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## Post-implementation Review IFRS 15 Cover Note

### Objective

- 1 The objective of the session is to discuss and approve a draft comment letter ('DCL') on the Request for Information on the Post-implementation Review ('PIR') IFRS 15 *Revenue from Contracts with Customers* (the Standard), issued by the IASB on 29 June 2023 (the 'RFI') and open for comments until 27 October 2023.

### Background of the IASB project

- 2 In May 2014, the IASB issued IFRS 15 which replaced some standards and interpretations including IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 became effective for annual periods beginning on or after 1 January 2018. At the same time, the US Financial Accounting Standards Board (FASB) introduced into its Accounting Standards Codification® Topic 606 Revenue from Contracts with Customers substantially converged with IFRS 15.
- 3 In April 2016, the IASB issued Clarifications to IFRS 15 Revenue from Contracts with Customers which resulted in a number of clarifications mainly around the identification of performance obligations, the principal versus agent consideration and the accounting of licenses. In addition to the topics clarified by the IASB, the FASB clarified other topics around collectability, measuring non-cash consideration and timing of revenue recognition, for which the IASB decided not to issue clarifications concluding that IFRS 15 provides sufficient guidance.
- 4 In November 2021 the IASB decided to begin the PIR of IFRS 15 in the second half of 2022. In September 2022 the IASB discussed the plan for phase 1 of the PIR - identification of matters to be examined – (see IASB [agenda paper](#)).
- 5 In March 2023, the IASB discussed the questions to be included in the RFI based on the feedback received during its outreach on phase 1 of the project (see IASB [agenda papers](#)).
- 6 On 29 June 2023, the IASB issued the [RFI](#). The consultation period will end on 27 October 2023.

### EFRAG preparatory work

- 7 Since April 2022, EFRAG has conducted extensive outreach to different constituents (preparers, users, auditors, national standard setters, and academics) to get their overall assessment of how IFRS has worked and to identify issues for the PIR.

- 8 EFRAG also sent a questionnaire-based survey to European national standard setters to identify issues in the implementation of IFRS 15 that have arisen in their jurisdictions. EFRAG received eight completed survey responses.
- 9 EFRAG has sponsored an academic survey to users and preparers on the costs and benefits of implementing the Standard. The findings from the non-preparer respondents have been incorporated into EFRAG's DCL. To broaden the representation of diverse sectoral views, the survey is still open for preparers' input. The findings from latter aspect will be considered for inclusion in EFRAG's final comment letter.
- 10 In addition, EFRAG has reviewed IFRS 15 issues raised before the IFRS Interpretation Committee (IFRS IC), ESMA enforcement issues, the FASB PIR on Accounting Standards Update Revenue from Contracts with Customers (Topic 606), and academic literature.

### Summary of EFRAG discussions

- 11 In Q2, Q3 and Q4 2022, the EFRAG Secretariat provided updates on the findings from the preparatory work to EFRAG FR TEG, EFRAG FRB and the various EFRAG working groups. The discussions during these updates were largely confirmatory of the findings from the preparatory work.
- 12 On 16 March 2023, EFRAG FR TEG discussed the categorisation, prioritisation and preliminary recommendations for IASB action on the issues identified during the EFRAG preparatory work ([agenda paper](#)). It was noted the Standard is generally working well in practice and represented an overall improvement relative to the previous requirements. EFRAG FR TEG provided the following specific comments/views:
  - (a) There was agreement that principal versus agent consideration (PA) was the highest priority issue. It was suggested to recommend that the IASB should elevate paragraph BC385H to emphasise that the indicators should not be considered as a checklist of criteria to be met in all scenarios and that they do not override the 'transfer of control' principle.
  - (b) The challenge on the identification of performance obligations was classified as a high priority issue especially because of the difficulties applying the notion of distinct in the context of a contract.
  - (c) One member considered the variable consideration assessment to be an application challenge as, not only did the recognition constraint requirement introduce bias in accounting, but there was diversity in practice in both the initial and subsequent measurement of variable consideration when applying this constraint. However, another member stated it was not clear what the IASB should do and opined it may be more a matter of enforcement than a problem with the principle.
  - (d) The significant financing component should be considered as a high priority issue for PIR. There are challenges in the consistent application of the indicators in paragraph 62.
  - (e) In contrast to the issues paper, members did not consider the estimation of standalone selling price and the allocation of transaction price to be challenges in practice.
  - (f) There were mixed views on the priority of the negative revenue issue. A member supported assigning a high priority to this issue as suggested by the EFRAG Secretariat as it was a cross-cutting issue impacting the presented amount of revenue. In contrast, some members considered that the issue was not so frequent in practice and only affected specific industries and therefore should not be a high priority.

- (g) Members considered the accounting for licenses to be a high priority issue. Some members suggested that the IASB adopted a more practical accounting solution by extending the sales-based or usage-based royalty exemption as defined in paragraph B63 to all licences.
  - (h) It was observed that the issue around collaborative arrangement stemmed from the unresolved questions around the definition of joint arrangements.
  - (i) Members agreed disclosures being included as a high priority issue for the PIR. A member suggested extending the disclosure requirements on the remaining performance obligations. Another member noted that based on the preliminary feedback received the requirements to disclose and reconcile the contract balances were not working as intended from a cost-benefit perspective; and
  - (j) Members agreed with the categorisation of the interactions with IFRS 3 Business Combinations and IFRS 10 Consolidated Financial Statements as high priority issues. A member suggested adding the interaction with IFRS 16 Leases as a high priority issue noting related challenges arising in sale and leaseback transactions and in the definition of the unit of account in the real estate industry.
- 13 On 3 May 2023, the EFRAG FRB received an update on the overall messages and prioritisation of IFRS 15 application challenges agreed upon by EFRAG FR TEG. The following comments/views were raised:
- (a) Some members sounded a note of caution toward the EFRAG Secretariat raising a significant number of application challenges which might be contradictory to the overall message that stakeholders expected minimal, if any, changes to IFRS 15 as the Standard generally works well in practice, was costly to implement and, in many cases, had resulted in minimal changes in reported revenue.
  - (b) Some members suggested EFRAG should focus on whether the IFRS 15 model is robust for new business models as well as on key areas like the principal versus agent considerations, and the benefits for users of the IFRS 15 disclosures requirements. A member noted the interaction with IFRS 10 could be addressed.
  - (c) ESMA had identified application challenges that overlapped with those identified by EFRAG. In addition, ESMA identified sales-based taxes (lack of guidance to assess its presentation in the financial statements) and the determination of revenue recognition over time when an entity does not create assets with an alternative use to the entity as application challenges.

#### **Basis for the preparation of the DCL**

- 14 The DCL drafting was informed by the conclusions drawn from EFRAG FR TEG's meeting held on 16 March 2023 while taking into account the overarching guidance provided by the EFRAG FRB on 3 May 2023. We note there is a general overlap in the application challenges and priorities identified across both the IASB RFI and the EFRAG DCL.
- 15 The DCL includes other issues assessed as a high priority but not included in the IASB RFI (i.e., variable consideration, significant financing component and the interaction between the Standard and IFRS 10 and IFRS 11- as we expound on below).
- 16 Other issues identified during the preparatory work that were not deemed a high priority by EFRAG FR TEG (13 issues) are not included in the DCL but are cross referenced through a link in the response to the IASB question on other matters.

**Questions for EFRAG FR TEG**

- 17 Does EFRAG FR TEG agree with the proposed consultation period of the DCL (i.e., until 11 October 2023)?
- 18 Does EFRAG FR TEG approve the DCL included in agenda paper 01-02?

**Next steps**

- 19 The EFRAG Secretariat to publish EFRAG's draft comment letter and consult on it.

**Agenda Papers**

- 20 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 01-02 – EFRAG's draft comment letter