, we recommend that the Board considers adding guidance on immaterial promises, similar to that which has been included in Topic 606, to assist preparers in applying the Standard in certain situations.

We have also noted that the IFRS Interpretations Committee (IFRIC), in agenda paper 2c entitled Revenue recognition in a real estate contract that includes the transfer of land which was discussed at the March 2018 IFRIC meeting, explored the topic of separability of risk. The notion of separable risks could potentially impact the evaluation of whether promises are separately identifiable and as such we believe it is important for the Board to have a firm stance on this topic. Currently, separability of risk is not directly addressed within IFRS 15 but is discussed in the Basis for Conclusions (Paragraphs BC 105, BC116J, and BC116K). We recommend the Board consider adding a discussion of separability of risks as a possible direct addition to IFRS 15 to avoid potentially different interpretations of the Basis for Conclusions.

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?**

In our view, IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract in most circumstances. However, there are certain elements such as marketing costs, negative revenue, and non-cash consideration (both payable to a customer and in lieu of a cash payment) where betterer interpretation guidance in IFRS 15 would result in more consistency in application. In particular, cases involving loyalty points, such as in the online gaming industry or in entities that utilise influencers, can be difficult to navigate. For example, in a situation where an entity grants loyalty points outside of a revenue transaction to customers. If those loyalty points provide for future cash redemption or a reduction in the price of a future revenue transaction upon aggregating a certain number of points, how, if at all, would this factor into the transaction price of that future revenue transaction? What would the timing of that impact be, and would it impact the transaction price as the points are earned or as they are redeemed? It may also be helpful to include guidance on how negative revenue resulting from variable consideration arrangements like marketing incentives should be recognised and presented in the financial statements. These are questions that have to be considered, so additional clarifying guidance or interpretations on these topics would be useful to assist preparers in applying the requirements of this step of the revenue recognition model.

We have also observed that trailing commissions for longer term contracts require significant upfront estimation under the variable consideration guidance, but we question the usefulness of this information. Providing an exception to the requirement for these types of agreements may alleviate preparer costs while not, in our view, having a detrimental impact on the usefulness of the information provided.

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?**

Our view is that IFRS 15 does provide a clear and sufficient basis to determine when to recognise revenue in most circumstances. One specific element that results in diversity in practice is paragraph 35(c) which requires that an entity has an enforceable right to payment. While this seems straightforward, in practice it can require a legal assessment that could vary by jurisdiction and an entity may get a different outcome based on who they consult with.

We have also observed that when assessing the criteria for transfer of control to determine whether 'point in time' or 'over time' revenue recognition is appropriate, the results can be mixed. In particular, entities seem to struggle with applying the guidance in IFRS 15.35(a) and IFRS 15.B4. The Standard notes that whether the customer would need to re-perform work in circumstance when another vendor needs to fulfil the remaining performance obligation, must be factored into the assessment, which often requires a significant level of professional judgement.

Some additional illustrations and examples on this topic would increase consistency and reduce judgement for preparers when performing this assessment.

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?**

We believe that determining whether an entity is 'a principal' or 'an agent' is one of the most judgemental areas in IFRS 15 and there appears to be diversity in practice. In particular, some preparers overlook the concept of control in IFRS 15.33 and use the indicators in IFRS 15.B37 in isolation when attempting to apply the principal versus agent guidance. To remedy this, we recommend the Board consider the use of a decision tree or flowchart which would clearly set out when the principal versus agent guidance must be applied as well as clearly emphasising that the 'principal indicators' contained in IFRS 15.B37 are considered only if it is unclear, after applying the control concept in IFRS 15.33

Additionally, when determining as to whether the entity is acting as an agent or a principal, IFRS 15 requires the preparer to assess whether the entity has obtained control over the goods or services before transferring them to the customer. IT would be helpful for the Board to clarify the link between control criteria and the indicators set out in B37. In other words, the 'control' concept and the indicators should be consistent.

We have also observed that facts and circumstances can result in it being reasonable that the entity could be either a principal or agent and the conclusion is determined by the arguments set out in the financial statements. To an extent, this issue seems to stem from the way that the existing examples are structured. They do not provide all of the judgements leading up to the principal versus agent considerations (eg who is the customer, what are the performance obligations and how is the transaction price determined). Without the full set of facts, it is possible to interpret elements of the examples differently. If the Board were to consider providing the entire thought process from the beginning, this would help users fully understand the context and make better use of the existing examples.

We also believe that examples on how to assess transfer of control when a contract is for a service rather than a good should be included. It is unclear how this might manifest in practice and specific criteria or examples would assist preparers in assessing transfer of control.

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?**

6(a) In our view IFRS 15 does provide a clear and sufficient basis for accounting for contracts involving licenses. However, some additional clarification on when a SaaS arrangement falls into the licensing guidance would assist preparers and facilitate consistency in reporting. Some preparers refer to the US Generally Accepted Accounting Principles (US GAAP) guidance as an analogue but having some explicit guidance in IFRS 15 would be beneficial.

There is not a universally accepted definition of 'license' which can result in entities in different jurisdictions around the world interpreting what is meant by this term more liberally than it is used under US GAAP. Given this, educational materials on the usage of the term 'license' may clarify for preparers that the commonly used term must be used in the technical sense in order to qualify for the licensing guidance.

6(b) In line with our response above, our suggestion is to clarify what constitutes a license and ensure that preparers understand which agreements fall into the licensing guidance.

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

7(a) Our view is that generally the disclosure requirements in IFRS 15 provide useful information to users of the financial statements.

7(b) The disclosures around expected future recognition of deferred revenue required by IFRS 15 take a significant amount of time to prepare. These disclosures relate to future revenue and it is necessary to use estimations for the amounts disclosed. Although estimates are used throughout the financial statements, it is unusual to disclose an amount based solely on future projected information. This can also create a disconnect between expectations and reality as the revenue will not necessarily be recorded exactly in accordance with the estimate. Additionally, auditing these disclosures can be difficult due to the nature of the inputs. We have also noted it can be difficult for entities, especially smaller entities, to track revenue recognition ‘at a point in time’ versus ‘over time’.

7(c) We believe that it will be important to closely monitor the forthcoming interaction between IFRS 18 and IFRS 15 to ensure that both standards work in tandem and do not provide contradictory disclosure requirements.

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.**

Our view is the transition requirements worked as the Board intended and that the requirements achieved an appropriate balance between reducing costs for preparers and providing useful information to users.

We would also note that preparers appreciated the practical expedients available, particularly those which smoothed the transition from local GAAP to first application of IFRS 15. Additionally, we don't believe that users were deprived of any decision-making useful information by the broad application of these expedients.

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?**

In our view there are several areas where it is unclear whether to apply IFRS 15 or another IFRS Accounting Standard. These include:

- IFRS 15 scoping – paragraphs 5 and 7: The interaction between paragraphs 5 and 7 is unclear in a case where a contract is partially in the scope of another standard based on the criteria in paragraph 7, but the other standard is not one of those listed in paragraph 5. In that scenario, is the contract fully in the scope of IFRS 15 by default or is there an ability to bifurcate with the other identified standard? Further direction on this would be appreciated by not only the preparers of the financial statements, but their auditors as well.
- IFRS 9 'Financial Instruments' – Price concession versus impairment loss: It is unclear when facts and circumstances would require a price concession to be recorded as an impairment loss under IFRS 9 and when a price concession would be viewed as a contract modification. For example, take a situation where an entity does not have a history of granting price concessions. If the entity agrees to forgive a portion of a receivable due on an existing contract with a remaining term due to the customer experiencing financial difficulties, should this be assessed as a price concession or an impairment loss? We have observed a relatively even split on interpretation of the guidance in price concession scenarios. Given the diversity of views, we recommend that the Board include additional illustrative examples using flow charts to visually illustrate the decision points of when to apply IFRS 15 versus when to apply IFRS 9 at various stages of the contract.
- IFRS 9 – liabilities arising from application of IFRS 15: It is sometimes difficult to determine, whether a liability that has arisen falls under the scope of IFRS 15 or IFRS 9. For example, would a prepayment received at a point when no services have yet been provided and booked as a receivable be in scope of IFRS 9? And if so, would this receivable then be subject to the credit losses guidance? Or would this be seen as an executory contract and not recoded under IFRS 15 until the services are provided?
- IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' – refund policies: Refund policies are scoped into IFRS 15 as part of the variable consideration assessment. However, they also seem to be scoped into IAS 37 through an illustrative example. It would be helpful if this matter could be clarified.

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?**

We strongly believe maintaining the current level of convergence between IFRS 15 and Topic 606 is very important. Convergence allows for ease in transition between US GAAP and IFRS, creates a wider pool of experts and specialists with knowledge of both Standards, and allows for greater global comparability. Convergence also creates potential opportunities for the Board and the FASB to share research on implementation and reception of the Standards but also for the two Boards to observe how additions or changes to the Standards work in practice, with potential to adopt the amendment as well if it functions appropriately. We believe it would be useful for the Board, as a matter of course, to consider each time a change is made to Topic 606 whether the Board wants to make a consequential change to IFRS 15 as part of its regular omnibus changes.

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.

In our view, it would be beneficial for the Board to examine collaborative arrangements as part of the Post-Implementation Review of IFRS 15. 'Collaborative arrangements outside the scope of IFRS 11' were identified as 'low priority' as part of the Board's post-implementation review of IFRS 10 ‘Consolidated Financial Statements’, IFRS 11 ‘Joint Arrangements’ and IFRS 12 ‘Disclosure of Interests in Other Entities’, and the topic was not added to the Board's current project plan. However, the applicability of IFRS 15 to collaborative arrangements is regarded as a widespread issue since collaborative arrangements are common in a number of industries (eg, in the pharmaceutical, biotechnology, technology, oil and gas, health care, real estate, entertainment, and telecommunications industries).

Additionally, the FASB issued Topic 808 ‘Collaborative Arrangements’, which is further indication that guidance in this area is desirable and useful. Specific IFRS 15 application guidance would be helpful to assist with assessing the applicability of IFRS 15 to collaborative arrangements, thereby reducing the cost of applying IFRS 15.