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Submitted electronically via www.ifrs.org

International Accounting Standards Board
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London E14 4HD
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Dear IASB Members,

Re: Post-implementation Review – IFRS 15 *Revenue from Contracts with Customers* (IASB/RFI/2023/2)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Request for Information, "Post-Implementation Review – IFRS 15 *Revenue from Contracts with Customers*" issued in June 2023.

Our process

This letter represents views of the AcSB members and staff based on their knowledge and experience. As part of our due process for this Request for Information, we consulted with 86 interested and affected parties across Canada, including financial statement users, preparers, academics, and auditors across a variety of industries. We were pleased to have IASB staff join several of our outreach events, including discussions with our IFRS® Accounting Standards Discussion Group and Academic Advisory Committee, and public outreach events targeted to financial statement preparers and users, and a general public roundtable. Our preparer outreach event was led by preparers in the telecommunications, technology and real estate industries, as IFRS 15 had a significant impact on entities in these industries. We took the feedback from these discussions into account when developing this letter.

Our view

The AcSB continues to support post-implementation reviews and welcomes the opportunity to comment on the post-implementation review of IFRS 15. We think that conducting a post-implementation review of an IFRS Accounting Standard is important to fully understand whether a Standard is performing as intended and whether the information provided to users of financial statements is decision useful.

Overall, the core principle and supporting five-step revenue recognition model in IFRS 15 are working as intended for contracts with customers within the scope of IFRS 15. We think that the five-step revenue recognition model and related guidance provide robust and principle-based requirements suitable for a variety of contracts with customers across a broad spectrum of industries. We also think that IFRS 15 resulted in an overall improvement in the usefulness of information provided to financial statement users by providing disclosures that enhanced the comparability of revenue information over time and across companies within the same industry. From an internal business management perspective, we further note that the implementation and ongoing application of IFRS 15's requirements result in an overall improvement in the understanding of contracts with customers, which helps facilitate meaningful discussions about contracts within businesses we heard from that did not typically take place prior to IFRS 15 taking effect.

While IFRS 15 is working well for contracts within its scope, we think the scope of IFRS 15 creates challenges for arrangements in existing and emerging industries where a counterparty to a contract may not be a *customer* of the entity as defined in IFRS 15. Due to the standard's scope, there are arrangements in various industries where income core to an entity's operations is presented outside of revenue. We refer you to paragraph 3 of Question 1 *Overall assessment of IFRS 15* in our detailed response for further detail on these types of arrangements and our recommendations for consideration.

Application issues and the need for clarification

We think there are some targeted improvements the IASB should consider that can help ease the application challenges highlighted throughout our detailed responses to the questions found in the Appendix to our response letter.

The most significant area of IFRS 15 where application challenges stood out as requiring the greatest degree of judgement was the principal versus agent assessment. We think that the current guidance in IFRS 15 makes it difficult for entities to apply the judgment required to reach appropriate outcomes and requires standard setting to address. We heard from several interested and affected parties that this area is inherently challenging, particularly for entities selling services or intangible assets through a third party. We also heard that these types of transactions are becoming more prevalent in service-based industries and therefore have outlined some additional guidance we think the IASB should consider adding to this area in IFRS 15. We refer you to Question 5 *Principal versus agent considerations* in our detailed response for further detail on our recommendations for consideration.

Interaction with other Standards

We encourage the IASB to resolve the differences between the requirements for measuring contract assets and contract liabilities in IFRS 15 and IFRS 3 *Business Combinations*, which are highlighted in Spotlight 9.1 of the Request for Information. During our outreach discussions, users indicated that the resulting information is not useful because it reduces the comparability of revenue between the pre-and post-combination period. Furthermore, users told us they often reverse these fair value adjustments when analyzing the combined entity to make the information more decision useful.

We recommend that the IASB consider amending IFRS 3 so that the same accounting outcome is achieved as under the amended requirements to Topic 805 *Business Combinations*. We think this will improve the comparability and usefulness of revenue information provided to financial statement users.

Importance of Convergence between IFRS 15 and Topic 606

For many entities, revenue is a critically important measure reported within their financial statements and fundamental to a financial statement user's understanding of an entity's financial performance. Therefore, we continue to think it is critically important for the increasing global market demands that IFRS 15 and Topic 606 *Revenue from Contracts with Customers* lead to similar reporting outcomes. For Canadians, similar reporting outcomes is essential given the number of Canadian foreign private issuers in the United States. It is also essential as users are transacting on a global basis and differences in revenue recognition outcomes between IFRS and U.S. GAAP increase complexity and decrease the comparability of financial statements.

Our responses to your questions

The Appendix to this letter responds to the questions posed in the Request for Information and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email kchristopoulos@acsbcanada.ca), Matthew Bishop, Principal, Accounting Standards (+1 647 264-7070 or email mbishop@acsbcanada.ca) or Jamie Goodman, Principal, Accounting Standards (+1 416 204-3294 or email jgoodman@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Accounting Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Accounting Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Accounting Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Accounting Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Accounting Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Accounting Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Accounting Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

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.

Achieving its overall objective

1. Overall, we think the core principle and supporting five-step revenue recognition model in IFRS 15 are working well for contracts with customers that are within the scope of the standard. The five-step revenue-recognition model and related guidance provide robust and principles-based requirements suitable for a variety of contracts with customers. The increased rigour brought to the accounting for revenue by IFRS 15 also resulted in an overall improvement to preparers' understanding of contracts with their customers. This helped facilitate conversations about contracts within businesses that prior to the implementation of IFRS 15 did not take place as frequently.

2. While we think IFRS 15 is working well for the contracts within its scope, we also think the standard's scope creates challenges for arrangements within existing and emerging industries where a contractual arrangement is not with a *customer* as defined in paragraph 6 of IFRS 15.

3. For example, entities in the pharmaceutical industry often enter into risk-sharing arrangements (in particular, early-stage pharmaceutical risk-sharing arrangements), where the core business activity of one entity in the arrangement is the development of a specific drug to bring to market. While these arrangements can take many different forms, we think the issue with the standard's scope is that income core to an entity's operations under these risk-sharing arrangements is presented outside of revenue as other income. This is because the contractual arrangement is not with a *customer* as defined in IFRS 15 and never will be. We recommend that the IASB consider whether IFRS 15, when written, intended to scope out such arrangements. We think that presenting consideration received from risk-sharing arrangements as other income reduces the usefulness of the revenue information provided to users of the financial statements because the presentation of these amounts as other income does not faithfully represent the results of the entity's operations. Risk-sharing arrangements in the pharmaceutical industry is only one example of an industry with arrangements where income core to an entity's operations is presented outside of revenue. We think the IASB should consider this and other arrangements where income is presented outside of revenue to assess whether the scope of IFRS 15 results in decision useful information in these scenarios.

4. During our outreach discussions, we also heard from financial statement users that IFRS 15 improved the usefulness of information they received by providing disclosures that enhance the comparability of revenue information over time and across companies within the same industry. As transactions in different industries can vary in their nature and complexity, we note that the degree of judgment required in applying the requirements of IFRS 15 presents challenges for achieving comparability for entities operating in different industries. We do not view this lack of comparability across industries as problematic because entities will not necessarily apply judgment in a uniform way. Rather, we view this as part of applying judgement and based on our discussions with financial statement users, they agree that comparability across industries is difficult to achieve.

5. While we think IFRS 15 is achieving its objective and working well, we do encourage the IASB to consider making targeted improvements to various areas of the standard. In our view, the targeted improvements identified in our detailed responses in this Appendix will help improve the consistency with which IFRS 15 is applied.

Costs and benefits

6. The transition costs for industries most impacted by IFRS 15 were significant. For example, entities in the telecommunications, real estate, and construction industries incurred significant transition costs as the implementation effort and integration with legacy systems were substantial.

7. Preparers and practitioners that we consulted also noted that the complexity of contracts examined, and the extent of information not previously tracked under legacy IFRSs, were other factors that directly contributed to total transition costs incurred. We were also told that the ongoing costs of applying IFRS 15 are less than the costs associated with transition but are not insignificant, especially for entities that process contracts through multiple systems. Users that we consulted noted that IFRS 15 resulted in an overall improvement in the information they receive on an entity's revenues. However, they also shared that it hindered their ability to analyze revenue trends beyond the prior year. Users often analyze revenue trends considering several comparative periods. When the initial application of IFRS 15 resulted in a significant change in the recognition and measurement of revenue, they were no longer able to conduct a meaningful analysis of long-term revenue trends. This was true regardless of the transition method chosen by the entity. That said, we think this short-term cost to users is offset by the overall improvement in revenue information resulting from the application of IFRS 15.

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?

8. Overall, we think IFRS 15 provides a clear and sufficient basis to identify performance obligations in a contract. During our outreach discussions we heard about some types of transactions when entities find it challenging to perform this assessment. However, we think these challenges are normally a result of entities applying judgment to meet the core objective of the standard, and not a result of flaws in the standard itself. Accordingly, we recommend the IASB consider issuing additional illustrative examples and application guidance on the types of transactions we have identified that require entities to apply significant judgment to identify performance obligations. We think this will

reduce diversity in the application of the standard, which will result in more useful and comparable information for financial statement users.

Application challenges identified

9. Entities often find it challenging to determine whether a promised good or service in a contract is a distinct “stand-ready” obligation. For example, an entity in the telecommunications industry may offer their customers the option (but not the requirement) to download a mobile phone application when they purchase a new mobile phone and/or subscribe to a wireless service plan. The entity would need to apply judgment to determine whether the customer’s option to download the application at any point during their contract term is a distinct performance obligation that meets the criteria in Paragraph IFRS 15.27. We think that additional guidance on applying these criteria to different types of “stand-ready” obligations might help entities with this assessment.

10. For entities selling software as a service, we heard it can be challenging to determine whether software customizations are distinct performance obligations. This assessment generally depends on whether the software customization has standalone functionality to the customer, or whether it is a configuration that is integral to the functionality of the base product. To perform this assessment, an entity must understand the promises in the contract, which might require them to consult with their developers to understand the functionality of the customization delivered. We think that additional guidance on distinguishing between configurations and customizations might help entities identify performance obligations in these types of contracts.

11. Some contracts contain options for the customer to obtain additional goods or services for free or at a discount. These options may be considered marketing offers (i.e., not a distinct performance obligation) or material rights (i.e., a distinct performance obligation). During our outreach discussions, we heard that some entities find it challenging to distinguish between the two, resulting in diversity in the application of paragraphs B39-B43. We think the IASB should consider issuing additional application guidance and illustrative examples to help entities with the classification of these promises as we think this will help reduce diversity in the application of the standard.

12. We heard it can be challenging to determine whether shipping constitutes a separate performance obligation or a fulfillment activity. This is often the case when control of goods is deemed to have transferred to the customer prior to shipment. Some interested parties also question the decision usefulness of allocating revenue to this activity because the sale of goods is the primary performance obligation in the contract. We note that Topic 606 under U.S. GAAP allows entities to elect to treat shipping and handling activities undertaken after the customer obtains control of the goods as a fulfilment activity instead of as a distinct performance obligation. We think the IASB should consider providing the same accounting policy choice to entities applying IFRS. Overall, we think this will help alleviate these challenges without reducing the overall usefulness of the financial statements.

Disclosure of performance obligations

13. We heard from financial statement users that there is diversity in the disclosure of performance obligations in contracts with customers. They indicated that information about an entity’s performance obligations, along with the disclosure of the transaction price allocated to the remaining performance obligation (discussed in more detail in paragraph 33 of this Appendix), helps them assess the likelihood that revenue will be recurring. They noted that this assessment is often an important aspect of their analysis of an entity. When the disclosure of an entity’s performance obligations is inadequate, users obtain this information outside the financial statements, where it is not audited and less reliable. They noted that performance obligations related to services are sometimes inadequate because some entities find them more challenging to identify than performance obligations related to goods due to their lack of physical substance. We think the IASB should consider issuing more

guidance on identifying and disclosing performance obligations pertaining to services to help entities with the application of these requirements.

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?**

14. Overall, we think IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract. However, during our outreach discussions we heard about some scenarios when entities find the application of the requirements for determining the transaction price in a contract challenging. We recommend that the IASB consider issuing additional illustrative examples and application guidance to help entities with the application of these requirements as we think this will reduce diversity in the application of the standard, which will result in more useful and comparable information for financial statement users.

Application challenges identified

15. We agree with the challenges highlighted in Spotlight 3 of the Request for Information regarding the accounting for consideration payable to a customer and negative net consideration. Some entities offer incentives to customers during their initial phases of operation to help them gain market share (e.g., marketing offers, as discussed in paragraph 11 of this Appendix). It is often unclear whether these incentives should be accounted for as a reduction in the transaction price or as a marketing expense. This assessment can be particularly challenging in the retail and consumer goods industry when entities sell their products through online distributors. Online distributors do not always provide complete visibility into the incentives given to end customers, making it challenging for entities to measure the transaction price, and to assess whether the incentives should be treated as a reduction in the transaction price or as a marketing expense. During our outreach discussions we heard that it is not common for Canadian entities to offer incentives that exceed the amount of consideration expected to be received from their customers. However, we heard that there is diversity in the accounting for these arrangements, with some entities recognizing negative revenue and others recognizing an expense. Overall, we think that this information would be more useful to financial statement users if similar transactions resulted in similar classification.

16. We think that in some circumstances it can be unclear how to apply the requirements for transaction prices with significant financing components in an environment with rapidly changing interest rates. For example, IFRS 15 does not specify whether the transaction price should be modified based on the current discount rate when there is a change in the estimated delivery date of a promised good or service. We think this ambiguity might have a more significant impact on financial statements in the current economic environment with rapidly increasing interest rates. We encourage the IASB to consider clarifying these requirements by issuing additional guidance.

17. We also think it can be challenging for entities operating in multiple jurisdictions to assess whether sales taxes should be included in the transaction price of a contract. This difficulty arises because entities must assess each type of tax on a jurisdiction-by-jurisdiction basis to determine whether it should be accounted for as a reduction in revenue or as an expense. We note that Topic 606 under U.S. GAAP allows entities to elect to exclude all sales taxes from the measurement of the transaction price. In Accounting Standards Update 2016-12, the FASB noted that this election was provided because it reduces the costs to apply the standard and because users provided feedback that

presentation of taxes on a net basis provides the most useful financial information. For the same reasons, we think that the IASB should consider providing the same election to entities applying IFRS 15.

18. We note that IFRS 15 does not provide clear guidance on the measurement date for non-cash consideration included in the transaction price, resulting in potential diversity in the application of the standard. The FASB has amended Topic 606 to specify that non-cash consideration should be measured at its fair value at contract inception. In Accounting Standard Update 2016-12, they noted that this approach is consistent with the measurement date for other elements of the contract. For example, the calculation of significant financing components included in the transaction price and the allocation of the transaction price to performance obligations are both done at contract inception. For the same reasons, we think that the IASB should consider issuing a similar amendment to IFRS 15 to clarify these requirements.

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?**

19. Overall, we think IFRS 15 provides a clear and sufficient basis to determine when to recognize revenue. During our outreach discussions we heard about some application challenges that entities face when determining when to recognize revenue. However, most of these challenges pertain to the application of judgment to this step of the revenue recognition model and do not necessarily indicate that the standard itself is not meeting its objective. Accordingly, we recommend the IASB consider issuing additional illustrative examples and application guidance to help entities determine when to recognize revenue for complex arrangements. We think this will reduce diversity in the application of the standard, which will result in more useful and comparable information for financial statement users.

Application challenges identified

20. We agree with the application challenge highlighted in Spotlight 4 of the Request for Information regarding determining when to recognize revenue when the entity's performance does not create an asset with an alternative use to the entity. For these transactions, it can be challenging for the entity to determine whether it has an enforceable right to payment and whether this enforceable right will continue to exist in the future. This is because an enforceable right to payment is not always clearly indicated in the contract with the customer. It can also be unclear whether a customer's right to terminate a contract overrides any enforceable right to payment in the contract because this is not specified in the guidance in paragraphs B9-B13. Therefore, we think the IASB should consider issuing additional guidance on applying the requirements in paragraph 35(c) for recognizing performance obligations over time.

21. For entities selling software as a service, it can be challenging to determine when to recognize revenue when the contract includes a base product and a customization for a particular customer. This issue is intrinsically linked to the challenge highlighted in our detailed response to Question 2 of this Appendix on identifying whether the software customization is a distinct performance obligation. If the customization is considered a distinct performance obligation, this might indicate that the revenue associated with this customization should be recognized when the customization is delivered. If it is determined that the customization is not distinct, the entity might recognize revenue over time as the transaction price associated with this customization would be allocated to the other performance

obligation(s) in the contract. Additional guidance on distinguishing between configurations and customizations might help entities determine when to recognize revenue for these types of contracts.

22. We also think there are conflicts between the revenue recognition requirements in the core standard on repurchase agreements and the guidance in BC425 on the repurchase of fungible assets. The guidance on repurchase agreements in paragraph B66 of the core standard indicates that a customer does not obtain control of an asset if the entity has an obligation or a right to repurchase the asset. Conversely, the guidance in BC425 indicates that a customer is not constrained in its ability to direct the use of, and obtain substantially all the benefits from, the asset if an entity agrees to repurchase, at the prevailing market price, an asset from the customer that is substantially the same and is readily available in the marketplace. This ambiguity between the core standard and the guidance in BC425 might cause diversity in the application of the standard when an entity enters into a repurchase arrangement for fungible assets. For entities with commodity trading assets, the guidance in the core standard is seen as punitive as it applies even when the assets that may be repurchased are not the same as the assets transferred to the customer. We think the IASB should consider clarifying the intended application of paragraph BC425 in the Basis for Conclusions as eliminating this conflict with the core standard will help entities apply the requirements more consistently.

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?**

23. We heard in our outreach with financial statement preparers and practitioners that determining whether a party to a transaction is the principal or the agent can be challenging. The challenges with this assessment apply to several industries and business models with the degree of complexity increasing with the complexity of the transaction under assessment.

24. We recommend the IASB consider including paragraph BC380 in the core standard. We think this paragraph provides useful guidance on how the performance obligations for a principal and agent differ. Including this paragraph in the core standard versus the Basis for Conclusions will help entities assess the performance obligations in an arrangement appropriately when carrying out the principal versus agent assessment. This will result in improved comparability and greater consistency of the outcomes reported in the financial statements for users.

25. Additionally, the application guidance in IFRS 15 focuses on control of the specified goods or services as the overarching principle for entities to consider in determining whether they are acting as a principal or an agent. That is, an entity first evaluates whether it controls the specified good or service and does so by also considering the standard's principal indicators of control. We think it could be made clearer in the standard that the control assessment and assessment of indicators are not separate evaluations. In our view, a minor amendment to paragraph 37 is needed. We think an amendment could specify that the indicators of control should be applied in conjunction with the assessment of control. In our view, this is an uncomplicated way to indicate to entities that the indictors of control support the control assessment rather than take precedence over it. In considering any clarification to the requirements, the IASB might consider leveraging the wording from the recent IFRIC Agenda Decision on the principal versus agent assessment for a software reseller.

26. We heard that the principal versus agent assessment is particularly challenging for entities providing services or licensing the use of intangible assets because some of the indicators of control provided in paragraph B37 of the application guidance are less relevant to these transactions. This often

results in entities operating in a service-based industry and/or licensing intangible assets having to complete their control assessment utilizing only a small number of indicators. This becomes more problematic when some of the remaining relevant indicators suggest that the entity is a principal while others suggest that the entity is an agent. We encourage the IASB to consider adding additional indicators for these transactions to paragraph B37 as we think this will result in more consistent accounting outcomes (assuming similar facts and circumstances).

27. We also encourage the IASB to consider providing additional guidance on how entities should weight each of the indicators of control. For example, the IASB might designate some of the indicators as primary indicators and other indicators as secondary indicators. We think that additional guidance of this nature would help to reduce the level of cost/effort in completing the principal versus agent assessment and help financial statement preparers exercise the level of professional judgment required to reach consistent accounting outcomes.

28. We also think the addition of illustrative examples and/or flow charts will help demonstrate the primary control assessment and the application of the indicators of control. When developing these examples and flow charts, the IASB might consider conducting additional research on the types of transactions that often cause challenges and provide specific guidance and examples based on these fact patterns.

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?**

29. Overall, we think IFRS 15 provides a clear and sufficient basis for accounting for contracts involving licenses.

30. We agree with the diversity highlighted in Spotlight 6 paragraph (c) of the Request for Information regarding the accounting for license renewals. We think there is ambiguity in the standard that causes some entities to account for license renewals when the renewal period starts and others when it is agreed upon. We think the IASB might consider narrow-scope standard setting to converge the requirements for license renewals under IFRS 15 with Topic 606 to reduce diversity in the application of the standard.

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?**

31. Overall, we think the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements. We think that IFRS 15 resulted in more robust and less boilerplate disclosures, which helps financial statement users better understand an entity's revenues in the current period and more accurately forecast revenues in future periods. Users indicated that the disclosure of an entity's remaining performance obligations and costs to fulfil a contract are particularly helpful to them when they develop their revenue projections. A user's primary focus when analyzing revenue is often related to assessing how reliable that revenue will be in the future. Information that helps users understand the reliability of revenue also helps them assess the reliability of earnings backlog information presented in other, unaudited external reports. In addition to providing more useful information to financial statement users, the disclosure requirements in IFRS 15 improved entities' understanding of their own contracts because entities now maintain more detailed documentation of their contracts to help them comply with the disclosure requirements.

32. Users also provided feedback that there is variation in the quality of disclosures on the disaggregation of revenue. For example, entities selling software licenses structure some contracts with a fixed annual fee, and others with a fee based on transaction volumes. When the fee is determined based on transaction volumes it can be much more variable than a fixed annual fee. Users noted that some entities selling software licenses do not disaggregate their revenues into fixed and variable fee contracts, making it more challenging for them to assess the likelihood that revenue will be recurring. We heard from users that the more granular the disaggregation of revenues is, the more useful it is. The application guidance in IFRS 15 includes examples of categories an entity might use to disaggregate their revenues. However, an entity must apply judgment to select the most appropriate categories. We think the IASB should consider providing more guidance on how an entity can select categories that best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors to better meet user needs.

33. We agree with the challenges highlighted in Spotlight 7 of the Request for Information regarding the requirement to disclose the amount of the transaction price allocated to the remaining performance obligation. During our outreach discussions we heard from financial statement preparers that this disclosure can be quite onerous to prepare, particularly for complex contracts with variable consideration or variable performance obligations (e.g., where the quantity of a good to be delivered is variable). We also think this disclosure can be challenging to prepare for entities with a high volume of contracts and data coming from multiple sources. This is because it can be onerous to extract, validate and consolidated all the relevant data. Furthermore, we noted that there are practical expedients provided in paragraph 121 of the standard that some entities apply, and others do not. These practical expedients can impact comparability among entities. When an entity applies the practical expedients, it often results in less decision useful information, as it can be unclear to users how significant their impact was on the remaining performance obligation disclosed in the financial statements. As a result, users might seek this relevant information from sources outside the financial statements which is unaudited and therefore less reliable. In addition, there are sometimes differences between the remaining performance obligation reported by entities in their audited financial statements and similar future oriented financial information reported in other unaudited external reports. This ambiguity can cause financial statement users to question the reliability and usefulness of this disclosure in the financial statements. However, we think that overall, the usefulness of this disclosure exceeds the cost to preparers.

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.

34. Overall, we think the transition requirements in IFRS 15 worked as the IASB intended. During our outreach discussions we heard that some Canadian entities applied the modified retrospective method and/or the practical expedients and found this transition relief quite helpful when they initially adopted IFRS 15. We also note that for most entities, IFRS 15 did not result in a significant change in the pattern of revenue recognition. We think this indicates that having an additional option to apply the requirements prospectively might have been appropriate for these entities. We think that overall, the transition options struck the right balance between reducing costs for preparers of financial statements and providing useful information to users.

35. During our outreach discussions we heard that financial statement users generally understood the transition options and practical expedients. However, users also noted that entities that applied the full retrospective method of transition were less challenging to analyze than those that applied the modified retrospective method. They indicated that they often look at an entity's prior period financial information to help them analyze trends in revenue, cash flow, earning and other financial metrics. The transition relief provided in IFRS 15 made this analysis more challenging. We think that the IASB should consider this when they develop transition requirements for future standards and amendments.

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?**

36. We think that there are various IFRS Accounting Standards, including those highlighted in Spotlights 9.1-9.4 for which it is unclear how the requirements in those IFRS Accounting Standards interact with the requirements in IFRS 15.

37. We have included in our response below the interactions of IFRS Accounting Standards with the requirements in IFRS 15 that were seen as most prevalent in Canada.

IFRS 3 *Business Combinations*

38. We encourage the IASB to consider how the measurement principles under IFRS 3 *Business Combinations* (based on fair value) interact with the measurement principles under IFRS 15 (based on the transaction price).

39. During our outreach discussions, financial statement users indicated that they find the interaction of the measurement principles in IFRS 3 with the measurement principles of IFRS 15 result in information that is not useful under circumstances when an entity acquires the contract assets and/or liabilities of another entity as part of a business combination. For example, under the requirements of IFRS 3, an acquirer recognizes identifiable assets acquired and liabilities assumed in a business combination and measures those assets at their acquisition date fair value(s). After the acquisition date, the acquirer subsequently accounts for assets acquired and liabilities assumed in accordance with the applicable standard. As a result of this interaction, an entity applying IFRS 3 may end up with an acquisition date fair value for all acquired contracts assets and liabilities that differs significantly from the carrying value recognized in the financial statements of the acquiree prior to the acquisition. This results in a change to the revenue recognized in the post-combination period by the combined entity, even though no change in the underlying acquired contract(s) has occurred.

40. We heard from financial statement users that these fair value adjustments can be significant and often obscure the revenue trend information and creates variances between the expected and actual revenues of the combined company post acquisition. We also heard that users often reverse the fair

value adjustments when analyzing the combined entity post-acquisition. In our view, this further demonstrates the non-useful nature of this information. Furthermore, during our outreach discussions, we heard the information necessary to identify the acquired contract asset and contract liability balances and the period over which they will be recognized is often difficult to obtain.

41. We recommend that the IASB consider amending IFRS 3 so that the same accounting outcome is achieved as under the amended requirements to Topic 805. The amendments to Topic 805 provide specific guidance on the measurement of contract assets and liabilities from acquired contracts with customers. We think a similar amendment to IFRS 3 will result in a more consistent approach to how revenue from contracts is recognized in the pre-and-post acquisition period. We think this will improve comparability of revenue information provided to financial statement users. This improved comparability will provide financial statement users with the most useful information for projecting future cash flows and revenues of the combined company in the post-combination period.

IFRS 16 *Leases*

42. Applying the concept of control in a sale and leaseback transaction can be challenging when completing the assessment of whether the initial transfer of the asset from the seller-lessee to the buyer-lessor is a sale and within the scope of IFRS 15. Due to the lack of guidance provided in this area, we heard from many financial statement preparers that when encountering this fact pattern, paragraphs 31-34 and paragraph 38 are often referred to for guidance. We think while these paragraphs provide a framework to follow when completing this assessment, financial statement preparers would find more robust guidance useful. We also think that more robust guidance in this area will promote the greater consistency of outcomes and improved comparability of the information presented in the financial statements for these types of transactions.

43. We also heard that in some circumstances it can be challenging to separate the non-lease components from the lease components in a contract and to apply the requirements in IFRS 15 to account for the non-lease components. We heard that the separate recognition and measurement of some non-lease components requires entities to track, measure and disclose performance obligations that are not relevant to users of the financial statements. For example, we heard that some office lease contracts include 24/7 elevator access as a separate non-lease component. We think applying the requirements in IFRS 15 to this non-lease component is an added burden for preparers that does not result in useful information for financial statement users. We think that the IASB should consider amending IFRS 16 to allow a lessor to elect not to separate non-lease components from lease components in a contract (similar to the practical expedient provided to lessees in paragraph 15 of IFRS 16). We think that the IASB should explore this matter further when it conducts its post-implementation review of 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?

44. For many entities, revenue is a critically important measure reported within the financial statements and fundamental to a financial statement user's understanding of an entity's financial performance. Therefore, we continue to think it is critically important for the increasing global market demands that IFRS 15 and Topic 606 lead to similar reporting outcomes. For Canadians, similar reporting outcomes is essential given the number of Canadian foreign private issuers in the United States. It is also essential as users are transacting on a global basis and differences in revenue recognition outcomes between IFRS and U.S. GAAP increase complexity and decrease comparability of financial information.

45. We have highlighted a few differences throughout this response letter that we heard about during our outreach discussions. We have summarized this feedback below. We heard:

   a) it can be challenging to determine whether shipping constitutes a separate performance obligation or a fulfillment activity. Topic 606 allows entities to elect to treat shipping and handling activities undertaken after the customer obtains control of the goods as a fulfilment activity instead of as a distinct performance obligation. We think the IASB should consider providing the same accounting policy choice to entities applying IFRS (see paragraph 12 in this Appendix, where this recommendation is discussed in more detail).

b) it can be challenging for entities operating in multiple jurisdictions to assess whether sales taxes should be included in the transaction price of a contract. Topic 606 under U.S. GAAP allows entities to elect to exclude all sales taxes from the measurement of the transaction price. We think that the IASB should consider providing the same election to entities applying IFRS (see paragraph 17 in this Appendix, where this recommendation is discussed in more detail).

c) IFRS 15 does not provide clear guidance on the measurement date for non-cash consideration included in the transaction price. Topic 606 specifies that non-cash consideration should be measured at its fair value at contract inception. We think that the IASB should consider providing the same guidance in IFRS 15 to clarify these requirements (see paragraph 18 in this Appendix, where this recommendation is discussed in more detail).

d) there is ambiguity in IFRS 15 that causes some entities to account for license renewals when the renewal period starts and others when it is agreed upon. We think the IASB might consider narrow-scope standard setting to converge the requirements for license renewals under IFRS 15 with Topic 606 to reduce diversity in the application of the standard (see paragraph 30 in this Appendix, where this recommendation is discussed in more detail).

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.

46. We think the IASB should examine how IFRS 15 applies to virtual transactions and transactions involving assets without physical substance. For example, it is becoming increasingly common for entities to enter into smart contracts which are executed and validated through computer protocols. When an entity enters into a smart contract, it can be challenging to determine whether a contract with a customer exists and when control of the goods or services in the contract have transferred to the customer. We think the IASB should consider if more guidance on applying the requirements in IFRS 15 to these types of contracts is needed given their increasing prevalence across a broad spectrum of industries. We also think the IASB should consider whether, similar to paragraph 3 of Question 1, these types of arrangements were contemplated when IFRS 15's scope was written.

47. During our outreach discussions, we heard that many of the challenges entities face when applying IFRS 15 could have been alleviated through additional application guidance and illustrative examples that demonstrate the application of the standard to more diverse and complex fact patterns. Based on this feedback, we think the IASB should consider providing more illustrative examples and application guidance when it develops future IFRS Accounting Standards, particularly when those standards will require entities to apply significant judgment.