Staff paper

Agenda reference: 6A

IASB® meeting

Date	**January 2024**
Project	**Post-implementation Review of IFRS 15**
Topic	**Feedback summary—IFRS 15 requirements**
Contacts	Rashida Abdryashitova (rabdryashitova@ifrs.org) Megumi Makino (megumi.makino@ifrs.org) Jelena Voilo (jvoilo@ifrs.org) Rachel Knubley (rknubley@ifrs.org)

Introduction

1. The comment period for Request for Information: *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers (the RFI) ended 27 October 2023. This paper summarises the feedback on questions 1–8 and 10–11 of the RFI. Agenda Paper 6B summarises the feedback on question 9 *Applying IFRS 15 with other IFRS Accounting Standards*.

Structure of the paper

Overall assessment of IFRS 15

IFRS 15 requirements

IFRS 15 was developed jointly with the US Financial Accounting Standards Board (FASB) to improve the accounting for revenue arising from contracts with customers.

IFRS 15's objective is to establish the principles that an entity applies 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.

To meet the objective, the Standard:

(a) establishes a core principle for revenue recognition—an entity recognises 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;[1] and

(b) introduces a five-step model to support the core principle.

2. In the RFI, the IASB asked stakeholders for feedback on:

(a) the objective of IFRS 15, its core principle and the five-step revenue recognition model;

(b) understandability and accessibility of the requirements in the Standard; and

(c) the ongoing costs and benefits of applying IFRS 15.

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

3. Respondents' overall assessment of IFRS 15 was very positive. Almost all respondents said IFRS 15 has achieved its objective and is working well. The five-step model is generally seen as a suitable basis for analysing revenue contracts of varying complexity across a wide range of industries and business models. Respondents raised no fundamental questions about the objective and the core principle of the Standard, though most respondents said that some application

[1] See paragraph 2 of IFRS 15.

challenges remain.[2] A few respondents said that IFRS 15 is a significant improvement on the previous limited revenue recognition requirements.

4. Many respondents—and almost all users of financial statements in outreach meetings—said that IFRS 15 has improved the usefulness of revenue information, including its comparability among entities within the same industry, among industries and among entities in various capital markets. Many stakeholders attributed some of these improvements to the significant level of convergence between the IASB and FASB requirements (see paragraphs 88–89). However, some respondents said entities need to use significant judgement in applying the requirements in IFRS 15 to complex fact patterns, which in some cases leads to inconsistent outcomes among entities.

5. Most of the feedback in response to the RFI related to application matters. Respondents most commonly reported application matters in relation to the guidance on principal versus agent considerations, identifying performance obligations and licensing. Many respondents observed that although applying IFRS 15 was initially challenging, entities have now developed accounting policies. For most of the remaining challenges, respondents asked the IASB to consider providing application guidance, illustrative examples and/or educational materials. Some respondents cautioned the IASB against making significant changes to IFRS 15 that would result in further disruption.

Understandability and accessibility

6. Some respondents (mostly standard-setters) said that the Standard is well-structured and understandable and the supporting application guidance and illustrative examples have helped entities in making judgements. A few respondents highlighted that

[2] A few respondents described their concerns as fundamental. However, those concerns were about specific aspects of the model rather than the objective or the core principle (for example, see paragraph 38(a)).

Transition Resource Group (TRG) discussions were very useful in supporting the implementation of the Standard.[3]

7. Some respondents observed that implementing IFRS 15 involved a significant learning process for entities. Entities took time to understand the concepts and terminology, often turning to accounting firms for advice on developing accounting policies. A few respondents (mostly accounting firms and standard-setters from Asia-Oceania and Latin America) said that application of the Standard continues to be challenging for some, and suggested that the Standard might be too complex to apply for smaller entities.

8. In addition to requests to provide application guidance, illustrative examples and/or educational materials on specific topics (that are covered in later sections of this paper), a few respondents made other suggestions for improving understandability and accessibility of IFRS 15. These suggestions included:

   (a) introducing the five-step model in the Standard itself or explaining—for example, in educational materials—the links between the steps of the model and the requirements in the Standard that follow the IASB's traditional Standard structure (ie scope, recognition, measurement, etc).

   (b) incorporating in IFRS 15 some of the guidance from the Basis for Conclusions, the TRG discussions and the IFRS Interpretations Committee (the Committee) agenda decisions or making such guidance more accessible on the IFRS Foundation website, including in the Standards Navigator. These respondents said that the guidance may be overlooked by preparers or be difficult to find. The staff will include respondents' specific suggestions on the guidance to incorporate in the Standard in future papers on specific topics.

   (c) simplifying some of the language in the Standard. We will include respondents' specific suggestions in future papers.

[3] The IASB and FASB's joint Transition Resource Group was formed to support the implementation of IFRS 15 and FASB ASC Topic 606, Revenue from Contracts with Customers and discussed potential implementation issues submitted by stakeholders.

9. Some respondents (mainly standard-setters and accounting firms) made suggestions for the IASB to consider in developing future Standards, including:

   (a) continuing providing educational materials, including webinars, to help stakeholders understand new requirements;

   (b) setting up transition resource groups for all newly issued major Standards and making their materials easily accessible for future reference;

   (c) using simple language that can be easily understood and translated, for example, avoiding technical jargon and negative expressions;

   (d) clearly identifying the core principles to ensure consistency of application;

   (e) providing flowcharts to help stakeholders navigate the core principles and application guidance; and

   (f) conducting robust field-testing and assessing whether it would be possible to update entities' finance systems or whether manual calculations would be needed to meet the new requirements as part of effective cost-benefit analysis (see also paragraph 87).

Costs and benefits

10. Most respondents said that transition to IFRS 15 was challenging and costly, particularly for some industries such as telecommunications, construction and software. A few preparers said that transition went smoothly and the costs were in line with their expectations.

11. Respondents reported that for most entities incremental costs decreased over time and are now at an acceptable level. Respondents said ongoing costs relate mainly to assessing new contracts and contract modifications (which may sometimes require expert advice), ongoing employee training and maintaining systems (including manual adjustments) for complying with the requirements. A few standard-setters and accounting bodies said that ongoing costs vary depending on the volume, diversity

and complexity of an entity's contracts and costs remain significant in some industries, for example, telecommunications.

12. Paragraph 4 discusses the benefits from introducing a comprehensive revenue recognition framework. Some respondents mentioned additional benefits of IFRS 15 implementation, such as:

    (a) better knowledge of contracts and improved internal processes and controls;

    (b) greater collaboration between accounting and business functions;

    (c) better understanding of the business both within an entity and by auditors and users; and

    (d) implementation of IFRS 15 driving further investment in other areas and bringing additional benefits beyond accounting.

13. Overall, most respondents expressed a view that the benefits of IFRS 15 outweigh the costs of implementing and applying the Standard. However, a few standard-setters from Asia and Latin America questioned the cost-benefit of the Standard for entities whose financial statements were least affected by the Standard.

Identifying performance obligations in a contract

IFRS 15 requirements

A performance obligation is a promise in a contract with a customer to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

An entity determines whether a good or service is distinct by considering:

(a) whether the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer; and

(b)	whether the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (the promise to transfer the good or service is distinct within the context of the contract).[4]

14. Most respondents commented on the requirements for identifying performance obligations. Many respondents (mostly standard-setters, accounting bodies and accounting firms) said that IFRS 15 provides a clear and sufficient basis to identify performance obligations for most contracts. Some of these respondents specifically commented that they have identified no significant matters related to this topic to raise in this post-implementation review (PIR). Many other respondents (mostly standard-setters, accounting bodies and accounting firms) said that even though the requirements are generally clear, application in practice is challenging for some transactions (see paragraph 16). A few respondents (mostly standard-setters) highlighted 'identifying performance obligations' among the major application matters.

15. Those respondents who reported application challenges often linked those challenges to the complexity of underlying arrangements, offerings and business models. This complexity requires preparers to undertake extensive analysis and make significant judgements. Some respondents (mostly standard-setters and accounting bodies) said that the large degree of judgement involved in identifying performance obligations in such cases could result in diversity in practice or gave examples of situations with inconsistent outcomes between entities.

16. Most of the identified challenges are related to assessing the criteria for determining whether a good or service is distinct. These challenges were most commonly reported in:

    (a) identifying performance obligations in bundled arrangements combining licences with other goods or services, such as software as a service (SaaS)

[4] See paragraphs 22 and 27 of IFRS 15.

arrangements and system integration services in the software and information technology industry (see also paragraphs 70–72);

(b) distinguishing promises to transfer goods or services from activities that do not transfer a good or service to the customer, for example, in arrangements that include set-up activities, marketing incentives or provision of prototypes or designs;

(c) determining whether non-refundable upfront fees charged to customers, such as payments for distribution rights in the biotech industry or activation fees in the telecommunications industry, relate to a transfer of a separate promise; and

(d) identifying performance obligations in arrangements involving multiple parties (see also paragraph 63).

17. To help entities make judgements in identifying performance obligations, respondents suggested that the IASB:

(a) provide additional illustrative examples and/or application guidance for identified challenging fact patterns.

(b) incorporate in the Standard some of the observations related to identifying performance obligations from the Basis for Conclusions, the Committee agenda decisions or the TRG discussions. For example, respondents mentioned as useful the discussion on 'separable risks' and 'transformative relationship' in paragraphs BC105 and BC116K of the Basis for Conclusions and in the Committee March 2018 agenda decision *Revenue recognition in a real estate contract that includes the transfer of land.*

18. A few respondents (mostly standard-setters) said it can be challenging to determine whether shipping constitutes a separate performance obligation or a fulfilment activity. A few of these respondents expressed a view that separating shipping as a separate performance obligation and allocating revenue to it does not reflect the economic substance and business model of some entities because they provide transportation service to support the sale of goods. A few respondents suggested the

IASB consider including in IFRS 15 the changes the FASB made to FASB ASC Topic 606, Revenue from Contracts with Customers, which allow an entity to make an accounting policy election to account for shipping and handling activities that occur after the customer obtains control of a good as a fulfilment activity.[5]

19. In outreach meetings and comment letters, some users said there are no significant issues with information provided by entities in relation to identifying performance obligations. A few users said information about an entity's performance obligations helps them understand the entity's business and drivers of revenue. However, a few users said that some entities provide insufficient information for users to understand the entities' judgements and why some entities within the same industry, especially in software, show different performance obligations.

Determining the transaction price

IFRS 15 requirements

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).[6]

IFRS 15 provides specific requirements for determining the transaction price if consideration includes a variable amount, a significant financing component or any consideration payable to a customer.

Variable consideration is estimated using either the expected value or the most likely amount method. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.[7]

[5] The FASB amended FASB ASC Topic 606 to include the accounting policy election as part of FASB ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.
[6] See paragraph 47 of IFRS 15.
[7] See paragraphs 50–59 of IFRS 15.

The promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing. When adjusting the promised amount of consideration for a significant financing component, an entity uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. After contract inception, an entity does not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk).[8]

Consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment is in exchange for a distinct good or service from the customer.[9]

Non-cash consideration is measured at fair value.[10]

20. Most respondents commented on some aspects of determining the transaction price. Many respondents (mostly standard-setters and accounting bodies) said that generally IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract, but they identified some specific application matters. The RFI included an explicit question on application challenges in relation to consideration payable to a customer and most of the feedback was on this matter. In addition, respondents provided comments on:

(a) variable consideration;

(b) sales-based taxes;

(c) significant financing component; and

(d) non-cash consideration.

21. There was a small number of single comments on various other matters relating to determining the transaction price. The staff will provide an analysis of these matters in future papers.

[8] See paragraphs 60–65 of IFRS 15.
[9] See paragraphs 70–72 of IFRS 15.
[10] See paragraphs 66–69 of IFRS 15.

Consideration payable to a customer

22. Many respondents (mostly standard-setters, accounting bodies and accounting firms) commented on accounting for consideration payable to a customer, mainly focusing on the matters related to accounting for marketing incentives and 'negative' revenue that were spotlighted in the RFI. Some respondents identified matters related to accounting for consideration payable to a customer as major application matters.

Marketing incentives

23. Many of those commenting on the topic (mostly standard-setters) confirmed that entities are sometimes unsure how to account for incentives offered in multi-party arrangements when a party acting as an agent provides a marketing incentive to end customers—with some entities accounting for such incentives by reducing revenue and others treating them as marketing expenses. Most of the examples given by respondents related to discounts, bonuses, loyalty points and/or cashbacks offered by digital platform entities such as food ordering and ride hail platforms, online distributors of retail and consumer goods, online ticket resellers and fintech companies. A few respondents said that digital platforms have become more common since IFRS 15 was developed.

24. Most of those commenting on this matter asked for guidance on accounting for incentives paid by an agent to end customers, including how to determine whether an end customer is an entity's own customer and what is the nature of the entity's obligations in such arrangements.

25. A few standard-setters and accounting bodies raised the matter of accounting for marketing incentives more broadly (not just limited to accounting in multi-party arrangements). They asked for more application guidance and/or illustrative examples on determining whether to account for incentives paid to customers or customer's customers as a reduction of revenue or as marketing expenses.

26. In outreach meetings, some users of financial statements noted that there is diversity in practice in how entities present consideration payable to a customer. They said disclosures are often insufficient for users to compare margins across companies. A few users said it would be helpful if entities disclosed gross revenue, amounts of incentives deducted from revenue or recognised as expenses and judgements behind the accounting policy choices because this information helps users forecast future cash flows.

‘Negative’ revenue

27. Many respondents (mostly standard-setters) said there is diversity in accounting for consideration payable to a customer that exceeds the amount of consideration expected to be received from a customer—with some entities accounting for the excess as ‘negative’ revenue and others as an expense. Respondents said cases of ‘negative’ revenue most commonly arise when entities offer large incentives to enter new markets or pay large penalties for poor quality goods or services provided to customers. A few respondents reported that ‘negative’ revenue cases were common, especially for digital platform entities, although a few standard-setters said it is uncommon for entities in their jurisdictions to provide incentives that exceed expected consideration.

28. Those commenting on this matter asked the IASB to clarify whether revenue can be negative and to provide guidance on whether and in what circumstances an entity should reclassify ‘negative’ revenue and present it in the ‘expenses’ categories. In addition, a few respondents asked for guidance on the unit of account for assessing whether there is ‘negative’ revenue—for example, whether it should be done on a transaction basis, customer basis, or on another basis.

Other matters

29. A few respondents asked the IASB to provide guidance on other matters related to accounting for consideration payable to a customer, including:

(a) how to account for a prepayment made for consideration payable to a customer—should it be recognised as an asset, and if so, what type of an asset would it be and how should it be accounted for subsequently?

(b) how to measure equity-based consideration payable to a customer?

Variable consideration

30. Some respondents (mainly standard-setters) reported challenges related to applying the requirements on accounting for variable consideration.

31. The main reported challenges related to:

(a) estimating the amount of variable consideration in some circumstances—for example, when no historical information is available, the amount is highly uncertain, there is a need to track success over long time periods and/or when an entity has many transactions with discounts, refunds or other forms of variable consideration. A few respondents said that the high degree of judgement required to make estimates in such circumstances leads to diversity in practice.

(b) applying the requirements for constraining estimates of variable consideration. Specifically, respondents reported diversity in applying the 'highly probable that a significant reversal … will not occur' threshold—for example, in the construction, asset management and oil and gas industry. A few respondents questioned whether the constraint is working as intended because in some cases entities:

(i) make extremely conservative judgements and on initial recognition constrain the amount of variable consideration to zero—for example, when the amount of consideration is highly susceptible to factors outside the entity's control and is subject to significant outcome and measurement uncertainty; and/or

(ii) do not regularly reassess variable consideration and only update the transaction price when the uncertainty is resolved or when an invoice is issued rather than when it is highly probable that a significant reversal will not occur.

32. Most of those reporting the challenges in paragraph 31 suggested the IASB provide additional application guidance and/or illustrative examples (including industry-specific examples) to help entities apply the requirements. A few respondents asked the IASB to clarify whether applying extreme conservatism in applying the constraint is appropriate. A few respondents suggested simplifying the language used to describe the constraint.

33. A few respondents asked for more guidance on other matters, including on:

(a) choosing between 'the expected value' and 'the most likely amount' method for estimating an amount of variable consideration; and

(b) determining whether some types of charges and payments—for example, claims, penalties or loyalty points—should be included in assessing variable consideration and if so, how to account for them.

Sales-based taxes

34. Some respondents (mostly accounting firms, accounting bodies and standard-setters) said that IFRS 15 provides insufficient guidance on accounting for sales-based taxes. They expressed a view that the principal versus agent guidance which is often used to account for sales-based taxes is not suitable for determining whether an entity is responsible for paying the tax itself (and so should include the tax in the transaction price) or is collecting the tax on behalf of the tax authority (and so should exclude it from the transaction price).[11]

[11] In 2014, Transition Resource Group (TRG) discussed that an entity would apply the principal versus agent guidance by analogy when it is unclear whether the amounts are collected on behalf of third parties.

35. These respondents reported diversity in practice in accounting for sales-based taxes between entities in the same industry within the same market, for example, in relation to excise taxes on alcoholic beverages and fuel. A few respondents said that the impact on the financial statements is significant. A few respondents identified 'sales-based taxes' as a major application matter.

36. In outreach meetings, one user said that there is diversity in accounting for excise taxes in the tobacco industry—some entities present revenue gross and deduct excise taxes as an expense, while others present revenue net of excise taxes. The user did not raise significant concerns about this diversity because typically the amount of excise taxes is disclosed, enabling users to prepare their valuation models.

37. Some of those commenting on this matter suggested the IASB provide more guidance and/or illustrative examples to help entities determine whether sales-based taxes are collected on behalf of third parties. A few other respondents suggested the IASB consider the FASB's amendment to Topic 606 which allows an entity to make an accounting policy election to exclude certain taxes assessed by a government from the transaction price.[12]

Significant financing component

38. A few respondents raised concerns about paragraph 64 of IFRS 15 which requires entities to calculate a significant financing component using a discount rate determined at the inception of the contract and not to update the rate during the contract term. Specifically:

(a) a few respondents from Brazil said that in their view the discount rate should be regularly adjusted for inflation. They said the issue has become particularly important in recent years because rising inflation rates result in a significant impact on the financial statements, in particular for long-term contracts such as

[12] The FASB added paragraph 606-10-32-2A as part of FASB ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.

energy concessions which typically have 20-30-year contract terms. One accounting body called the requirement not to update the discount rate after a contract inception a fatal flaw in the Standard. The respondents suggested the IASB amend IFRS 15 to require the discount rate to be updated every reporting period for contracts with a term longer than 12 months.

(b) a few other respondents said it is unclear whether the discount rate should be updated when a contract is modified, or circumstances change after the inception of the contract. They suggested the IASB add application guidance, illustrative examples and/or undertake a narrow-scope amendment project to address situations when the timing of satisfaction of performance obligations changes either at the customer's discretion or due to circumstances which were unforeseen at contract inception.

39. A few other respondents suggested the IASB provide additional application guidance and/or illustrative examples on how to assess whether a significant financing component exists applying the criterion in paragraph 62(c) of IFRS 15. That paragraph states that a significant financing component does not exist if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. The respondents would like more clarity on what 'other' reasons might be and how to assess whether the difference is proportional to the reason.

Non-cash consideration

40. A few respondents (mainly standard-setters) suggested there is a lack of clarity on accounting for non-cash consideration (including when non-cash consideration is payable to a customer). The main issue relates to the date of measurement of non-cash consideration—with some entities measuring it at contract inception, some when the consideration is received and others when the related performance obligation is satisfied. Most of those respondents suggested the IASB consider the FASB's

amendment to Topic 606 which requires non-cash consideration to be measured at contract inception.[13]

Determining when to recognise revenue

IFRS 15 requirements

An entity recognises revenue when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of that good or service.[14]

An entity transfers control of a good or service over time and, hence, recognises revenue over time, if at least one of the following criteria in paragraph 35 of IFRS 15 is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

For performance obligations satisfied over time, IFRS 15:

(a) requires an entity to recognise revenue by measuring progress towards complete satisfaction of a performance obligation;

(b) requires an entity to consider the nature of the promised good or service in determining the appropriate method for measuring progress; and

(c) provides guidance for using output and input methods for measuring progress.[15]

41. Most respondents commented on the topic, with many saying that generally IFRS 15 provides a clear and sufficient basis for determining when to recognise revenue. Some respondents (mostly standard-setters and accounting firms) said they have identified no significant matters related to this topic to raise in this PIR. However, many

[13] See FASB ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.

[14] See paragraph 31 of IFRS 15.

[15] See paragraphs 39-45 of IFRS15.

respondents reported challenges in determining when to recognise revenue. A few respondents from South and Latin America and Asia-Oceania identified challenges in determining when to recognise revenue as a major application matter.

42. Most of the challenges related to:

(a) applying the concept of control and the criteria for over time revenue recognition in paragraph 35 of IFRS 15; and

(b) selecting the appropriate method for measuring progress.

43. Users of financial statements did not provide much feedback on the information provided by entities on the timing of revenue recognition. In outreach meetings some users said that although they did not notice much difference in the timing of revenue recognition after IFRS 15 was implemented, they have more confidence in reported numbers because they get better quality disclosures. Revenue disaggregation based on the timing of its recognition (point in time versus over time) was seen as particularly useful, although a few users said entities do not always provide this information.

44. A few users said that information provided by some entities is too generic and they need more detailed information about judgements made by entities in determining when to recognise revenue. A few users said they observed some diversity in the timing of revenue recognition, for example, by software companies.

Applying the concept of control and the criteria for over time revenue recognition

45. We received few comments on challenges with the criteria in paragraphs 35(a) and 35(b) of IFRS 15.

46. Some respondents said applying the requirements in paragraph 35(c) of IFRS 15 is challenging:

(a) most challenges related to assessing whether the right to payment is enforceable:

(i) a few respondents (mostly standard-setters, accounting bodies and accounting firms) said making judgements on enforceability can be complex and costly, particularly for smaller entities, and might result in diverse outcomes because the assessment requires consideration of laws and legal precedence as well as historical business practice.

(ii) a few standard-setters and a regulator expressed a view that application of this criterion can lead to outcomes not reflecting the economic substance of transactions, for example, in real estate development in Brazil. The respondents suggested making targeted amendments, providing additional illustrative examples and/or educational materials to align the accounting with the local practice. However, a few respondents from other jurisdictions (mostly standard-setters) said that the Committee's March 2018 agenda decisions *Revenue recognition in a real estate contract* and *Right to payment for performance completed to date* were helpful and suggested adding guidance into the Standard based on those agenda decisions.

(iii) a few standard-setters and a regulator asked the IASB to clarify specific issues, for example, how to consider the customer's right to terminate the contract in assessing whether the right to payment is enforceable.

(b) a few respondents (mainly standard-setters) reported challenges related to making judgements on the 'alternative use'—for example, for complex assets developed to a customer's specification or in determining the unit of account for the 'alternative use' assessment when components are sold under purchase orders related to a master supply agreement.

47. One regulator said that the significant judgement required to apply the requirements in paragraph 35(c) of IFRS 15 might create potential for earnings management.

48. Some respondents gave examples of specific fact patterns, for which they find determining when to recognise revenue challenging. Most commonly they referred to complex arrangements in technology, software, gaming and construction industries.

Such arrangements included provisions for contract termination, complex offerings combining multiple goods and services with various milestones, and uncertainties related to changing customer requirements and customer's acceptance of deliverables. Other examples included challenges in determining the transfer of control for virtual items, fungible assets, contracts with a right of return and bill and hold arrangements.

49. Some respondents (mostly standard-setters and accounting bodies) said that entities' subjective judgements lead to diversity in practice, particularly in the software and construction industries.

50. The respondents asked for additional guidance, illustrative examples and/or educational materials for their industries or types of contracts.

Measuring progress for performance obligations satisfied over time

51. A few respondents (mostly standard-setters) said that in some cases entities struggle with selecting the appropriate method for measuring progress—especially in the construction and software industries—and this might lead to entities applying different methods for similar transactions. The respondents suggested adding guidance and/or illustrative examples to clarify how to apply judgement when selecting which method to use for measuring progress.

52. A few of those respondents also raised specific questions about applying the guidance on measuring progress. For example, they asked the IASB to clarify how to determine contract costs to be included in the assessment and how to treat disproportionate costs.

Principal versus agent considerations

IFRS 15 requirements
An entity determines whether it is a principal or an agent by identifying the specified goods or services to be provided to the customer and then assessing whether it

IFRS 15 requirements
controls each specified good or service before that good or service is transferred to the customer.[16] To help an entity assess whether it controls a specified good or service before it is transferred to a customer, IFRS 15 provides a non-exhaustive list of indicators of control. Examples of indicators of control include: (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service; (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after the transfer of control to the customer; and/or (c) the entity has discretion in establishing the price for the specified good or service.[17] The principal recognises as revenue the gross amount of the consideration received in exchange for the good or service transferred. The agent recognises as revenue the fee or commission received for providing the services of arranging for another party to provide the good or service to the customer.

53. Most respondents commented on the challenges with determining whether an entity is a principal or an agent in a multi-party arrangement. It was one of the most common topics raised in the comment letters and our outreach meetings throughout the project. Some respondents representing various stakeholder types, including many standard-setters and both regulators, identified ‘principal versus agent considerations’ as a major application matter.

54. Many respondents (mostly standard-setters, accounting bodies and accounting firms) said that the requirements are generally clear and sufficient and agreed with the main principles for the principal versus agent assessment. Some of those respondent said

[16] See paragraphs B34-B38 of IFRS 15.

[17] See paragraph B37 of IFRS 15.

they would prefer not to have significant changes made to the requirements to avoid unintended consequences and disruption for established accounting policies.

55. However, many respondents reported challenges applying judgement when analysing complex fact patterns. The main application challenges reported by respondents related to:

(a) applying the concept of control and related indicators; and

(b) other matters.

56. In addition, a few respondents and some users in outreach commented on disclosures related to principal versus agent assessments (see paragraphs 64–65).

Applying the concept of control and related indicators

57. Many respondents (mostly standard-setters, accounting firms and accounting bodies) said that entities sometimes struggle to apply the concept of control and the related indicators in some circumstances—for example, in arrangements that involve new digital services or items, intangibles, a licence bundled with services provided by third parties or reselling services bundled with own services, or in arrangements between more than three parties. The challenges are particularly common in service industries such as telecommunications, software, digital platforms, healthcare, pharmaceuticals and fintech. Some respondents said that the large degree of judgement involved in analysing such arrangements could result in diversity in practice or said they observed inconsistent outcomes in applying the requirements.

58. Most common application matters related to applying the concept of control and related indicators included:

(a) some entities overlooking the concept of control and going straight to the indicators in paragraph B37 of IFRS 15 and using them as a checklist.

(b) lack of clarity on how indicators in paragraph B37 of IFRS 15 relate to the concept of control of a good or service before it is transferred to the customer. For example, in the view of a few respondents:

(i) the fact that an entity is primarily responsible for fulfilling a contract, including providing customer support, resolving customer complaints, and accepting responsibility for the quality or suitability of the product or service does not always provide evidence that the entity controls the good or service before it is transferred to the customer;

(ii) the fact that an entity has inventory risk after the transfer of control (for example, if the customer has a right of return) does not provide any evidence as to whether an entity controls the good or service before it is transferred to the customer; and

(iii) whether or not an entity has discretion in determining the selling price does not always indicate prior control.

(c) entities struggling to apply indicators when they point to different conclusions about whether the entity is a principal or an agent.

(d) entities struggling to assess control over services and intangible assets. For example, many respondents (mostly standard-setters, accounting firms and accounting bodies) expressed a view that some of the guidance on the concept of control and related indicators—such as the 'inventory risk' indicator or guidance related to an entity obtaining legal title to a good or service 'only momentarily' seem to apply more to tangible goods than to services and intangible assets.

59. Respondents' suggestions for resolving the challenges included:

(a) moving to the Standard itself the guidance in paragraphs BC385G–BC385L of the Basis for Conclusions that explains the primacy of the concept of control and its relationship with the indicators;

(b) clarifying whether the indicators of control in paragraph B37 of IFRS 15 have the same weight or whether some indicators are more relevant to the assessment of control than the others;

(c) clarifying how the indicators help establish who controls a good or a service before it is transferred;

(d) expanding the list of indicators of control to include indicators which might be more suitable for services;

(e) providing application guidance and/or up-to-date illustrative examples on assessing whether an entity acts as a principal or an agent in identified challenging fact patterns, especially those related to platform companies and provision of services and intangible assets; and

(f) providing a flowchart or a decision tree depicting a thought process for determining whether an entity is a principal or an agent that would include consideration of other relevant requirements in the Standard such as identifying the customer, identifying the specified goods or services that are being transferred and determining and allocating the transaction price.

Other matters

60. A few respondents raised other matters related to arrangements involving a principal and an agent, including:

(a) estimating amounts charged to end customers;

(b) identifying a customer (issues around a customer's customer); and

(c) identifying performance obligations and specified goods or services.

Estimating amounts charged to end customers

61. A few respondents (mainly standard-setters and accounting firms) said that for an entity that sells goods or services via an intermediary and concludes it is acting as a

principal, the requirement to recognise as revenue the gross amount that the intermediary charges to end customer is difficult to apply. They said it is not always feasible for the entity to estimate the gross amount—for example, an airline operator selling tickets via a travel agent might not have visibility of amounts charged by the travel agent to end customers. A few respondents asked the IASB to provide guidance on this matter and noted that the FASB explains in the Basis for Conclusions on FASB ASU 2016-08 that 'the difference between the amount to which the entity is entitled from the intermediary and the amount charged by the intermediary to the end customer is not variable consideration and, therefore, is not part of the entity's transaction price'.[18]

Identifying a customer (issues around a customer's customer)

62. A few respondents (mostly accounting bodies and accounting firms) said that it is sometimes challenging to identify who the customer is, because the requirements on identifying a customer in paragraph 6 of IFRS 15 do not explain how to identify a customer in a multi-party arrangement. For example, an agent providing platform services might have difficulty determining whether its customer is the supplier, end consumer or both. In the view of the respondents, this assessment impacts financial reporting and is important, for example, when determining how to account for incentives offered to one or more parties. The respondents asked the IASB for more guidance on this matter.

Identifying performance obligations and specified goods or services

63. A few respondents (mostly standard-setters and accounting firms) said that it is sometimes challenging to identify the distinct goods and services in arrangements involving multiple parties, for example, when an entity partners with, or subcontracts to, others to provide digital services such as internet advertising or payment processing. They asked the IASB for more guidance on this matter.

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[18] See paragraph BC38 of the Basis for Conclusions on FASB ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).

Disclosures

64. During our outreach and in their comment letters, users generally did not report significant issues with information disclosed about judgements made in principal versus agent determinations although they said that the quality of disclosures varied. The users did not report any significant diversity in practice with regards to the principal versus agent assessments.

65. To improve the usefulness of information a few users and accounting firms suggested requiring entities to disclose:

    (a) revenue recognised on a gross basis and revenue recognised on a net basis if an entity acts as a principal and as an agent in different transactions;

    (b) factors an entity considered when concluding whether it is a principal or an agent in an arrangement;

    (c) for principals—revenue that would have been presented if the entity concluded it was an agent; for agents—revenue that would have been presented if the entity concluded it was a principal.

Licensing

IFRS 15 requirements

For contracts that grant licences of intellectual property (IP) to customers, IFRS 15 requires an entity:

(a) to determine whether the promise to grant a licence is distinct from other goods or services promised in the contract; and

(b) to consider the nature of the licence to determine whether the licence transfers to a customer either at a point in time or over time.[19]

IFRS 15 provides criteria to determine whether the nature of a licence is to provide:

[19] See paragraphs B52–B62 of IFRS 15.

IFRS 15 requirements

(a) a right to access an entity's IP as it exists throughout the licence period—in which case the licence is accounted for as a performance obligation satisfied over time; or

(b) a right to use the entity's IP as it exists at the point in time at which the licence is granted—in which case the licence is accounted for as a performance obligation satisfied at a point in time.[20]

The Standard provides requirements for recognising revenue for a sales-based or usage-based royalty promised in exchange for a licence of IP only when (or as) the later of the following events occurs:

(a) the subsequent sale or usage occurs; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).[21]

66. Most respondents commented on accounting for licensing arrangements. Some of the respondents (mostly standard-setters) said that the requirements on accounting for licensing arrangements are generally clear, although some challenges remain. A few respondents (mostly standard-setters and accounting bodies) said they identified no significant matters related to this topic to raise in this PIR.

67. However, many respondents commented on challenges applying judgement when analysing complex licensing arrangements. A few respondents (mostly standard-setters and accounting firms) identified 'licensing' as a major application matter. The challenges are particularly common in service industries such as telecommunications, software, pharmaceuticals and entertainment. The main application challenges reported by respondents related to:

(a) identifying performance obligations in licensing arrangements;

(b) lack of clarity on accounting for licence renewals;

[20] See paragraphs B56–B62 of IFRS 15.

[21] See paragraphs B63–B63B of IFRS 15.

(c) determining the nature of a licence (the ‘right to access’ versus the ‘right to use’);

(d) lack of clarity on what a licence is; and

(e) accounting for sales-based or usage-based royalties.

68. Generally, in outreach meetings and in comment letters users of financial statements said they are aware of challenges entities face in accounting for licensing arrangements but they did not report significant issues with information disclosed about those arrangements. A few users said that most software entities make sufficient disclosures about licensing arrangements and related significant judgements, which are helpful in understanding the entities’ businesses and their accounting for licences. Another user said that when software entities transition from on-premise contracts to cloud-based solutions, users find additional non-GAAP indicators helpful in valuing those entities.

69. A few users said that the quality of disclosures varies and some entities do not disclose enough information. They emphasised the importance of more detailed information about judgements made by entities and disaggregation of revenue considering the complexity of the judgements and licensing arrangements.

Identifying performance obligations

70. Many respondents (mostly standard-setters and accounting bodies) reported challenges in identifying performance obligations in complex software licence arrangements that give a customer a right to receive various software modifications, updates and maintenance services after contract inception. A few of these respondents said entities’ judgements result in diversity in practice, in particular when cloud services or SaaS are involved.

71. A few respondents reported challenges in the pharmaceuticals industry. For example, they said that it is difficult to determine whether research and development of a new

drug is a separate performance obligation in a long-term contract for the development and subsequent sale of a yet unapproved drug.

72. The respondents suggested that the IASB consider:

(a) providing additional guidance on identifying performance obligations in licensing arrangements; and/or

(b) adding industry-specific illustrative examples, for example, for more complex bundled software and pharmaceuticals arrangements.

Licence renewals

73. Some respondents (mostly standard-setters and accounting firms) said that there is no specific guidance on licence renewals in IFRS 15 which creates diversity in practice:

(a) some entities recognise revenue from renewal starting at the beginning of the renewal period as if it was a new contract; and

(b) others recognise revenue from renewal starting from the date the renewal is agreed as if it was a modification of the existing contract.

74. Many of these respondents suggested the IASB consider the FASB's amendment to Topic 606, which requires an entity to recognise revenue from a licence renewal no earlier than the beginning of the renewal period.[22]

The nature of a licence (the 'right to access' versus the 'right to use')

75. A few respondents (mostly standard-setters and accounting firms) said that sometimes entities have difficulty applying the requirements on determining whether a licence is a right to access or a right to use IP. The respondents suggested the IASB add more guidance and/or industry-specific illustrative examples, in particular for complex

[22] FASB ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

software arrangements, for example, a software licence sold with a promise to deliver continuous updates/upgrades.

Defining a licence

76. A few respondents (mostly standard-setters and accounting firms) said that in some cases entities are unsure whether to apply the specific IFRS 15 requirements on licensing or the general requirements of IFRS 15, in particular for SaaS arrangements. In their view, the challenge relates to the lack of a definition of a licence. The respondents suggested that the IASB provide a definition of a licence and additional guidance and/or illustrative examples on determining when to apply the IFRS 15 application guidance for licensing.

Accounting for sales-based or usage-based royalties

77. A few respondents suggested the IASB broaden the scope of the exception in paragraph B63 of IFRS 15. This paragraph currently applies to licences of IP for which the consideration is based on sales or usage and requires an entity not to recognise any revenue for the uncertain amounts until the uncertainty is resolved (ie when the subsequent sales or usage occurs).

Disclosure requirements

IFRS 15 requirements

To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows, IFRS 15 requires entities to disclose information about:

(a) revenue from contracts with customers, including disaggregation of revenue;

(b) any impairment losses on receivables or contract assets;

(c) contract balances, including reasons for significant changes in contract assets and contract liabilities;

IFRS 15 requirements

(d) performance obligations, including the timing of revenue recognition and the transaction price allocated to the remaining performance obligations;

(e) significant judgements and changes in judgements;

(f) assets recognised from contract costs; and

(g) practical expedients used, if any.[23]

78. Most respondents commented on the disclosure requirements. Most of them (mostly standard-setters and accounting bodies) said that overall, the more comprehensive disclosure requirements compared to the previous revenue standard resulted in entities providing sufficient and useful information to users of financial statements. During our outreach, many users said that IFRS 15 improved the quality of disclosed information, which made it easier to forecast future revenue and cash flows. An academic respondent's general conclusion based on their reviewed academic studies confirmed improvement in revenue information disclosed by entities.[24]

79. Most users in outreach meetings named disaggregation of revenue among the most useful information because it helps users forecast separate revenue streams. Further, most users said information about contract assets and contract liabilities is very useful—especially in industries commonly using long-term contracts such as construction or oil and gas—because it helps them assess working capital movements, reconcile revenue and cash flows and can indicate deterioration of an entity's financial position. Users explained that alongside another very useful disclosure—remaining performance obligations—information about contract balances helps them forecast future cash flows. An academic respondent reported similar findings about the usefulness of disclosures on disaggregation, and contract assets and liabilities based on their reviewed academic study.

[23] See paragraphs 110-129 of IFRS 15.

[24] Agenda Paper 6C explains that the staff plan to bring an updated academic literature review towards the end of the IASB's discussions on the project.

80. Some respondents (mostly standard-setters and accounting bodies) said that disclosure requirements struck the right balance between the benefits of information provided and the cost of providing that information. A few respondents (mostly accounting bodies and accounting firms) said that setting up systems and processes necessary for meeting the enhanced disclosure requirements was challenging and costly, but ongoing costs of providing required information are not excessive.

81. Some other respondents expressed concerns or mixed views on specific disclosure requirements:

   (a) some respondents (mostly standard-setters) questioned the balance of costs and benefits of information provided about remaining performance obligations. In their view, providing this information is time-consuming and costly, but the benefit of the information is questionable, for example, because the information is related to only existing contracts and would not reflect the earning potential of the entity.

   (b) a few respondents (mostly standard-setters and accounting bodies) said that disclosure requirements related to contract assets and contract liabilities give rise to significant costs especially when entities have many ongoing contracts.

82. Some respondents (mostly accounting firms and accounting bodies) said that they observed variations in the quality of disclosures. Only a few respondents said that a lack of specificity in the disclosure requirements caused the variation. Some other respondents said the variation is caused by other factors, for example, entities applying the disclosure requirements as a checklist and not considering the disclosure objective to provide meaningful information. A regulator suggested that the IASB consider providing more prescriptive disclosure requirements—for example, requiring the specific categories in disaggregating revenue, subject to materiality considerations—and other guidance to clarify how the disclosure objectives of IFRS 15 are intended to be applied.

83. In outreach meetings, users of financial statements said there is diversity in the degree of detail and quality of information provided by entities, especially in disaggregating

revenue. Many users said that disclosed information often does not reflect an entity's business, contains wording copied from the Standard and therefore is not helpful; more entity-specific information would be helpful. Some users asked the IASB to consider including specific additional disclosures (for example, see paragraph 65). The staff will provide more detailed information on these requests in future papers.

Transition requirements

IFRS 15 requirements

IFRS 15 allowed a choice of two transition methods, a retrospective method and a method to apply retrospectively with the cumulative effect recognised at the date of initial application (modified retrospective method), with expedients for each transition method. Entities applying a modified retrospective method were required to provide additional disclosures to ensure users of the financial statements receive useful information for trend analysis.[25]

84. Most respondents commented on this topic. Many of these respondents (mostly standard-setters and accounting bodies) said that while the transition to IFRS 15 was challenging, the modified retrospective method and the practical expedients were helpful and appreciated, and the transition requirements achieved an appropriate balance between reducing costs for preparers and providing useful information to users of financial statements.

85. Many respondents commented on the transition method used:

(a) most of them—including an academic reporting the findings of an academic study—said that entities most commonly used the modified retrospective method. These respondents said that this method was mostly selected for cost-benefit reasons.

[25] See paragraphs C3–C8 of IFRS 15.

(b) some other respondents said that both transition methods were applied. One respondent said that in their experience the retrospective method was used by entities whose financial statements were significantly affected by the implementation of IFRS 15.

86. Most users said that transition to IFRS 15 went relatively smoothly and that entities' disclosures—such as how each financial statement line item is affected by the application of IFRS 15 when the modified retrospective method was used—helped them understand the effects of implementing the Standard. A few users said that a fully retrospective method is always preferable because it provides the best information for assessing trends and disclosures provided were not always detailed enough.

87. A few respondents (mostly standard-setters) provided suggestions for the IASB to consider in developing transition requirements for future Standards:

(a) most of them encouraged the IASB to continue assessing the costs and benefits for both preparers and users, including:

(i) considering the use of modified retrospective methods and practical expedients to assist preparers with the transition. A few respondents suggested the IASB carry out more in-depth field-testing when developing a new Standard to reduce the costs of transition. One respondent also suggested considering providing an option to apply new requirements prospectively for entities whose financial statements are not expected to be affected by the transition to the new requirements.

(ii) assessing the costs to users related to the lack of comparative information resulting from the application of modified retrospective methods or practical expedients.

(b) one academic respondent said that there is little benefit in extending effective dates for new standards because entities do not use the additional time to proceed with the implementation.

Convergence with Topic 606

IFRS 15 and Topic 606

When issued, IFRS 15 and FASB ASC Topic 606 were substantially converged, except for some minor differences. As a result of the IASB and FASB's joint TRG's discussions, the boards amended their respective standards. The FASB's amendments to Topic 606 were more extensive than the IASB's amendments to IFRS 15, which resulted in further differences between IFRS 15 and Topic 606.

In addition, differences in revenue recognition may arise because of the FASB's amendments to its other standards, such as FASC ASC Topic 810, Consolidation, and FASB ASC Topic 805, Business Combinations.[26]

88. Many respondents commented on convergence:

(a) almost all of them (including all regulators, most standard-setters and accounting firms) said that it is important to retain at least the current degree of convergence between IFRS 15 and Topic 606—with some respondents calling for the IASB and the FASB to work together to ensure there are no significant differences between IFRS 15 and Topic 606. In addition, in comment letters and outreach meetings users of financial statements strongly supported convergence between the standards. Stakeholders said that convergence made it easier for users to compare information between companies and capital markets and reduced costs for preparers, especially for multinational entities and listed entities with dual reporting requirements. A few respondents said retaining convergence is essential because revenue is a key metric within the financial statements. It can also be used as a threshold for setting other requirements, for example, Pillar Two Model Rules.

(b) a few respondents said that convergence is important but should not be an aim in itself. They expressed a view that convergence considerations should not

[26] See Appendix A of March 2023 Agenda Paper 6A for a summary of differences between IFRS 15 and Topic 606.

stop the IASB from amending IFRS 15 if the amendment would significantly enhance the usefulness of resulting information.

(c) a few respondents, mostly from jurisdictions where few entities are required to provide financial statements in accordance with US GAAP, said that convergence is not a high priority for them.

89. Some respondents called for reducing differences between IFRS 15 and Topic 606 and asked the IASB to consider some or all of the amendments the FASB made to Topic 606 since it was issued (we included respondents' specific suggestions when summarising feedback on specific topics).

Other matters

90. Some respondents raised other matters, with none of them being raised by more than a few respondents. Matters raised by more than one respondent included:

(a) accounting for oral contracts;

(b) applying the guidance on combining contracts to contracts for selling goods to the customer directly and through intermediaries, as well as determining whether contracts were entered 'at approximately the same time';

(c) determining a stand-alone selling price for goods or services with no observable prices;

(d) determining whether activities promised in a contract constitute ordinary activities and should be reported as revenue rather than other gains or income; and

(e) accounting for contract costs.

91. We will provide a more detailed analysis of these matters in future papers.