Global Preparers Forum meeting

Date  10 November 2023

Project  Post-implementation Review (PIR) of IFRS 15 Revenue from Contracts with Customers

Topic  Request for Information

Contacts  Jelena Voilo (jvoilo@ifrs.org)
Rashida Abdryashitova (rabdryashitova@ifrs.org)
Megumi Makino (megumi.makino@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Global Preparers Forum (GPF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB Update.
Purpose of the session

• In November 2022 we heard your initial views on IFRS 15 Revenue from Contracts with Customers as a whole, on transition and on challenging areas of the Standard.
• The IASB is now seeking evidence to determine whether, and if so how, to respond to application matters being examined in the Request for Information (RFI).

Focus questions for this session

• In your view, which of the matters being examined in the RFI meet the criteria for the IASB to take further action and why? How would you prioritise those matters?
• Do you have any suggestions for resolving those matters?

Information for participants

• Slides 4–6 provide an overview of the post-implementation review (PIR), including the IASB’s criteria for responding to raised application matters.
• Slides 8–18 provide supporting information on the matters being examined in the RFI.
Overview of the PIR
Assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are those the IASB intended when it developed the requirements.
PIR—how does the IASB respond to identified matters?

1. Consider **whether** to take action, based on the extent to which:
   - the **objective** of the new requirements is not being met
   - **benefits** to users are significantly lower than expected
   - **costs** of application are significantly greater than expected

2. Determine **prioritisation** based on whether:
   - matter has **substantial consequences**
   - matter is **pervasive**
   - matter **can be addressed** by the IASB or the Interpretations Committee (IC)
   - the benefits of any action would be expected to **outweigh** the costs

3. **Determine the timing of any action**
   - **High priority**: address as soon as possible
   - **Medium priority**: add to the IASB or the IC research pipeline
   - **Low priority**: consider in the next agenda consultation
   - **No action**: no further action
Phase 1 feedback on IFRS 15 as a whole

IFRS 15 has achieved its objective and is working well

The five-step model is helpful for analysing complex transactions

Implementation was challenging and costly for many but incremental costs have decreased

Some application challenges remain but no need for fundamental changes

Improvements in comparability of revenue information but some areas require significant judgement

Some additional benefits for entities, including better knowledge of contracts and improved internal controls
Matters being examined in the RFI
Request for Information—what topics are being examined?

### Standard as a whole

- Overall assessment of IFRS 15
- Convergence with Topic 606

### Application questions

- Identifying performance obligations
- Determining the transaction price
- Determining when to recognise revenue
- Principal versus agent
- Licensing
- Disclosure requirements
- Applying IFRS 15 with other Standards
- Transition requirements
- Other matters
What evidence is the IASB seeking through the RFI?

Clarity and sufficiency of specific requirements

Fact patterns
in which requirements are unclear or applied inconsistently

Diversity in practice
• how pervasive is it?
• what causes it?
• how does it affect financial statements and usefulness of the information to users?

Suggestions
for resolving identified matters

Spotlights
Highlight challenging matters identified in phase 1 outreach
○ the IASB is particularly interested in further evidence on these matters
Identifying performance obligations

**Background**
- Appropriately identifying performance obligations is fundamental to recognising revenue that faithfully depicts the entity’s performance
- Basis for identification—is a good or service being transferred distinct?

**Spotlight**
- Some challenges identifying performance obligations for arrangements involving:
  - internally developed products or digital products
  - contract modifications
  - Licensing *(spotlight on slide 14)*
  - principal - agent relationship *(spotlight on slide 13)*

**RFI questions**
- Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?
- Do you have any suggestions for resolving the matters you have identified?
Determining the transaction price

Background
- IFRS 15 provides specific requirements for determining the transaction price, including requirements for variable consideration, significant financing components and consideration payable to a customer.

Spotlight
- Some application questions and diversity in practice in accounting for consideration payable to a customer, for example:
  - marketing incentives offered by an agent to end customers in three-way arrangements
  - consideration payable that exceeds the consideration receivable from the customer ('negative revenue')

RFI questions
- 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?
- Do you have any suggestions for resolving the matters you have identified?
Determining when to recognise revenue

Background

- Revenue is recognised when control is transferred
- Revenue is recognised over time if:
  - the customer simultaneously receives and consumes the benefits;
  - the customer controls an asset being created or enhanced; or/and
  - the entity has no alternative use for an asset being created and has an enforceable right to payment for performance to date

Spotlight

- Some application questions about whether to recognise revenue over time
  - determining whether an entity has an enforceable right to payment can be particularly challenging

RFI questions

- Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue—in particular, in relation to the criteria for recognising revenue over time? If not, why not?
- Do you have any suggestions for resolving the matters you have identified?
Principal versus agent

**Background**
- An entity determines whether it is a principal or an agent based on who controls the good or service before it is transferred to the customer.
- IFRS 15 provides a non-exhaustive list of indicators of control relating to:
  - primary responsibility for fulfilling the promise
  - inventory risk before the transfer
  - discretion in establishing the price

**Spotlight**
- Some challenges applying the concept of control alongside the related indicators, for example:
  - in relation to services
  - when indicators point to different conclusions
  - when an arrangement involves more than three parties

**RFI questions**
- Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?
- Do you have any suggestions for resolving the matters you have identified?
Licensing

Background

- IFRS 15 requires an entity to determine whether:
  - the promise to grant a licence is distinct
  - the nature of a licence is to provide a right to access intellectual property (IP) or a right to use IP

Spotlight

- Some application questions and diversity in practice relating to:
  - determining whether an arrangement is a licensing arrangement
  - identifying performance obligations in arrangements including goods or services and a licence
  - accounting for licence renewals

RFI questions

- Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?
- Do you have any suggestions for resolving the matters you have identified?
Disclosure requirements

Background
• The IASB sought to improve disclosure requirements

Spotlight
• Some concerns relating to:
  o costs of providing some disclosures potentially exceeding the usefulness (e.g., disclosures related to contract assets and liabilities or to remaining performance obligations)
  o some entities not providing the information required

RFI questions
• Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?
• Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?
• Have you observed significant variation in the quality of disclosed revenue information? If so, what causes variation and what steps could the IASB take to improve the quality of the information provided?
Transition requirements

**Background**

• Preparers could apply one of two transition methods:
  o a retrospective method
  o a modified retrospective method
• IFRS 15 also:
  o offered practical expedients for each transition method
  o required additional disclosures to ensure users receive useful information for trend analysis

**RFI question**

• Did the transition requirements work as the IASB intended? Why or why not?
Applying IFRS 15 with other IFRS Accounting Standards

**Background**
- Contracts in the scope of other Standards are excluded from the scope of IFRS 15

**Spotlight**
- Some application questions about interaction of IFRS 15 with:
  - IFRS 3 *Business Combinations*
  - IFRS 9 *Financial Instruments*
  - IFRS 16 *Leases*

**RFI questions**
- Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards—in particular, in relation to matters in the Spotlight? If not, why not?
- Do you have any suggestions for resolving the matters you have identified?
Other matters

Background

- We would like any information that will help the IASB assess whether:
  - there are fundamental questions (fatal flaws) about the clarity and suitability of the core objective or principles in IFRS 15
  - benefits to users of financial statements arising from applying IFRS 15 are significantly lower than expected
  - costs of applying IFRS 15 and auditing and enforcing application are significantly greater than expected

RFI questions

- Are there any further matters that you think the IASB should examine as part of the PIR of IFRS 15? If yes, what are those matters and why should they be examined?
For more info…

RFI is available on the project website