Staff paper

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IASB® meeting

Date	**March 2023**
Project	**Post-implementation Review of IFRS 15**
Topic	**Analysis of outreach feedback—Interaction with other IFRS Accounting Standards**
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Purpose and structure

1. This paper is the last of four papers analysing feedback from phase 1 outreach on the post-implementation review (PIR) of IFRS 15 *Revenue from Contracts with Customers*. This paper summarises feedback on the interaction between IFRS 15 and other IFRS Accounting Standards:

   (a) IFRS 3 *Business Combinations* (paragraphs 9–12);

   (b) IFRS 9 *Financial Instruments* (paragraphs 13–34);

   (c) IFRS 10 *Consolidated Financial Statements* (paragraphs 35–39);

   (d) IFRS 11 *Joint Arrangements* (paragraphs 40–43);

   (e) IFRS 16 *Leases* (paragraphs 44–46);

   (f) IFRIC 12 *Service Concession Arrangements* (paragraphs 47–49); and

   (g) other IFRS Accounting Standards (paragraphs 50–51).

2. For each area, this paper provides staff analysis and recommendations on whether to cover this area in the request for information (RFI) and if so, which matters to ask questions about. The areas not covered by specific questions in the RFI will be covered by a general catch-all question.

Summary of staff recommendations

3. The staff recommend the IASB ask a question in the RFI about the interaction between IFRS 15 and other IFRS Accounting Standards focusing on:

   (a) *IFRS 9*:

      (i) differentiating between a price concession and impairment losses; and

      (ii) circumstances in which entities are unclear about accounting for liabilities arising from IFRS 15;

   (b) *IFRS 10*:

      (i) accounting for the sale of assets via corporate wrappers; and

   (c) *IFRS 16*:

      (i) circumstances in which entities are unclear about applying the requirements in IFRS 15 together with IFRS 16.

Questions for the IASB

Questions for the IASB
1. Do IASB members agree with the staff recommendation in paragraph 3 of this paper? 2. Are there any additional matters relating to the interaction between IFRS 15 and other IFRS Accounting Standards that the IASB should ask questions about in the request for information?

Introduction

4. IFRS 15 requires an entity to apply the Standard to all contracts with customers, except the following:

   (a) lease contracts within the scope of IFRS 16;

(b) contracts within the scope of IFRS 17 *Insurance Contracts*. However, an entity may choose to apply IFRS 15 to insurance contracts that have as their primary purpose the provision of services for a fixed fee.

(c) financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.[1]

5. IFRS 15 also sets out requirements for contracts that are partially within the scope of IFRS 15 and partially within the scope of the other IFRS Accounting Standards listed in paragraph 4:

(a) If the other Standards specify how to separate and/or initially measure one or more parts of the contract, then an entity should first apply the separation and/or measurement requirements in those Standards.

(b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity should apply IFRS 15 to separate and/or initially measure the part (or parts) of the contract.

6. In phase 1 outreach we received a lot of feedback on the interaction between IFRS 15 and other IFRS Accounting Standards. Stakeholders reported challenges, diversity in practice and potentially inappropriate accounting outcomes stemming from the interaction between IFRS 15 and other Standards.

7. The questions raised by stakeholders may affect the amounts of revenue recognised by entities. The staff think it would be helpful to gather further information on the circumstances in which entities face challenges stemming from the interaction between IFRS 15 and other IFRS Accounting Standards. This could help the IASB

[1] See paragraph 5 of IFRS 15.

assess the prevalence of these matters, whether there is any diversity in practice, and the effects of any diversity.

8. Paragraphs 9–51 describe matters raised by stakeholders in relation to particular Standards and discuss whether to ask specific questions on those matters in the RFI.

IFRS 3

Overview of feedback

9. A few accounting firms and national standard-setters suggested that the difference between the measurement principles in IFRS 3 (based on fair value) and those in IFRS 15 (based on the transaction price) may create difficulties when measuring contract assets and contract liabilities as part of a business combination.

10. Stakeholders suggested the IASB should resolve the difference between the requirements. One stakeholder suggested the IASB consider the changes the FASB made to its Topic 805 *Business Combinations* in October 2021. The changes require an entity to apply Topic 606 *Revenue from Contracts with Customers* to measure contract assets acquired and contract liabilities assumed in a business combination.

Staff analysis and recommendations

11. The staff notes that:

    (a) in the Report and Feedback Statement on the PIR of IFRS 3, published in 2015, the IASB acknowledged respondent's concerns related to fair value adjustments made to assets acquired and liabilities assumed in a business combination but concluded that fair value remains the best approach for measuring the assets acquired and the liabilities assumed in a business combination.

(b) A few respondents to the IASB Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* suggested that the IASB should reconsider the requirement in IFRS 3 to measure all assets acquired and liabilities assumed in a business combination at their acquisition date fair values. The IASB discussed the issue in December 2022 (see Agenda Paper 18D *Goodwill and Impairment—Other topics*). The IASB decided not to consider this issue in the Goodwill and Impairment project.

12. The phase 1 feedback does not indicate that this matter is pervasive or that the difference in requirements between IFRS 15 and IFRS 3 creates significant issues for users of financial statements. Given this and the IASB's earlier decisions on this matter, the staff do not recommend including in the RFI a specific question on this matter.

IFRS 9

Overview of feedback

13. Some stakeholders asked for clarifications on the interaction between IFRS 15 and IFRS 9 and gave various examples of challenging matters. Paragraphs 16–19 describe matters that were more commonly raised by stakeholders.

Price concession versus impairment losses

14. A few stakeholders, mostly preparers, said there is lack of clarity on which Standard to apply when a customer's financial position deteriorates and the entity agrees to accept lower consideration from the customer. Should this be accounted for:

(a) as a contract modification under IFRS 15 with the reduction in price being treated as a price concession that would reduce revenue; or

(b) as impairment of receivables under IFRS 9?

15. Feedback received suggests that entities are more likely to account for a price concession and reduce revenue, especially if an entity intends to continue trading with the customer. However, feedback suggests there may be diversity in practice.

Significant financing component

16. A few preparers from the telecommunications industry expressed concerns about possible double-counting of credit losses that in their view results from the interaction between:

    (a) the discounting requirements for a significant financing component in IFRS 15; and

    (b) the requirements for recognising a loss allowance for expected credit losses for trade receivables or contract assets containing a significant financing component in IFRS 9.

17. For example, preparers said that such a situation may arise when they sell a handset together with services in a one- or two-year contract with monthly instalments.

Move from a contract asset to a receivable

18. A few accounting firms asked for more guidance on accounting for value adjustments when contract assets move to receivables. For example, they said such value adjustments may arise when a contract asset with a significant financing component becomes a receivable and there has been a significant change in interest rates since contract inception.

Liabilities arising from IFRS 15

19. A few stakeholders said that in some cases it is unclear how to account for liabilities arising from IFRS 15 and asked whether they should be treated as financial liabilities, for example:

    (a) a refund liability arising from a sale with a right of return;

(b) a liability arising when an entity sells gift cards that give the customer a right to choose a supplier, including the entity; and

(c) liabilities arising from some Islamic finance arrangements.

Staff analysis and recommendations

Price concession versus impairment losses

20. In developing IFRS 15 and Topic 606, the IASB and FASB (boards) observed that in some cases it may be difficult to determine whether the entity has implicitly offered a price concession or whether the entity has chosen to accept the risk of default by the customer. The boards noted that an entity should use judgement and consider all relevant facts and circumstances in making that determination. The boards observed that this judgement was being applied under previous revenue recognition requirements. Consequently, the boards decided not to develop detailed requirements for differentiating between a price concession and impairment losses.[2]

21. The feedback reported in paragraphs 14–15 suggests that some entities struggle with applying judgement and there may be diversity in practice which could affect revenue included in financial statements. In our view, gathering further information on circumstances in which entities struggle to apply the requirements would help the IASB assess whether the requirements are working as intended. In particular, further information could help assess the cause of any diversity, the prevalence of any diversity, and the effects of any diversity on the entities' financial statements. Therefore, the staff recommend including in the RFI a question on this matter.

22. We note that at its February 2023 meeting the IASB decided to include in the request for information to be published for the PIR of the impairment requirements in IFRS 9 a question on the interaction with IFRS 15. We will work with the IFRS 9 PIR team on analysis of any feedback received on the interaction.

[2] See paragraph BC194 of the Basis for Conclusions on IFRS 15.

Significant financing component

23. IFRS 15 requires an entity to adjust the promised amount of consideration for the effects of a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would *reflect the credit characteristics* of the party receiving financing in the contract, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract.[3]

24. IFRS 9 allows an entity to select an accounting policy for measuring a loss allowance for trade receivables or contract assets that contain a significant financing component at either an amount equal to lifetime expected credit losses or at an amount equal to 12-month expected credit losses.[4]

25. The matter mentioned in paragraph 16 describes stakeholders' view that determining a discount rate that 'reflects the credit characteristics' of the customer under IFRS 15 and recognising expected credit losses for the related trade receivables applying IFRS 9 may somehow result in double counting for the effect of credit risk.

26. In our view, the discount rate determined applying paragraph 64 of IFRS 15 does not consider expected credit losses measured in accordance with IFRS 9. In other words, that discount rate is not a credit-adjusted effective interest rate as defined in Appendix A of IFRS 9. Therefore, we would not expect the requirements in IFRS 15 and IFRS 9 to lead to double counting for the effect of credit risk for receivables with a significant financing component. Given that this matter was raised by few stakeholders, the staff recommend not including in the RFI a question on this matter.

Move from a contract asset to a receivable

27. Paragraph 108 of IFRS 15 states that upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable

[3] See paragraph 64 of IFRS 15.

[4] See paragraph 5.5.15 of IFRS 9.

in accordance with IFRS 9 and the corresponding amount of revenue recognised should be recognised as an expense (for example, as an impairment loss).

28. The staff note that the feedback reported in paragraph 18 relates to narrow fact patterns and there is no indication that there is a significant matter with applying the principle described in paragraph 27. Therefore, the staff recommend not including in the RFI a question on this matter.

Liabilities arising from IFRS 15

29. As noted in paragraph 4(c), IFRS 15 states that the Standard does not apply to financial instruments and other contractual obligations within the scope of IFRS 9.[5]

30. IFRS 15 does not define financial assets or financial liabilities—the definition of a financial liability is provided in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. Entities would need to apply IAS 32 to determine whether a liability is a financial liability, so the staff think the PIR of IFRS 15 is not the project to address questions related to the definition of a financial liability.

31. However, phase 1 feedback suggests that in some cases it may be unclear how to account for some liabilities arising from IFRS 15.

32. The staff note that IFRS 15:

(a) sets out requirements for accounting for some types of liabilities, for example, for refund liabilities.[6]

(b) specifies two cases (both relate to repurchase agreements) in which financial liabilities arising under IFRS 15 should be accounted for under IFRS 9.[7]

33. However, entities may be unclear about how to account for other liabilities arising from IFRS 15, especially if those liabilities resemble financial liabilities in substance.

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[5] See paragraph 5 of IFRS 15.

[6] See paragraphs 55 and B20–B27 of IFRS 15.

[7] See paragraphs B66, B68 and B70 of IFRS 15.

34. The staff think it would be helpful to gather further information about circumstances in which entities are unclear about the requirements that should be applied to liabilities arising from IFRS 15. This could help the IASB assess how prevalent the issues are, whether there is any diversity in practice, and the effects of any diversity. Therefore, the staff recommend including in the RFI a question related to accounting for liabilities arising from IFRS 15.

IFRS 10

Overview of feedback

35. The interaction between IFRS 10 and IFRS 15 was the most commonly raised matter on the interaction with other IFRS Accounting Standards.

36. Many accounting firms, national standard-setters and some regulators raised a so-called 'corporate wrapper' matter. They said that views vary on whether IFRS 15 or IFRS 10 should be applied to account for a transaction in which an entity, as part of its ordinary activities, sells an asset by selling its equity interest in a single asset entity that is a subsidiary. The stakeholders said that such transactions are common in the real estate, renewable energy and utilities industries.

37. Some stakeholders suggested the IASB should consider making the clarification made by the FASB, requiring an entity to consider the substance of a transaction on the derecognition of a subsidiary (see item 15 in Appendix A of Agenda Paper 6A).

Staff analysis and recommendations

38. The staff note that:

    (a) contractual rights and obligations that are within the scope of IFRS 10 are excluded from the scope of IFRS 15.[8]

[8] See paragraph 5(c) of IFRS 15.

(b) in 2019 and 2020, the IASB discussed a question submitted to the IFRS Interpretations Committee about a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a single-asset entity that is a subsidiary. After considering whether to add a narrow-scope project to the work plan on the topic, the IASB decided at that time not to do so.

(c) the corporate wrapper matter was considered as part of the PIR of IFRS 10, IFRS 11 and IFRS 12 *Disclosure of Interests in Other Entities*. In that PIR the IASB:

   (i) was concerned it might be unable to successfully resolve this matter within the scope of IFRS 10, particularly as the matter extends beyond the scope of the PIR of IFRS 10 and may also affect other Standards, such as IFRS 15; and

   (ii) assessed the matter to be of low priority and said it would be explored if identified as a priority in the next agenda consultation.

(d) only a few respondents suggested developing requirements on the sale of assets via corporate wrappers in the Third Agenda Consultation, so the matter did not meet the criteria for adding a project to the work plan.

39. As mentioned in paragraphs 36–37, this matter was commonly raised in the PIR of IFRS 15 with some stakeholders highlighting the difference in how the matter is treated under IFRS Accounting Standards and US GAAP. Given that this matter continues to cause challenges for preparers, we think it could be helpful to gather further information on the prevalence of the matter. In particular, we think it would be useful to gather more information from users of financial statements to understand whether the matter creates difficulties for their analysis. Therefore, the staff recommend including in the RFI a question on this matter.

IFRS 11

Overview of feedback

40. Many accounting firms, some national standard-setters and a few preparers raised questions related to the interaction between IFRS 15 and IFRS 11, including:

    (a) how to determine what is a collaborative arrangement and how to distinguish it from a supplier-customer relationship.

    (b) how to recognise revenue when no joint control is established and when neither party is seen as a customer. Some stakeholders suggested there may be diversity in practice related to this matter.

    (c) whether companies from the same group can have a customer-supplier relationship.

41. Stakeholders asked for more guidance on these questions. Some stakeholders mentioned that US GAAP provides guidance on collaborative arrangements in Topic 808 *Collaborative arrangements* and asked whether that guidance could be applied by preparers applying IFRS Accounting Standards.

Staff analysis and recommendations

42. The staff note that a question about accounting for collaborative arrangements that are outside the scope of IFRS 11 came up in the PIR of IFRS 11. The Feedback Statement on the PIR of IFRS 10, IFRS 11 and IFRS 12 states that:

    (a) the IASB noted that collaborative arrangements are only common in some industries.

    (b) if identified as a priority in the next agenda consultation, the IASB could research whether there is a group of collaborative arrangements outside the scope of IFRS 11, with common features. If there is a homogenous group of collaborative arrangements, the IASB could assess whether IFRS Accounting

Standards provide guidance for those arrangement and if standard-setting is needed.

43. The PIR of IFRS 10, IFRS 11 and IFRS 12 was running concurrently with the Third Agenda Consultation, so the matter was not included in the Third Agenda Consultation. Therefore, the staff think that this matter could be considered in the next Agenda Consultation rather than in the PIR of IFRS 15 and recommend not including in the RFI a question on this matter.

IFRS 16

Overview of feedback

44. Some stakeholders, mostly accounting firms and preparers, raised some matters related to the interaction between IFRS 15 and IFRS 16.

45. The most common matter relates to accounting for a contract that includes a service component and a lease component. Such contracts are common in the real estate industry. Issues identified include:

    (a) potentially identifying different terms for the components because of the differences between the requirements of IFRS 15 and IFRS 16 on determining the contract/lease term;

    (b) difficulties in allocating the transaction price to the components that may arise because of the differences between the guidance on transaction price in IFRS 15 and the measurement requirements in IFRS 16; and

    (c) the usefulness to users of financial statements of the information resulting from splitting the components. A few preparers suggested that users tend to look at revenue from such transactions in aggregate.

Staff analysis and recommendations

46. The staff think that it would be helpful to gather further information on the circumstances in which entities are unclear about applying the requirements in IFRS 15 together with IFRS 16 to help the IASB assess whether the requirements are working as intended. The staff will also pass on this information to the PIR of IFRS 16 team once the IASB decides to start that project. Therefore, the staff recommend including in the RFI a question on the interaction between IFRS 15 and IFRS 16.

IFRIC 12

Overview of feedback

47. Some accounting firms commented on the interaction between IFRS 15 and IFRIC 12, including:

    (a) difficulty in determining the timing of transition from a contract asset under IFRS 15 to a financial or intangible asset under IFRIC 12, with stakeholders saying that there is diversity in practice.

    (b) a question whether it might be more appropriate to account for an obligation to restore or maintain an asset on behalf of the grantor as a provision of services under IFRS 15 rather than in accordance with IAS 37.

48. One entity that has multiple concession agreements did not report any issues arising from the interaction from IFRS 15 and IFRIC 12.

Staff analysis and recommendations

49. We received relatively little feedback on the interaction between IFRS 15 and IFRIC 12 and IFRIC 12 affects a relatively narrow population of entities. For this

reason, the staff recommend not including in the RFI a question on the interaction between IFRS 15 and IFRIC 12.

Other IFRS Accounting Standards

50. A few respondents raised questions about the interaction between IFRS 15 and IFRS 17 *Insurance Contracts*, including on determining whether some contracts with warranties should be accounted under IFRS 15 or IFRS 17. IFRS 17 has been effective since 1 January 2023, so the Standard has not been applied for long enough for practice to develop. Therefore, the staff recommend not including in the RFI of IFRS 15 a specific question on the interaction between IFRS 15 and IFRS 17. If needed, this matter can be examined in the PIR of IFRS 17.

51. A few respondents also raised some narrow points on the interaction between IFRS 15 and some other Standards, including IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IAS 32, IAS 34 *Interim Financial Statements* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Given that there was very little feedback on these points, the staff recommend not including in the RFI specific questions on the interaction between IFRS 15 and those IFRS Accounting Standards.