
IASB® meeting

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Project	Post-implementation Review of IFRS 15
Topic	Analysis of outreach feedback—Standard as a whole and convergence with Topic 606
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Purpose and structure

1. This paper is the first of four papers analysing feedback from phase 1 outreach on the post-implementation review (PIR) of IFRS 15 *Revenue from Contracts with Customers*. Specifically, this paper summarises feedback on:
 - (a) the Standard as a whole, including the costs and benefits related to the implementation and application of the Standard (paragraphs 5–31); and
 - (b) convergence between IFRS 15 and the US Financial Accounting Standard Board's (FASB's) Accounting Standards Codification® Topic 606 *Revenue from Contracts with Customers* (paragraphs 32–38).
2. For each area, this paper provides staff analysis and recommended questions for the request for information (RFI).
3. Agenda Papers 6C–6E for this meeting analyse feedback on specific areas of the IFRS 15 requirements and on the interaction between IFRS 15 and other IFRS Accounting Standards.

Summary of staff recommendations

4. The staff recommend the IASB ask questions in the RFI about:
- (a) *the Standard as a whole*:
 - (i) whether the overall objective of IFRS 15 is being met and whether the core principle of the Standard and the supporting five-step revenue recognition model are clear and suitable for making revenue accounting decisions;
 - (ii) suggestions for specific narrow-scope improvements that could improve the understandability of IFRS 15 without causing substantial cost and disruption to entities already applying the Standard; and
 - (iii) suggestions for lessons learned from the implementation of IFRS 15 that the IASB could consider in improving the understandability and accessibility of its future Standards;
 - (iv) ongoing costs and benefits of applying the requirements in IFRS 15.
 - (b) the importance of retaining *convergence between IFRS 15 and Topic 606*.

Questions for the IASB

Questions for the IASB

1. Do IASB members agree with the staff recommendation in paragraph 4 of this paper?
2. Are there any additional matters related to IFRS 15 as a whole or convergence with Topic 606 that the IASB should seek feedback on in the request for information?

Standard as a whole

Background

5. IFRS 15 was developed jointly with the FASB. The joint project aimed to improve the boards' previous revenue recognition requirements by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue. In particular, the boards sought to:
 - (a) improve the comparability of revenue recognition across entities, industries, jurisdictions and capital markets;
 - (b) reduce the need for interpretive guidance to be developed on a case-by-case basis to address emerging revenue recognition issues; and
 - (c) provide more useful information through improved disclosure requirements.
6. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.¹ To meet the objective, the Standard:
 - (a) establishes a core principle for revenue recognition—an entity should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services; and
 - (b) introduces a five-step model to support the core principle.
7. The boards expected the benefits of the new requirements to be ongoing and to justify the costs of implementing the requirements (for example, systems and operational changes) that would be incurred primarily during the transition from previous revenue recognition requirements.

¹ See paragraph 1 of IFRS 15.

Overview of feedback

8. This section summarises phase 1 outreach feedback on:
- (a) the overall objective of IFRS 15, its core principle and the five-step revenue recognition model (paragraphs 9–15);
 - (b) understandability of the requirements in the Standard (paragraphs 16–17); and
 - (c) the costs and benefits of implementing and applying IFRS 15 (paragraphs 18–26).

The overall objective, core principle and five-step revenue recognition model

9. Almost all stakeholders we have talked to in phase 1 outreach said that IFRS 15 has achieved its overall objective and is working well although some application challenges remain. Stakeholders raised no fundamental questions about the objective and core principles of the Standard.
10. The five-step revenue recognition model is generally seen as helpful—in particular as a robust basis for analysing complex transactions. In addition, some stakeholders said that the supporting application guidance and illustrative examples help entities in making judgements. Some academics said that the Standard is well-written and the five-step model provides a good basis for teaching.
11. Many stakeholders of all types said that IFRS 15 is an improvement on the previous revenue requirements, with some saying that the guidance in IAS 18 *Revenue* was too high-level and left too much room for judgement. A few construction entities commented that it was more convenient for them to have an industry-specific standard (IAS 11 *Construction Contracts*). However, they acknowledged the benefits of having a generally applicable principle-based standard, including better comparability of information between entities.
12. Users of financial statements noted some improvement in comparability of revenue information between entities within the same industry, between industries and

between entities in various capital markets. Users attributed some of these improvements to convergence between the IASB and FASB requirements. Preparers and accounting firms reported that in some industries implementation of IFRS 15 led to entities cooperating with peers and auditors to develop consistent accounting policies. However, some stakeholders said that application of requirements to complex fact patterns requires significant judgement and may not result in consistent outcomes.

13. Stakeholders said that the effects of transition to IFRS 15 on entities' financial statements varied, with some entities reporting little effect on the numbers in their financial statements. This is supported by the findings of the review of academic literature (see paragraphs 4, 14(b) and 15(a) of Agenda Paper 6F). Users of financial statements said they observed few material adjustments on transition, saying that the implementation of IFRS 15 had most effect on disclosures provided by entities.
14. Most feedback received during phase 1 outreach related to application matters. Many stakeholders observed that although the initial application of the Standard was challenging, for most matters entities have now developed accounting policies that work well in practice. Those stakeholders noted that any further changes to the Standard would require entities to review their existing accounting policies. Therefore, they cautioned the IASB against making any fundamental changes to the Standard that could result in further disruption.
15. Generally, stakeholders suggested the IASB should resolve the remaining application matters (summarised in Agenda Papers 6C–6E) by providing targeted clarifications or additional application guidance or illustrative examples. A few stakeholders also suggested:
 - (a) incorporating in IFRS 15 some of the guidance developed since issuing the Standard, for example, some of the guidance from the Transition Resource Group discussions and the IFRS Interpretations Committee agenda decisions. These stakeholders said that this guidance can be useful in making judgements but may be overlooked by preparers or be difficult to find.

- (b) considering whether to incorporate in IFRS 15 some of the clarifications provided by the FASB in Topic 606 (see Appendix A of Agenda Paper 6A).

Understandability

16. Some stakeholders, including preparers and accounting firms, observed that implementing IFRS 15 was a significant learning experience for all stakeholders. Some of them said that the language in the Standard is quite technical, so it took time to understand the concepts and the terminology. Most entities said they had to turn to accounting firms for advice on developing accounting policies. Therefore, a few stakeholders suggested that the Standard may be too complex to apply for smaller entities or for entities in emerging economies.
17. A few preparers suggested that IFRS 15 could include more tables, flowcharts or decision trees to support entities in making judgements. For example, a few stakeholders suggested that it would have been helpful to link the guidance in the Standard to the five steps of the revenue recognition model and to explain the interaction between the guidance on various steps.

Costs and benefits of implementing and applying IFRS 15

18. Phase 1 feedback suggests that the cost and effort incurred by entities on transition varied depending on the industry, the nature of the entity's contracts, its previously applied judgements and previously used accounting system:
 - (a) most entities reported that transition was challenging and costly. Transition was particularly challenging for entities with long-term or complex contracts as well as for entities with numerous contracts with customers. The costs incurred on transition included:
 - (i) staff training and hiring extra staff.
 - (ii) reviewing contracts and re-assessing and documenting related accounting policies. A few stakeholders said that some entities started using more standardised contracts as a result of applying IFRS 15 and

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- some entities adjusted their contracts to achieve or retain a particular accounting outcome, for example, over time revenue recognition.
- (iii) changing or updating accounting processes and systems. Although costly, a few preparers said that IFRS 15 provided a business case for updating technology which already needed replacing.
 - (iv) consulting costs.
 - (v) explaining resulting changes to management, auditors and users of financial statements.
- (b) other entities said the transition went smoothly and although it required a review of accounting policies, many of them remained the same and the transition did not cause significant costs.
19. A few preparers reported that the costs of implementing some specific requirements exceeded their expectations, for example, the costs of estimating variable consideration or identifying performance obligations for goods or services that ultimately were assessed as immaterial in the context of a contract.
20. A few preparers said the transition to three major new Standards (IFRS 9 *Financial Instruments*, IFRS 15 and IFRS 16 *Leases*) was extremely challenging and asked the IASB to avoid setting close effective dates for major Standards.
21. Most stakeholders said that incremental costs decreased over time. Ongoing application costs relate mostly to keeping the staff trained and to assessing how to account for new business developments. A few preparers reported ongoing application costs related to maintaining systems (including manual adjustments) for providing some of the required disclosures and processing contract modifications.
22. Auditors said a lot of effort was required on transition because it involved reviewing entities' contracts and documenting updated accounting policies. Some incremental effort is also ongoing due to significant judgement required in applying some aspects of the Standard.

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23. Users of financial statements did not report any significant costs related to modifying their processes or analyses on implementing IFRS 15.
24. Paragraphs 10–12 discuss the benefits resulting from introducing a comprehensive revenue recognition framework. Some stakeholders indicated additional benefits of IFRS 15 implementation, including:
- (a) better knowledge of contracts and improved internal controls;
 - (b) enhanced interaction between accounting and business functions;
 - (c) better understanding of the business and revenue drivers both within an entity and by auditors and users;
 - (d) an opportunity to better understand financial performance of competitors; and
 - (e) a common language for discussing revenue accounting decisions and a better understanding within businesses of a need to consider—and if necessary to discuss in advance—accounting consequences of new types of contracts.
25. A few national standard-setters said that some jurisdictions developed local revenue requirements based on IFRS 15, and some adopted a step-based approach for other local standards.
26. Overall, most stakeholders expressed a view that the benefits of IFRS 15 outweigh the costs of implementing and applying the Standard. A few national standard-setters reported that local studies suggested that the effects of the Standard were in line with the IASB’s expectations. However, a few preparers questioned the cost-benefit of the Standard:
- (a) a few entities expressed a view that the minor effect of the Standard on revenue for many entities did not justify the extensive implementation efforts. A national standard-setter asked whether, in developing future IFRS Accounting Standards, the IASB could do more to alleviate the transition effort for least-affected entities.

- (b) a few entities from the telecommunications industry argued that the costs of implementing and applying the Standard continue to be high while the resulting information is not perceived to be useful to users of financial statements who ask for alternative non-GAAP performance measures, such as customer acquisition cost or average revenue per user.

Staff analysis and recommendations

27. We are encouraged that initial feedback appears to indicate that the requirements of IFRS 15 are generally working as intended.
28. As set out in the [description of a PIR](#), the IASB has to assess whether there are any fundamental questions about the clarity and suitability of the objective or core principles of a Standard and to conclude whether overall the requirements in the Standard are working as intended. We think getting broader feedback for this assessment in the PIR of IFRS 15 would be helpful. Therefore, the staff recommend the IASB ask in the RFI whether the overall objective of IFRS 15 is being met and whether the core principle of the Standard and the supporting five-step revenue recognition model are clear and suitable for making revenue accounting decisions.
29. The staff acknowledge stakeholders' concerns about the understandability of the Standard, especially for smaller entities and entities in emerging economies. However, we also note that most entities have been applying IFRS 15 for an extended period. Phase 1 feedback suggests that most implementation challenges have now been overcome, practice has developed and the guidance in the Standard is generally well understood. Therefore, the benefit of any changes to IFRS 15 intended to improve its understandability may not exceed the costs and potential disruption that would arise from those changes. For example, changes to the structure and language of an established Standard intended to make it simpler and clearer could lead to unintended consequences with some stakeholders misinterpreting those changes as amending the substance of the requirements.

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30. However, a PIR is not limited to assessing the effects of a specific Standard, it is also a learning experience for the IASB that could help identify possible improvements to the standard-setting process. In addition, the staff note the IASB's commitment to improving the understandability and accessibility of its Accounting Standards expressed in the IASB [Third Agenda Consultation](#). Therefore, the staff recommend asking in the RFI whether respondents have any suggestions for:
- (a) specific narrow-scope improvements that could improve the understandability of IFRS 15 without causing substantial cost and disruption to entities already applying the Standard; and
 - (b) lessons learned from the implementation of IFRS 15 that the IASB could consider in improving the understandability and accessibility of its future Standards.
31. We also note some concerns expressed by stakeholders that relate to ongoing costs of applying some of the IFRS 15 requirements. As noted in paragraph 7 of Agenda Paper 6A, to determine whether to take any action on matters identified in the PIR the IASB will need to consider whether the benefits and the costs of applying the requirements significantly differ from those expected when the IASB issued the requirements. Therefore, the staff recommend including in the RFI a question on ongoing costs and benefits of applying the requirements in IFRS 15.

Convergence between IFRS 15 and Topic 606

Background

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| <p>32. IFRS 15 is substantially converged with the FASB's Topic 606. Appendix A of Agenda Paper 6A <i>Background</i> provides more information on the differences between the standards.</p> |
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Overview of feedback

33. In phase 1 outreach many stakeholders commented on the importance of convergence with Topic 606:
- (a) many of them, including many users of financial statements and some standard-setters, preparers and regulators, stressed the importance of convergence between IFRS 15 and Topic 606. This was particularly important for stakeholders from the US and Canada, for entities operating worldwide and for entities operating in fields with many US competitors. Those stakeholders highlighted that convergence was difficult to achieve and argued that any decrease in the level of convergence would come at a cost to global capital markets.
 - (b) some stakeholders said that convergence is important but should not be an aim or priority in itself. For example, convergence considerations should not stop the IASB from amending IFRS 15 if the amendment would significantly improve consistency of application and the usefulness of resulting information.
 - (c) a few stakeholders, mostly preparers representing entities with simpler business models or having little interaction with entities applying US GAAP, said that they would not be concerned if IFRS 15 diverged from Topic 606.
34. Many stakeholders called for cooperation between the IASB and the FASB if either board decides to make significant changes to their respective standards.
35. Other comments related to convergence included:
- (a) a few stakeholders suggested the IASB consider including in IFRS 15 some of the clarifications the FASB made to Topic 606 (specific suggestions are covered in Agenda Papers 6C–6D);
 - (b) a few stakeholders said that in some areas the FASB provided more guidance than the IASB and asked whether that guidance could be applied by entities preparing financial statements applying IFRS Accounting Standards.

Staff analysis and recommendations

36. Improving the comparability of revenue recognition across entities, industries and capital markets was an important aim of the IASB's and FASB's joint project to clarify the principles for recognising revenue.
37. We are encouraged by phase 1 outreach feedback indicating that stakeholders report improved comparability of revenue information, especially between entities applying IFRS Accounting Standards and US GAAP. We also note the feedback in paragraph 3333 that convergence remains important for many stakeholders, including users of financial statements, although some stakeholders see retaining the current level of convergence as beneficial rather than essential.
38. When deciding whether to take any action on its PIR findings, the IASB will need to consider the effects of any actions on convergence. To help the IASB in this consideration, the staff suggest including in the RFI a question about the importance of retaining convergence between IFRS 15 and Topic 606.