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Representation 20/2023

Dr Andreas Barckow
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[Submitted online via https://www.ifrs.org/projects/open-for-comment/]

Dear Dr Barckow

Subject: *Request for information on the Post-implementation Review of IFRS 15 Revenue from Contracts with Customers*

The Financial Reporting Technical Committee (FRTC) of Chartered Accountants Ireland (CAI) welcomes the opportunity to respond to the IFRS 15 Post-implementation Review.

Overall FRTC agrees with the initial feedback that the IASB has received "that IFRS 15 has achieved its objective and is working well, though some stakeholders still find applying aspects of the requirements challenging".

FRTC has identified some areas where we believe the disclosures of IFRS 15 could be enhanced.

IFRS 15 specifies that some sales-based taxes, including digital taxes, are excluded from the determination of the transaction price. As entities are required to determine which sales-based taxes are excluded and which are included in the transaction price we believe that mixed practice has developed in the accounting for sales-based taxes. The guidance on principal versus agent is often used in analysing the appropriate accounting for sales-based taxes, however as there is no transfer of control, we suggest that this guidance is not suitable.

FRTC would welcome any additional implementation guidance, illustrative examples or explanatory material that can be made available to accompany IFRS 15, in certain areas of application that we have highlighted in our more detailed responses.

FRTC believes that the level of convergence achieved to date on IFRS 15 with US GAAP is important and recommends that;

- The IASB review any changes that have been made to the US GAAP standard since it was originally issued to identify whether any such changes are necessary in IFRS 15.

- Where changes to IFRS 15 are identified as a result of this Post-implementation Review the IASB should consider whether such changes would either reduce or increase any differences with US GAAP.

If you would like to discuss this response further, please do not hesitate to contact me at mike.ohalloran@charteredaccountants.ie

Yours sincerely

Mike O'Halloran
Secretary to the Financial Reporting Technical Committee of Chartered Accountants Ireland

Appendix 1

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.

a) In our view IFRS 15 has achieved its objective of providing a comprehensive and robust framework for the recognition, measurement and disclosure of revenue and is generally working as intended. We consider that the five-step model represents an enhancement of the previous revenue accounting requirements as it does not allow for as much interpretation as its predecessor standards. We believe that the five-step model provides a very practical and useful structure to the standard and has facilitated the development of training and guidance on applying IFRS 15.

Further, IFRS 15 provides the additional advantages of improved comparability between different companies, more reliable financial data and greater transparency in financial reporting.

We do not have fundamental questions (fatal flaws) about the clarity or suitability of the core principle or the five-step revenue recognition model.

b) As identified by the IASB some stakeholders still find applying aspects of the requirements of IFRS 15 challenging and to improve understandability and accessibility we would suggest the IASB consider providing educational materials and further application guidance for areas requiring more significant judgements such as identifying separate performance obligations and principal versus agent considerations. Illustrative examples using real life scenarios (particularly in industries such as software and utilities) would be helpful.

We also believe that the way some entities operate has developed since IFRS 15 was initially issued, for example there has been a large increase in the volumes of revenue transactions made by online sellers and resellers. To that end we believe that guidance or examples of how the five-step model can be applied by such online sellers and resellers would be important as we believe that diversity in practice may have arisen in how such entities account for various aspects of their business model. One such area we have identified is where incentives are provided by an online reseller to a customer's customer and whether this is accounted for under IFRS 15 as an adjustment to revenue (variable consideration) or as an expense.

As an overall point we suggest that the use of simple language is fundamental to the understandability and accessibility of IFRS 15 and other standards. To that end we recommend that the words and structure of IFRS 15 are only changed where fatal flaws are identified and improvements (including industry examples) are achieved through the inclusion of additional application guidance and illustrative examples.

c) Based on our observations and experience the transition to IFRS 15 was a costly exercise for many organisations (e.g., systems changes and staff training) and the resultant accounting did not always differ materially from the previous accounting. For many entities such costs were largely one-off. However, particularly in industries such as software and engineering, ongoing incremental costs are often incurred in relation to the consideration of new contracts, multi-element and long-term contracts and multi-entity bespoke contracts that are non-homogeneous in nature. Such contracts, often due to their inherent complexity and the complexity of the entity's business model, require additional resources to understand and determine the appropriate accounting. In such cases additional resources as a result of the complexity of the arrangements seems appropriate. However, overall, we consider that the benefits of the standard, such as greater collaboration between finance and operations teams, outweigh the costs to implement and maintain.

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?

(a) Overall IFRS 15 does provide a sufficient basis to identify performance obligations in a contract.

(b) In certain technology, telco and utility industries the identification of performance obligations can be complex due to the nature of bundled product offerings and is a subjective area of the Standard which involves management's interpretation. Additional guidance or illustrative examples would be welcome to address scenarios such as;

- Bundled Services: Software as a service ('SaaS') contracts often include a package of services, such as software licenses, updates, maintenance, hardware and customer support. Determining whether these services should be treated as separate performance obligations or bundled together can be challenging.
- Distinct vs. Indistinct Services: IFRS 15 defines a performance obligation as a promise to transfer a distinct good or service to the customer. Determining whether the different components of a SaaS offering are distinct or need to be combined into a single obligation can involve subjective judgment.
- Software Updates and Upgrades: Deciding whether ongoing software updates or upgrades should be considered separate performance obligations or part of the overall service can be intricate. This determination can impact how revenue is recognized over time.

We also suggest that guidance in the standard would be welcome on some sustainability matters that are becoming more commonplace in analysing revenue recognition accounting, in particular in the identification of performance obligations. This includes schemes such as voluntary carbon schemes where it is not clear if the provision of certificates that offset carbon emissions represents a separate performance obligation.

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?

a) & b) Generally IFRS15 provides a clear and sufficient basis to determine transaction price with the exception of the following areas:

- As noted above with the increase in online retailing and reselling we think there are some areas where additional guidance would be useful to address some potential diversity in practice. One area in particular involves the situation where an incentive payment is made to a customer's customer and whether this is accounted for under IFRS 15 as an adjustment to revenue (variable consideration) or as an expense.
- In September 2019 an IFRIC agenda decision on compensation for delays or cancellations (which are common in the airline industry) was issued. That agenda decision did not address "whether the amount of compensation recognised as reduction of revenue is limited to reducing the transaction price to nil". We recommend the IASB consider such a fact pattern as part of the current Post-implementation Review.
- We also suggest further guidance on the sales-based taxes, for example Digital Services Taxes (DST) and Equalisation Levies (EL). We suggest that in practice the principal agent guidance in IFRS 15 is often used to determine the appropriate accounting for sales-based taxes. However, this guidance is not suitable as the transfer of control of a good or service does not arise in a sales-based tax. We suggest that there is diversity in practice in accounting for various sales-based taxes as a result of the lack of guidance and the appropriate underlying principle to apply.

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?

a) - b) In general we consider that IFRS15 provides sufficient basis to recognise revenue.

One area which we believe would benefit from additional guidance however relates to the practical expedient in IFRS 15, AppB16. This practical expedient allows revenue to be recognised in the amount to which the entity has a right to invoice where the entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance to date. We suggest that additional guidance is necessary to address accounting for a situation where during the course of a contract the practical expedient is no longer available to the entity as a result of a change in circumstances which means the invoicing profile no longer matches the performance profile.

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?

a) Our experience suggests that the principal versus agent considerations can be some of the more challenging and judgemental considerations in applying IFRS 15. We noted there are challenges in applying the Standard in the following areas:

- How control is transferred in relation to services in the context of principal vs agent consideration.
- Divergence of practice amongst entities interpreting and applying the indicators versus the concept of control in applying this to the physical flow of goods to the end customer.
- Applying indicators may point to different conclusions and as such, could result in different accounting treatments despite the same fact pattern.

b) To resolve the above matter, we suggest the IASB further provide:

- Clarification on the application of the concept of control in relation to services and intangible assets in the context of principal vs agent
- Illustrative examples or perhaps a flowchart to show the application of the concept of control together with the indicators.

We also suggest the standard should explicitly require disclosure of;

- The factors considered in determining if the entity is a principal or an agent where the judgement has been significant and the amount of revenue that would have been recognised had the entity been a principal and not an agent and vice versa is material.
- The amount of revenue recognised where the entity is acting as an agent and the amount of revenue recognised where the entity is acting as a principal. We believe this disclosure should be explicitly required as part of the disaggregation of revenue disclosures required by paragraphs 114 and 115.

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?

a) – b)
We have observed divergence in practice in determining whether a license should be treated as a performance obligation recognised at a point in time or over time based on factors such as the nature of the license, the significance of the intellectual property transferred, and the customer's ability to benefit from the license. For licenses, assessing when control is transferred can be challenging, especially for licenses with ongoing support or maintenance services. We believe that Intellectual Property (IP) licenses where the underlying IP requires ongoing maintenance and development to be effective should be explicitly identified in the application guidance as a license where revenue is recognised over time. Diversity in practice can also arise over the meaning of continuing "to be effective" and further guidance in this area would be appreciated.

We also note that diversity in practice exists in relation to the accounting for license renewals where the revenue has been recognised at a point in time. Often the renewal is agreed before the termination of the original license, and we suggest that it is not clear whether the revenue is recognised at the time of the renewal or when the original license expires.

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?

a) - c) Other than the two additional disclosures which we have identified in relation to the accounting as a principal or agent we consider that the disclosure requirements are sufficient in the context of the overall objective of IFRS 15

As noted in our response to Question 5 we believe the standard should explicitly require disclosure of;

- The factors considered in determining if the entity is a principal or an agent where the judgement has been significant and the amount of revenue that would have been recognised had the entity been a principal and not an agent and vice versa is material.
- The amount of revenue recognised where the entity is acting as an agent and the amount of revenue recognised where the entity is acting as a principal. We believe this disclosure should be explicitly required as part of the disaggregation of revenue disclosures required by paragraphs 114 and 115.

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.**

We consider that the available modified retrospective method and practical expedients have eased the adoption of the Standard and helped mitigate transition costs for preparers and that the transition approach worked as intended.

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?

a) – b)
We have identified some areas where we believe it is not clear how to apply the requirements of IFRS 15 with the requirements in other IFRS Accounting Standards.

IFRS 3 Business Combinations
We agree with Spotlight 9.1 that the different measurement principles in IFRS 3 and IFRS 15 create difficulties for entities when measuring contract assets and contract liabilities acquired as part of a business combination. In our experience the challenges and differences arise in relation to the subsequent accounting after initial recognition of the contract asset and contract liability at fair value and applying IFRS 15 to the subsequent accounting. For example, a contract asset relating to variable consideration might be constrained as a result of the application of IFRS 15, para 56, based on a highly probable threshold, whereas a fair value measurement would apply a probability weighted approach.

IFRS 9 Financial instruments
We agree with Spotlight 9.2 that an issue arises in determining whether a price concession is accounted for as a contract modification or as an impairment of trade receivables. Our experience suggests that such matters are generally accounted for as impairment of trade receivables but would welcome further guidance on this.

IFRS 16 Leases
As noted in Spotlight 9.3 challenges do arise in relation to the interaction of IFRS 15 and IFRS 16. The issues that arise tend to relate to scoping and could be resolved by identifying a priority or waterfall of how accounting standards apply where a contract contains lease and non-lease components, or it is not clear whether a contract is a lease in the scope of IFRS 16 or a contract with a customer in the scope of IFRS 15. An example of this is where a lease is modified to require the previous lessee to acquire the asset at the end of the original lease term. Is this a sale under IFRS 15 at the date of modification (albeit with delayed compensation) since it is for all of the life of the asset or does it continue to be a lease until title transfers at the end of the lease.

IFRS 10 Consolidated financial statements
As noted in Spotlight 9.4 the IFRIC considered the sale of a single asset entity containing real estate in 2019, the so called 'corporate wrapper' issue. We note that the 'corporate wrapper' issue is not just limited to real estate and has wider implications in industries such as utilities and pharmaceuticals. We note that IFRIC referred the issue to

the IASB, and we believe the IASB can use the Post-implementation Review to address this issue. We believe that the ultimate accounting should reflect the substance of the transactions.

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 would not be supportive of divergence.
We welcome and encourage the level of convergence, as any divergence would cause increased costs, reduced comparability, training requirements and potentially a re-working of the centralisation of processes e.g., potential transfer pricing impacts etc.

FRTC believes that the level of convergence achieved to date on IFRS 15 with US GAAP is important and recommends that;

- The IASB review any changes that have been made to the US GAAP standard since it was originally issued to identify whether any such changes are necessary in IFRS 15.
- Where potential changes to IFRS 15 are identified as a result of this Post-implementation Review the IASB should consider whether such changes would either reduce or increase any differences with US GAAP. We believe it would be preferable to avoid differences with US GAAP and where possible changes should be limited to application guidance and illustrative examples.

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.

There is an increasing number of questions around to what extent, and how, an entity should consider ESG risk in applying the requirement of IFRS15 in relation to transaction price where there is a link between consideration and performance of environmental hurdles. It would be helpful to have illustrative examples which address such a scenario.

We appreciate the IASB issuing guidance such as Effects of climate-related matters on financial statements. We would welcome more guidance and educational materials on this area.