EFRAG Secretariat: Juan Jose Gomez,
Monica Franceschini, Vincent Papa

Analysis of comment letter and outreach feedback - PIR IFRS 15

Objective

1 The objective of this agenda paper is to provide a summary of both the comment letter feedback and targeted outreach feedback in response to the EFRAG Draft Comment Letter on the IASB Request for Information ('RFI') for the Post-implementation Review ('PIR') *IFRS 15 Revenue from Contracts with Customers (the Standard)*. We have also included key findings from an EFRAG-supported academic survey[1].

2 This agenda paper contains:

(a) Profile of comment letter and outreach respondents;

(b) Summary of feedback received;

(c) EFRAG Secretariat's recommendation to EFRAG FR TEG on EFRAG's proposed final position;

(d) Appendix 1: Detailed analysis of comment letter and targeted outreach responses to EFRAG's draft comment letter;

(e) Appendix 2: Key findings from EFRAG-supported academic survey; and

(f) Appendix 3: Comment letter respondents

Profile of comment letter and outreach respondents

3 *Comment letters' feedback*: At the time of writing this agenda paper, four final-version comment letters have been received (see Appendix 2). In addition, EFRAG has received four draft letters which have been considered in the summary of feedback. Only the final letters received are uploaded to EFRAG's website.

4 *Feedback from targeted outreach during the consultation period*: EFRAG's Draft Comment Letter (DCL) was informed by extensive outreach to multiple stakeholders before and after the issuance of the IASB RFI. Hence, during EFRAG's DCL consultation period, due to the limited user feedback before issuance of the DCL, EFRAG only conducted a targeted outreach to users with a focus on the IFRS 15 disclosure requirements. The summary of the feedback is part of the analysis of the feedback to Question 7-Disclosure requirements.

5 *EFRAG-supported academic survey feedback*: The findings of an EFRAG-supported academic survey to preparers and users on the costs and benefits of implementing IFRS 15.

[1] The EFRAG-supported academic study was led by Beatriz Garcia Osma (Universidad Carlos III de Madrid), Jacobo Gomez-Conde (Universidad Autónoma de Madrid) and Araceli Mora (Universidad de Valencia). The study aims to capture the perspectives of preparers and other stakeholders including users of financial statements on the net benefits (costs) of implementing IFRS 15. EFRAG will separately publish the report *Intended and unintended consequences of IFRS 15 adoption.*

The survey garnered 196 preparer respondents[2] and 48 non-preparer (including users) respondents[3]. The findings of the academic survey are included in Appendix 2.

Summary of feedback received

Question 1 - Overall assessment of IFRS 15

6 *Overall suitability and understandability*: The feedback received on the overall suitability and understandability of the Standard was aligned with the positions expressed in the EFRAG DCL. Respondents indicated that the Standard has achieved its objective, it is generally working well and provides robust guidance for revenue accounting but there is room for limited and targeted improvements. The feedback from users during the outreach was also indicative that IFRS 15 marked a significant improvement from previous revenue recognition requirements. Comment letter feedback received affirmed it is an understandable standard. One of the letters suggested the use of webinars to ensure the understandability of future IFRS Accounting Standards.

7 *Cost-benefit*: There was feedback in the comment letters that the implementation of the standard was very time and resource-consuming and, in many cases, it did not lead to significant changes as compared to previous revenue recognition practices. Some national standard setters indicated that the ongoing costs are still significant for some industries and provided some relevant examples. Academic evidence shared by a respondent indicates that the comparability across financial statements has generally increased, revenue figures are better mapped into cash flows, thus, increasing the relevance and faithful representation of financial statements and disclosure requirements provide more useful information for the decision-making. The EFRAG-supported academic survey provides detailed evidence of one-off and ongoing costs, inter alia, it shows that disclosures are among the costliest components of IFRS 15 requirements. The survey also details preparer benefits (e.g., better contract management), user benefits (forecasting earnings, assessing margin and stewardship), and the often-limited impacts on the amount and timing of reported revenue.

Question 2 - Identifying performance obligations in a contract

8 Respondents indicated that the Standard's principle-based guidance for identifying performance obligations is generally clear and works well although the assessment is still challenging in some situations. Most respondents supported the introduction of examples to address the challenging aspects of this area (i.e., non-refundable upfront fees, pre-production costs, connection fees received or transfer of assets from customers and the transfer of software licences together with maintenance services). The call for illustrative examples aligns with the view expressed in the EFRAG DCL. In addition, a respondent suggested that shipping and handling should be considered as fulfilment cost in all instances (i.e., to be expensed in all instances and, thus, avoiding the assessment of whether shipping and handling costs are a separate performance obligation).

Question 3 - Determining the transaction price

9 Most respondents to this question recommended that the IASB provides guidance on how the 'negative' revenue should be accounted for. Two respondents also considered that IFRS 15 lacks specific guidance on the presentation of consideration payable to customers related to incentives provided by an agent to the end customer. Suggestions for additional

[2] The respondents included individuals with the following functional profile: Controller/Management Accountant (28%); Chief Accountant (26%); Head of Accounting Policies (19%); CFO (14%); Other Preparer of External Financial Reporting (7%); CEO (3%); and other internal roles (3%).

[3] Feedback from 48 non-preparer survey respondents[3] (i.e., 14% - investment professionals, 17% -other users including retail investors and lenders, and the rest-69%- auditors, academics, consultants, regulators, and supervisors) that took part in the EFRAG-supported academic study.

guidance on instances where a contract has a significant financing component and on the determination of the variable consideration as part of the transaction price were also raised.

10 On this question, as detailed in our analysis of Question 11- Other Matters[4], some respondents addressed the need for guidance on whether to include sales- based taxes in the transaction price.

Question 4 - Determining when to recognise revenue

11 Many respondents did not identify any application challenges in determining when to recognise revenue. However, two respondents highlighted challenges related to assessing if an entity's performance creates an asset with an alternative use (i.e., IFRS15.35(c)) and one of the respondents provided a fact pattern from the automotive sector that illustrates the challenge of making the assessment.

12 Citing two illustrative cases, a respondent asked for additional guidance to assess whether an entity has an enforceable right to payment for performance obligations completed to date. The respondent suggested that the additional guidance could be drawn from the 2018 IFRS IC agenda decisions.

13 Other issues raised by respondents were the need for further examples that help entities selecting the most appropriate method for measuring progress towards complete satisfaction of a performance obligation and the lack of guidance on the approach to depreciate capitalised costs when they relate to performance obligations with different patterns of measuring progress.

Question 5 - The concept of control and related indicators

14 All respondents confirmed the challenges associated with the IFRS 15 principle versus agent (PA) guidance consistent with the views expressed in the EFRAG DCL. They provided differing views on the reasons for such challenges including unclear description of the relationship between the concept of control and the related indicators (IFRS15.B37), the reduced weight of the control assessment in the PA guidance or the difficulties in applying the indicators. Conversely, two respondents considered that the indicators provide good principles-based guidance. Many respondents noted that specific challenges arise in situations where an entity sells a service, licences of IP and bundles of items including licences and some of them encouraged the IASB to provide examples to support the PA guidance. As noted in our analysis for Question 11, some respondents also highlighted the limitations of the PA guidance whilst determining whether to include sales-based taxes in the transaction price (i.e., conflicting conclusions of applying different indicators and the inapplicability of the notion of transfer of control in the administration of sales-based taxes)

15 On the way forward, a majority of respondents suggested that the IASB should give more prominence to the principle of assessment of control, a view that aligns with the EFRAG DCL. Other suggestions included additional application guidance including on which of the indicators should have more weight and illustrative examples on the application of the control indicators. A respondent suggested the reintroduction of the credit risk criteria.

Question 6 - Licensing

16 Several (three) respondents expressed comfort with the guidance for accounting of contracts involving licences. Concurrently, consistent with the position expressed in the EFRAG DCL, some respondents (four) affirmed the application challenges associated with contracts involving licences and they pointed to similar issues raised in the EFRAG DCL (i.e. when licences are a separate performance obligation) and other additional aspects (e.g.

[4] Sale-based taxes were addressed under Question 11- Other Matters.

right of use versus right of access, determining whether an entity acts as a principal or agent when providing the licence, and the need to clarify the accounting treatment of licence renewals).

17 On the way forward, several respondents (three) suggested illustrative examples. One respondent did agree with the position and suggested solution in the EFRAG's DCL, which included possibly extending the royalty constraint. One respondent suggested the need to clarify the accounting treatment of licence renewals.

Question 7 – Disclosure requirements

18 Most respondents (six of the eight comment letters- four national standard setters, an enforcer and a user) agreed that the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements. Users expressed strong support for the current package of disclosures. They elaborated on why different disclosures are useful including those where concerns have been expressed. However, two respondents (national standard setters) questioned the usefulness of the disclosure of changes in contract assets and contract liabilities and the remaining performance obligations. The concern on the former is due to the costs of providing the information while the concern on the latter is due to the presentation options and practical expedients. One of the respondents with concerns suggested limiting the changes in contract assets and contract liabilities to long-term business models.

19 As noted in Appendix 2, user respondents to the academic survey affirmed the usefulness of disclosures while preparer respondents indicated that disclosures were among the costliest component of IFRS 15 requirements.

Question 8 – Transition requirements

20 Respondents either generally agreed (or did not disagree) with EFRAG's tentative position that transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Furthermore, they confirmed that the modified transition method has been used extensively in practice, although the full retrospective approach in general provided users with more useful information.

Question 9 - Applying IFRS 15 with other IFRS Accounting Standards

21 Some respondents agreed with the EFRAG's tentative position in its DCL relating to the interaction between IFRS 15 and IFRS 3, IFRS 10 and IFRS 16. A national standard setter suggested that the IASB should provide further guidance in IFRS 16 to assist in the assessment of whether the arrangement represents a lease in the scope of IFRS 16 or a sale in the scope of IFRS 15.

22 Two national standard setters and a users' organisation commented on the interaction between IFRS 15 and IFRS 11 and provided mixed views. One of them did not receive any feedback on this issue, and the others agreed with EFRAG's tentative position in its DCL.

Question 10 – Convergence with US GAAP

23 All respondents to this question welcomed the existing level of convergence with US GAAP as it increases the global comparability and should be maintained as far as possible, especially in the revenue accounting as it is one of the key topics in the financial statements. A national standard setter suggested that any amendment to IFRS 15 that is not adopted by analogy in US GAAP should be avoided unless it significantly enhances the quality of the information reported.

Question 11 – Other matters

24 Three respondents mentioned additional topics (e.g., diversity in practice in the accounting for costs to fulfil a contract, warranties, payable to customers and in the presentation of amortisation of capitalised contract cost) whereby the IASB should reconsider by providing additional guidance, clarification or examples.

25 An enforcer emphasised, also providing some fact patterns useful to assess whether the issue was widespread, the need for additional clarifications, examples or guidance relating to the (i) determination and allocation of the standalone selling price to separate performance obligations and (ii) the accounting for some sales-based taxes.

26 Furthermore, three respondents commented on the interaction between IFRS 15 and IFRS 9. In particular, they suggested the IASB to provide additional clarifications relating the sale of output by the under-lifter to the over-lifter in the context of an "imbalance agreement" in the Oil & Gas industry and the accounting for expected credit loss in combination with the significant financing component.

EFRAG Secretariat's amendments to draft comment letter and recommendation to EFRAG FR TEG on EFRAG's proposed final position

Question 1 - Overall assessment of IFRS 15

27 Based on the comment letter feedback received and findings from the EFRAG-supported academic survey (summarised in Appendix 2), which are largely confirmatory of the positions expressed in the EFRAG draft comment letter, the EFRAG Secretariat has updated the comment letter with minor drafting changes on overall suitability and understandability and significant enhancement on the cost-benefit response (i.e., including the findings of the EFRAG-supported academic survey. The changes made are as follows:

(a) *Overall suitability*: we have reflected the view of a national standard setter that more thorough field testing might have led to an effective cost-benefit analysis and a possible reduction of the initial implementation costs.

(b) *Understandability*: we have included the suggestion from a national standard setter that the IASB should use webinars and training materials when implementing future standards similar to those used in recent projects. (e.g., on Supplier Finance Arrangements Amendment to IAS 7 and IFRS 7).

(c) *Cost-benefit*: we have included an example of the components of ongoing costs from the telecommunications industry cited by a national standard setter. We have included the detailed findings from the EFRAG-supported academic survey to preparers and other stakeholders including investment professionals on the one-off and ongoing costs of implementing the standard, preparer benefits (i.e., real effects such as better contract management), and user benefits (forecasting earnings, assessing margin and stewardship). We have also included other cost-benefit considerations including the evidence from the academic survey of limited impact on the amount and timing of revenue. We have also acknowledged the existence of academic evidence (albeit that most of the existing evidence is based on reporting under US GAAP) that was cited in the response by an academic organisation.

Question 2 - Identifying performance obligations in a contract

28 Based on the comment letter feedback received, to strengthen our comment letter's illustration of the complexity that may arise in applying the IFRS 15 requirements, the EFRAG Secretariat has included another challenging fact pattern (i.e. faced by entities in a particular jurisdiction) when identifying performance obligations that have arisen due to the withdrawal and unavailability of guidance equivalent to IFRIC 18 *Transfers of Assets*

from Customers. Hence, entities need to apply complex judgment to determine if connection fees received or transfer of assets from customers represent consideration for a separate performance obligation.

29 A respondent considered that shipping and handling costs that occur after the transfer of control to the customer should be accounted for as fulfilment costs (i.e., to be expensed and not considered as a separate performance obligation in all instances) (see paragraph 66 in Appendix 1). The IASB discussed this topic in April 2016 as part of the *Clarifications to IFRS 15* project (see IFRS15.BC116R-BC116U). IFRS 15 requires analysing whether the goods or services (in this case, the shipping and handling activities) are or are not separate performance obligations. Accounting for all shipping and handling costs as fulfilment costs would create an exception to the revenue recognition model. To avoid contradicting the position expressed in EFRAG's past comment letter response to the 2015 Clarification to IFRS 15 amendments and considering that the purpose of the PIR is not to resurrect discussions on the appropriateness of the Standard's recognition and measurement requirements, the EFRAG Secretariat has not included this point in the comment letter.

Question 3 - Determining the transaction price

30 Based on the feedback received from constituents, the EFRAG Secretariat has not amended the drafting to this question. Respondents' views on the consideration payable to customers and negative revenue were aligned with the EFRAG DCL response. A respondent suggested additional guidance on instances where a contract has a significant financing component (see paragraph 80 below). However, at the July EFRAG FR TEG meeting, this issue was considered not to be a high priority. Hence, the EFRAG Secretariat has not included it in the response to question 3.

31 Though we have not amended the drafting, as noted in our summary to Question 11, there was a detailed and in our view persuasive articulation by respondents that the diversity in practice in the treatment of sales-based taxes is pervasive and it stems from the lack of sufficient guidance in IFRS 15 (and the limitations of PA guidance) rather than being largely attributable to differences in legislation across jurisdictions as asserted in the draft comment letter (i.e. diversity in practice is observable within the same jurisdiction). Hence, we are seeking the view of EFRAG FR TEG on whether sales-based taxes should be included in our response to Question 3.

Question 4 - Determining when to recognise revenue

32 Based on the feedback received from constituents, the EFRAG Secretariat has added the application challenge entities face to assess whether an entity has an enforceable right to payment for performance obligations completed to date (i.e., IFRS15.35 (c)) to EFRAG's response to question 4. We note that past IFRIC agenda decisions were indicative of challenges faced by stakeholders on this aspect of IFRS 15. We also considered that this suggestion could benefit other Standards that incorporate or are inspired by IFRS15.35 (c) (e.g., RRA final Standard)

33 However, we have not elevated this matter to be a high priority and cover note issue simply because we are still unable to gauge its pervasiveness. As noted, only two comment letter respondents raised it, it was not raised in our pre-DCL outreach and EFRAG FR TEG did not assign a high priority to this issue. Furthermore, as noted, a call was made for illustrative examples demonstrating how to apply judgement in determining which input method for measuring progress towards complete satisfaction of a performance obligation is the most appropriate (see paragraph 87). The EFRAG Secretariat has not amended the comment letter to reflect this latter concern because we were unable to gauge from the response, the specific IFRS 15 requirements that are leading to the concern.

Question 5 - The concept of control and related indicators

34 Based on the feedback received from constituents which in the main was consistent with the concerns and suggested solutions in the EFRAG DCL, the EFRAG Secretariat has not made any significant amendments to the drafting of the response to Question 5 except for incorporating the call for targeted illustrative examples as was done by many respondents. Specifically, examples that are related to services, intangible assets and bundled offerings including licences.

35 We note that a respondent suggested that the IASB should clarify if the control indicators included in IFRS15.B37 should be weighted (see paragraph 95 below). Another respondent suggested that the IASB should re-introduce the criterion of credit risk assumption in the evaluation of principal-agent relationships. The EFRAG Secretariat has not incorporated these suggestions into the updated drafting of the comment letter as we took account of the EFRAG FR TEG past discussions that emphasised primacy should be accorded to the transfer of control principle (i.e., it should be elevated from the Basis for Conclusions to the main Standard).

Question 6 - Licensing

36 Part of the comment letter feedback received affirms the EFRAG DCL position. Hence, the EFRAG Secretariat has not altered the drafting of the concerns raised. However, as is the case with the PA determination, respondents with concerns have called for illustrative examples for complex fact patterns. Hence, the EFRAG Secretariat has provided more colour to the challenges faced by adding the challenges faced to the response to Question 6. On the way forward, we have adjusted the drafting to reflect the call for additional Illustrative examples and echoed the call for clarifying guidance on the accounting for licence renewals.

Question 7 – Disclosure requirements

37 Considering the mixed feedback received from respondents and users contacted during the consultation period, the EFRAG Secretariat has amended the drafting to:

(a) reflect the articulated benefits that users derive from the disclosures where concerns have been expressed (e.g., reconciliation of contract assets/liabilities and remaining performance obligation);

(b) reflect the feedback on EFRAG DCL's suggested improvements to some disclosure requirements;

(c) include the key findings on the cost of disclosures from the EFRAG-supported academic survey to preparers.

38 Based on the overall mixed views expressed above, the EFRAG Secretariat has recommended that the IASB consider whether it should conduct a further targeted outreach to both preparers and users to explore whether the suggested improvements to disclosure (enhancing disaggregation of revenue requirements, eliminating the presentation options for remaining performance obligations, and requiring a reconciliation of transaction price allocated to remaining performance obligations) and restricting entities' eligibility to disclose the changes in contract assets and contract liabilities could improve the overall cost-benefit balance.

Question 8 – Transition requirements

39 Considering the comment letter feedback received, the EFRAG Secretariat has made no drafting changes in the response to question 8.

Question 9 - Applying IFRS 15 with other IFRS Accounting Standards

40 The comment letter feedback received on the interaction between IFRS 15 and other IFRS Accounting Standards is aligned with the positions expressed in the EFRAG DCL whereby the interactions with IFRS 3, IFRS 10 and IFRS 16 were deemed to consist of challenging and high-priority issues. Three respondents commented on the interaction with IFRS 11 and provided mixed views.

41 In the absence of disagreement or refutation of the positions expressed in the EFRAG DCL, the EFRAG Secretariat has limited the changes to Question 9 to comments related to the interaction with IFRS 16.

Question 10 – Convergence with US GAAP

42 Based on the comment letter feedback received, the EFRAG Secretariat has made no drafting changes in the response to Question 10.

Question 11 – Other matters

43 Four respondents commented on this question.

44 Respondents generally mentioned additional topics that the IASB should reconsider by providing additional guidance, clarification or examples but they did not provide specific fact patterns neither indications of how widespread these issues were. However, the EFRAG Secretariat highlights that these issues were raised by EU stakeholders but were not addressed in our DCL as they were not considered by EFRAG to be of high priority.

45 Regarding the issue related to the sales-based taxes, an enforcer reiterated the relevance of including in IFRS 15 additional guidance and examples that would help entities to assess whether such payments are collected on behalf of third party. Furthermore, in the described fact patterns this constituent concluded that the divergence in presentation does not seem to be caused by differences in tax legislation as the involved entities operate in the same markets. Therefore, the EFRAG Secretariat suggested to elevate this issue to a high-priority issue to be addressed in Question 3 – Determining the transaction price.

46 Regarding the interaction with IFRS 9, the EFRAG Secretariat highlights that the fact pattern presented by the constituent seems to be industry-specific (e.g., Oil&Gas industry) and it was not mentioned by other stakeholders during the outreaches activities. Therefore, consistently with the other issues related to IFRS 9, the EFRAG Secretariat continues to consider the interaction with IFRS 9 not to be a high-priority issue in the context of this PIR.

Appendix 1: Detailed analysis of responses to questions in EFRAG's draft comment letter

Question 1 – Overall assessment of IFRS 15

Summary of constituents' comments

Question 1 (a) - overall suitability of IFRS 15

47 The responses to this question from all respondents, i.e., four national standard setters, an enforcer and an organisation of users, were aligned with the EFRAG DCL. These respondents agreed that IFRS 15 achieved its objective, it is generally working well and the five-step model provides robust and appropriate guidance for revenue accounting. Two of these respondents acknowledged there is room for some targeted improvements and that certain areas would benefit from some clarifications.

48 Two national standard setters observed initial challenges (e.g., the estimation of transaction prices including estimated selling prices) during the implementation phase of the Standard but over time these initial challenges were overcome, and accounting practice has matured.

49 An enforcer opined that more detailed guidance and additional explanations and examples would improve the level of comparability and transparency in the application of the standard. A national standard setter considered that in general adding a limited number of targeted illustrative examples should suffice.

50 A national standard setter considered that IFRS 15 has enabled entities to provide more homogeneous and understandable information. In its view, the standard has succeeded in providing more useful information to users of financial statements and in improving the comparability across entities. Similarly, another national standard setter considered that IFRS 15 has resulted in more useful information to users in most instances, although there was mixed approval by the users of some industries that had to change the pattern of revenue recognition (e.g., multi-client seismic and construction of apartments)

51 An academic organisation respondent highlighted that the comparability of financial statements has generally increased. Revenue figures are better mapped into cash flows, supporting the perceived increase in their relevance and faithful representation. It also noted that positive accounting effects led to positive information and capital market effects. Increased disclosures mitigate the information asymmetry problem and, thus, reduce bid-ask spreads. In addition, identified errors and dispersion in analysts' forecasts tend to be short-term in nature and can be attributed to the complexity of the standard and the time required to assess its impact.

Question 1 (b) - understandability

52 Two national standard setters considered that fundamental changes to the Standard should be avoided. One of them noted that the significant judgement entities still need to exercise may be due to the complexity of emerging business models.

53 A national standard setter agreed with EFRAG that the introduction of further illustrative examples could be helpful.

54 A national standard setter and a users' organisation considered that IFRS 15 to be well-structured and understandable. One of them highly appreciated its numerous illustrative examples.

55 A national standard setter indicated that the IASB has provided very useful webinars on various topics recently, for example on Supplier Finance Arrangements. It noted that having

more of those type of trainings available when implementing future Standards would be helpful for stakeholders.

Question 1 (c) - cost-benefit

56 Three national standard setters indicated that the implementation of the Standard was very time and resource consuming and, in many cases, it did not lead to significant changes as compared to previous revenue recognition practice. Consequently, one of them questioned the cost-benefit ratio in implementing the standard while another indicated that the cost- benefit considerations preclude material amendments to IFRS 15 requirements.

57 A national standard setter noted that implementation costs were high in certain sectors (e.g., technology, pharmaceuticals, construction, real estate...) especially in relation to internal control activities (i.e., new IT systems, staff training, implementation of new internal procedures, etc.). Nonetheless, this respondent considered that, in general terms, the benefits of applying IFRS 15 outweigh the associated costs.

58 Two national standard setters indicated that the ongoing costs are still significant for some industries. A cost driver appears to be data collection to meet disclosure requirements. Significant resources are also required in the telecommunication industry to manage the reporting of the numerous customer contracts of small amounts but with multiple elements. For example, the sale of a handset may include accounting for swap arrangements, financing components, principal-agent assessment and material rights. Typically, the net timing effect from all these issues for multiple contract types are seldom material. However, as it is challenging to prove and document that the impact is immaterial, entities usually account for all these effects.

59 A national standard setter indicated that more thorough and in-depth field tests prior to the implementation of IFRS 15 could have contributed to an avoidance of first-time analysis and initial implementation cost as more inputs concerning cost-benefit considerations would have been available to the standard setter. Nevertheless, this respondent recognised that IFRS 15 significantly improved the exchange of information between sales and accounting departments, enhanced contract management and documentation and led to a better understanding and management of business models. To a certain extent, IFRS 15 also led to changes of customer contracts to achieve a specific accounting outcome.

60 An academic organisation indicated that the implementation of IFRS 15 involved significant costs and challenges related to changes in technology, internal controls, and availability of skilled human resources while the overall impact in revenue was immaterial for most entities. It noted that the uncertainties around the implementation increased the cost of debt. However, the implementation also resulted in many unexpected benefits. In addition, the Standard appears to bring more consistency and comparability in application, at least across industries.

61 Appendix 2 has details of the EFRAG-supported academic survey to preparers and users which details components of one-off and ongoing costs, preparer benefits (e.g. contract management), user benefits (forecasting cash flows, assessing margins and stewardship), and the often-limited impact on amount and timing of reported revenue.

Question 2 – Identifying performance obligations in a contract

Summary of constituents' comments

Question 2 (a) – challenging application issues identified

62 A national standard setter indicated that the implementation of the standard on this area required extensive analysis and was in many cases very time consuming. An enforcer, two national standard setter and a users' organisation also acknowledged that the assessment

is challenging in certain situations like those involving licence agreements and software arrangements. Three respondents (two national standard setters and an enforcer) shared the view that the principle-based guidance is generally clear and works well. One also noted that it is also consistently applied in practice. Conversely, a national standard setter signalled that both preparers and auditors struggle to clearly identify performance obligations in an arrangement, particularly in determining whether a promise is distinct.

63 It was also noted that business models are continuously changing and, therefore, the application of principle-based requirements of the Standard will continue to remain challenging.

64 An enforcer provided a fact pattern to illustrate the application challenges faced by preparers. Software developers that sell on-premise software licences plus maintenance services often apply significant judgment to determine whether the delivery of the licence is distinct from the maintenance services. In some cases, there are different accounting treatments of similar fact patterns by US entities applying US GAAP and European entities applying IFRS even though the requirements in both accounting frameworks are very similar. US practitioners often identify one single performance obligation while European practitioners often identify two performance obligations.

65 Similar to EFRAG, a national standard setter indicated that:

(a) application challenges prevail when a non-refundable upfront fee is charged to a customer (e.g., in the telecommunication, pharmaceutical or retail industries). It is sometimes challenging to assess whether the payments relate to the transfer of a promised good and/or service and, if so, whether these promises represent separate performance obligations.

(b) some entities face application challenges in identifying performance obligations for contracts where prototypes must be constructed before produced goods are delivered to the customer (pre-production costs). It is challenging to determine whether separate performance obligations, cost to fulfil a contract or an intangible asset in accordance with IAS 38 arise.

66 The national standard setter also indicated that different shipping and handling arrangements may also lead to application challenges. This is especially the case if an entity uses two-point clauses (e.g., C-Incoterms), where the transfer of the risk of loss or damage and the transfer of the cost from a seller to the buyer do not occur. The national standard setter’s view is that shipping and handling costs should be considered as fulfilment costs (to be expensed) irrespective of whether one-point clauses or two-point clauses are applied.

67 Another national standard setter indicated that in its jurisdiction, due to the withdrawal and unavailability of guidance equivalent to IFRIC 18 Transfers of Assets from Customers, entities that are subject to rate regulation in the utilities sector have to apply complex judgment to determine if connection fees received or transfer of assets from customers represent consideration for a separate performance obligation. In these jurisdictions, entities in the utilities sector are entitled to consideration (in the form of a fee or a physical asset) when connecting a new property to the network. Thus, these entities have to determine if the connection of a new customer to the network represents the satisfaction of a performance obligation and there is current diversity in practice on this matter. The national standard setter noted that accounting for revenue over time versus point in time can have a material effect particularly in the statement of financial position where such amounts may accumulate as assets and deferred revenue as the amortization is over very long periods.

Question 2 (b) – suggestions for resolving identified issues

68 Two national standard setters did not favour any changes to the standard. Nonetheless, one noted that if the IASB decided to clarify the requirements on this area, they would recommend the IASB to add illustrative examples relating to bundled arrangements and new business models such as cloud arrangements.

69 An enforcer indicated that it would be helpful that the IASB provided examples on instances where a software is expected to significantly enhance their functionalities.

70 Two national standard setters and a users' organisation agreed with EFRAG on the need for additional illustrative examples for complex fact patterns related to identifying performance obligations. One of them considered that licensing agreements that contain additional services to be provided by the entity are the most challenging arrangements. Another noted that the issue relating to pre-production costs could alternatively be addressed in IAS 38 *Intangible Assets*.

71 A national standard setter suggested the IASB provides illustrative examples in areas whose hitherto accounting guidance was provided by IFRIC 18. In particular, in relation to the entities in the utilities sector that receive consideration when connecting a new property to the network (see paragraph 67 above), it could be useful to provide guidance on how possible and uncertain indirect future effects on subsequent deliveries should be assessed when there is no material right and future rates are identical for those who pay for a new connection and those that are already connected.

Question 3 – Determining the transaction price

Summary of constituents' comments

Question 3 (a)- Marketing incentive to end customers and 'negative' revenue

72 A few national standard setter indicated that IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract. However, one of them noted that there are some presentation issues like payments made to third parties that are no customers (e.g. agents providing incentives to end customers or payments of pharmaceutical companies to public bodies to support healthcare budgets) or 'negative' revenue that are worthwhile addressing. Another national standard setter indicated that in its view, the 'negative' revenue issue is not widespread.

73 An enforcer noted that IFRS 15 lacks specific guidance on the presentation of consideration payable to customers related to incentives provided by an agent to the end customer. In addition, there is uncertainty on how a negative revenue amount should be presented. In its view, these uncertainties result in diversity in practice.

74 An enforcer provided a fact-pattern that illustrates the 'negative' revenue issue. It is about an entity that facilitates transactions between buyers and merchants through an online shopping platform and generates revenues by charging commissions to merchants. To provide incentives to customers to use its shopping platform, the entity introduced a loyalty programme to customers that offered customers free delivery service in exchange for a programme subscription fee. Since the introduction of the loyalty programme, most of these contracts had been loss-making, as the delivery costs exceeded the subscription fees earned.

75 An enforcer noted that the 'negative' revenue issue was addressed in 2015 to the Joint Transition Resource Group for Revenue Recognition (TRG) but the TRG did not provide any additional guidance on this. The enforcer also highlighted that the IFRS IC did not consider the question raised by some respondents in the agenda decision 'compensation for delays

or cancellations' as to whether the amount of compensation recognised as a reduction of revenue by the airline entity is limited to reducing the transaction price to nil.

76 A national standard setter observed that IFRS 15 recognition and measurement requirements together with IFRS 15.IE42-43 ameliorated the accounting treatment of claims and variations related to unapproved changes in scope and price of contracts with customers in some industries (e.g., in the construction industry).

77 A national standard setter noted that from a principles-based viewpoint, the high probability threshold may conflict with the neutrality principle. However, they acknowledged, based on BC207, that users generally support a prudent approach towards variable considerations.

Question 3 (b) – suggestions for resolving identified issues - marketing incentives and 'negative' revenue

78 An enforcer and a few national standard setter recommended that the IASB provides guidance on how the 'negative' revenue should be accounted for.

79 In relation to the determination of the variable consideration as part of the transaction price, a national standard setter and a users' organisation noted that additional guidance may be necessary.

80 An enforcer considered that it would be useful to have additional guidance on instances where a contract has a significant financing component. This especially relates to the assessment of whether the difference between the promised consideration and the cash selling price arises for other reasons than provision of finance to either the customer or the entity (paragraph 62(c) of IFRS 15).

Question 4 – Determining when to recognise revenue

Summary of constituents' comments

Question 4 (a) Application challenge- determining when to recognise revenue

81 A few national standard setter did not identify significant application challenges or considered that the standard generally provides a clear basis to determine when to recognise revenue. Another national standard setter indicated that initial challenges had largely been overcome. In its view, recent challenges in the software sector were largely explained by the complexity of contracts. Hence, it considered that there was no need for standard setting activities.

82 A national standard setter observed that the need of entities to exercise judgement is more evident in this section of the standard. Consequently, they suggested the IASB clarifies the criteria to determine if an entity should recognise revenue at a point in time or overtime, especially in relation to the application of paragraph 35(c).

83 Furthermore, an enforcer provided the fact-pattern included in paragraphs 55 and 56 of EFRAG's draft comment letter to illustrate that diversity in practice might arise when preparers exercise judgment to assess if an entity's performance creates an asset with an alternative use (i.e., IFRS15.35(c)).

84 An enforcer noted that additional guidance could be helpful to assess whether an entity has an enforceable right to payment for performance obligations completed to date (i.e., IFRS15.35(c)). It provided a fact-pattern about an entity that develops and installs systems for lifting and transporting ships. The contracts with customers include a 'termination for convenience' clause under which the customer could terminate the contract at any time but had to pay for the value of the work. However, the customer could demand a reduction

if the issuer was not performing any measures to mitigate losses like reselling materials and goods.

85 Based on challenging judgments faced in the ship-building industry, the enforcer called for additional guidance regarding the treatment of mitigation obligations. Additional guidance could also be based on:

(a) 2018 IFRS IC agenda decision *Right to payment for performance completed to date.* It indicates it is the payment the entity is entitled to receive under the existing contract with the customer relating to performance under that contract that is relevant in determining whether the entity has an enforceable right to payment for performance completed to date. The consideration received by the entity from the third party in the resale contract is the consideration relating to that resale contract. It is not payment for performance under the existing contract with the customer.

(b) 2018 IFRS IC agenda decision *Revenue recognition in a real estate contract.* It clarifies that it would be inappropriate for an entity to either ignore evidence of relevant legal precedent available to it or anticipate evidence that may or may not become available in the future. In addition, the entity does not have an enforceable right to payment for performance completed to date if there is relevant legal precedent indicating that the entity is not entitled to an amount that at least compensates it for performance completed to date in the event of cancellation for reasons other than the entity's failure to perform as promised.

86 An enforcer also shared a case discussed with other European enforcers, where a shipbuilder concluded it had an enforceable right to payment for performance completed since the contract did not provide the customer with termination rights. The shipbuilder was requested to analyse if its customers had termination rights (i.e.) based on national law according to paragraphs 37 and B12 of IFRS 15.

87 An enforcer also indicated that, in some cases, application of judgement may be challenging when determining appropriate methods for measuring progress towards complete satisfaction of a performance obligation. For example, in a case discussed with other European enforcers, an entity developing software applications for its customers used hours expended compared to budgeted number of total hours to measure progress towards completion. Although hours expended is one of the input methods mentioned in paragraph B18 of IFRS 15, the question arose as to whether incurred cost compared to total budgeted cost would not have been a more relevant method to depict the entity´s performance in transferring control to the customer. EFRAG's constituent encouraged the IASB to provide illustrative examples demonstrating how to apply judgement in determining which input is the most appropriate.

88 A national standard setter indicated that costs that are capitalised in accordance with paragraphs 91 and 95 of IFRS 15 should be amortised consistently with the transfer of the related goods and services to the customer. However, such capitalised costs may relate to various performance obligations under the contract, which may have different method to measure progress toward the satisfaction of the performance obligation. There seem to be lacking guidance on how the amortisation between these two are inter-related.

89 A national standard setter also observed that the terminology may cause some confusion as 'costs to fulfil' is easily mixed with 'contract costs'.

90 A national standard setter considered that an illustrative example may be added to the standard to incorporate the concepts outlined in the IFRS IC agenda decision[5] from June

[5] IFRS IC Agenda Decision Costs to Fulfil a Contract – June 2019 (here)

2019 and clarify the distinction between costs to fulfil and contract costs and the consequence of this classification.

Question 5 – Principal versus agent considerations

Summary of constituents' comments

Question 5 (a) - The concept of control and related indicators

91 A few national standard setters and a users' organisation noted that to assess whether an entity is acting as an agent or as a principal is one of the most difficult and challenging areas and the requirements may be used inconsistently. This is especially the case for services and intangible assets.

92 A national standard setter pointed that the principal versus agent (PA) consideration is not an IFRS 15-specific, but a cross-cutting issue across several IFRSs. It indicated that the relationship between the concept of control and the corresponding indicators (IFRS15.B37) is not clearly described in the Standard. Another national standard setter considered that the control assessment explained in IFRS 15.33 had not received enough weight in the text and examples provided. Both national standard setter observed that in practice, the assessment is often made based on the fulfilment or non-fulfilment of predefined indicators rather than on the concept of control. In many cases, a fulfilment of the indicators does not allow a clear assessment of whether the company is acting as a principal or as an agent.

93 Another national standard setter noted that the difficulties in applying the transfer of control indicators in IFRS15.B37 had led to considerable diversity in practice. It indicated that the indicators did not often provide evidence of an entity's prior control of goods or services before their transfer and provided reasons similar to those provided by EFRAG in paragraph 64 of its draft comment letter.

94 An enforcer also flagged the difficulties faced by entities when assessing whether an entity acts as a principal or agent. In particular, it is challenging to determine whether the entity has inventory risk before the specified good or service has been transferred to a customer (IFRS 15.B37(a)) and how to assess the importance of the fact that an entity has discretion in establishing the price (IFRS 15.B37(c)). With respect to the latter, IFRS 15 provides an example where an agent has flexibility in setting prices.

95 Conversely, two national standard setters considered that the control indicators provide good principles-based guidance. However, it observed that the indicator in IFRS 15.B37(c) (discretion to establish the price) did not seem to have the same level of importance as the other two control indicators and suggested that the IASB should clarify if the control indicators should be weighted.

96 Some respondents noted that specific challenges arise in situations where an entity sells a service (e.g., digital services, transactions between franchisees and franchisors, intermediation services…) and licences of intellectual property. An enforcer noted that the "inventory risk" indicator might be particularly difficult with regards to services and that it had encountered different interpretation of what inventory risk was in relation to services.

97 Furthermore, an enforcer observed it had discussed the application of IFRS15.BC385E in a case where an entity manufactured and sold value-added content services (e.g., financial and weather information, games, ringtones) to a listed mobile operator, which then resold them to end users. In this context, it suggested that the IASB could provide additional guidance and examples on the application of this paragraph to the transfers of services involving intermediaries.

98 The enforcer also flagged that some entities that act as principals have to estimate the amount of revenue to recognise if they do not have information about the amounts charged to end customers by an intermediary (agent). Even though the IASB had concluded that the issue was not pervasive (IFRS 15. BC385X), the enforcer encouraged the IASB to reassess its importance and provide guidance if necessary.

99 An academic organisation respondent noted that the academic literature on the PA consideration is limited because of the limited access to data. However, a study that indirectly assessed the impact of the new standard in this area confirmed that the PA consideration is highly relevant from a user perspective. In its view, IFRS 15 mitigates to some extent the compliance risk for “pure principals” and “pure agents”, but not necessarily for those entities that are exposed to both sides of the relationship.

Question 5b) – suggestions for resolving identified issues

100 A majority of respondents suggested that the IASB should give more prominence to the assessment of control and clarify that the indicators listed in IFRS 15 are non-exhaustive and are intended to help entities assess the transfer of control. In this regard, most of them supported the idea to elevate IFRS15.BC385H from the Basis for Conclusion to the Application Guidance. A national standard setter suggested that the IASB should also elevate IFRS15.BC385D.

101 A national standard setter considered that the PA guidance needs to be supported by some targeted examples especially related to digital services and intangible assets like IP or licences. It also noted that in some industries, like telecommunications and medical technology, these types of services and intangible assets are often sold in bundles with tangible goods or other separate services, which makes the control assessment complex. Hence, it also suggested that the IASB provides illustrative examples of bundled offerings including licences.

102 An enforcer suggested that the IASB could provide additional guidance and examples on the application of the control indicators, also taking into consideration the agenda decision issued by the IFRS IC and IFRS15.BC385H.

103 A national standard setter suggested that the IASB should re-introduce the criterion of credit risk assumption in the evaluation of principal-agent relationships.

104 A national standard setter considered that the link between the indicators and the control concept should be clarified. In doing so, the IASB should consider convergence with the related requirements in USGAAP.

Question 6 – Licensing

Summary of constituents’ comments

Question 6 (a) - application challenges-accounting for contracts involving licences

105 Some national standard setters considered that the Standard provides a sufficient basis for identifying performance obligations and accounting for contracts involving licences even though there may be some application challenges with complex and multiple element IP-licensing arrangements, out-licensing and software-as-a-service arrangements. One of them noted that challenges are due to the complexity of the respective contract agreements and that the use judgement cannot be avoided. It indicated that If the IASB decided to amend the Standard on this topic, it could provide educational materials on concrete examples in which the requirements are unclear.

106 A national standard setter and a users’ organisation were of the view that it is worthwhile to address more complex fact patterns involving licencing arrangements by providing

further or additional guidance. One of them agreed with EFRAG's remarks included in the DCL on royalties related to the drug and pharmaceutical industry.

107 A national standard setter considered that the IASB should address the practical application challenges by providing some additional illustrative examples focusing on specific complex licence situations, such as:

(a) *Determine whether the licence represents a separate performance obligation*. It generally requires judgment which is complex for bundled software arrangements including licences.

(b) *Determine whether the licence is a right to use or a right to access.* This is difficult to understand and apply in practice because of the combination of complex technical licences and difficulties in the application of the accounting guidance. One example is a sale of a software licence together with a promise to deliver continuous updates, similar to an antivirus program. Some stakeholders shared the view that continuous software updates would in practice mean that the licence represents a right to access and therefore should always be recognised as revenue over time. It recommended that the IASB clarify this aspect.

(c) *Determine whether the entity acts as a principal or agent when providing the licence*. See paragraph 101 above.

108 A national standard setter observed that more illustrative examples would provide greater clarity in determining whether a licence is distinct when the agreement have several components in addition to the licence assignment such as maintenance service, implementation and training service, etc.

109 A national standard setter considered that it is necessary to clarify the accounting treatment of licence renewals, to determine whether an entity recognises revenue from ordinary activities when the renewal is agreed by the parties or when the renewal period begins.

Question 7 – Disclosure requirements

Summary of constituents' comments

Question 7 (a) - usefulness of disclosures

110 Seven respondents agreed that the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements. In particular these respondents mentioned the following reasons:

(a) they provide more transparent information about the different streams of revenue related risks, and they ensure more comparability compared to IAS 18;

(b) they facilitate calculating cash flows and provide better information on long-term contracts; and

(c) they are reasonable and well-balanced considering how important the revenue understanding is for users of the financial statements.

111 An enforcer stated that disclosure requirements in IFRS 15 was mostly clear. However, this respondent suggested that it would be helpful having more examples, in addition to Illustrative Example 41 in IFRS 15, especially relating to the application of judgement when determining revenue categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors as required by paragraph 114 of IFRS 15.

112 An academic organisation respondent provided some evidence resulting from studies primarily focused on USGAAP Topic 606. Therefore, not all findings have direct implications for IFRS 15. However, the general conclusions can be summarised as follows:

(a) The new disclosure requirements increase the usefulness of accounting information for external users in the capital markets as the relevance of disclosures in making predictions increases;

(b) Comparability among and within industries seems to increase, although it depends on the proxy used to measure comparability and industry-specific situation.

(c) The quality of the information seems has been improved, although qualitative information is required to have this significant improvement.

113 An academic organisation respondent noted a lack of sufficient disclosures regarding the uncertainty surrounding the determination of transaction price, and in particular with reference to the impact of variable consideration or financing component (e.g., in the construction industry). However, differences exist across industries also due to different business models.

114 A national standard setter did not observe a significant variation in the quality of disclosed revenue information. Furthermore, this respondent disagreed with extending IFRS 15's existing disclosure requirements (e.g., by adding order backlog information to supplement the information on remaining performance obligations).

115 A national standard setter responded to the additional EFRAG question to constituents in paragraph 90 of the EFRAG's DCL; in its view the possible extensions of existing disclosure requirements as described in paragraph 87 of the EFRAG's DCL were considered critical from a cost-benefit perspective. Furthermore, this respondent stated that it received feedback from some stakeholders that they had not received any requests for additional information as part of their investor relations communications.

Questions 7 (b) and 7(c) – ongoing costs of disclosure and observations on variation in the quality of disclosure

116 Four respondents commented on costs of disclosure.

117 A national standard setter questioned the balance between the costs and benefits of the whole set of disclosures noting that the ongoing costs could exceed the benefits for the following disclosures:

(a) Cumulative catch-up adjustments to revenue which affect the corresponding contract asset or contract liability. Gathering this information is in part associated with a considerable level of effort and thus, is costly, as this data cannot be produced automatically. This respondent expects costs to remain high in the long term.

(b) Transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date: this disclosure is very time-consuming and costly. Moreover, in the constituents' view, diversity in practice exists.

This respondent suggested the IASB to further investigate with users of financial statements to evaluate whether, and to what extent, these disclosures are relevant for investment decision making.

118 An academic organisation respondent stated that academic research shows that, differently across industries, IFRS 15 disclosure requirements impose high costs on preparers due to significant changes in the management control system and IT systems. However, in some industries, these significant changes might provide benefits in the internal systems affecting the management's internal decision-making.

119 A national standard setter questioned the cost-benefit balance of these requirements:

(a) Disclosure of changes in contract assets and contract liabilities – in its view, this information is of limited interest to corporate managers and suggested the IASB to consider limiting this disclosure requirement only to companies with business models that are predominantly based on long-term contracts leading to significant contract assets and/or contract liabilities where these disclosures really provide decision-useful information.

(b) Remaining performance obligations - in its view, the IASB should reconsider current requirements (IFRS 15.120-121) to improve reconcilability and comparability taking into consideration that these requirements offer a presentation option (see IFRS 15.120b) and include a practical expedient (see IFRS 15.121) on an individual revenue contract basis.

120 A national standard setter stated that since a new type of revenue is introduced, there will be ongoing costs in order to make IFRS 15 assessments and make changes to IT systems, especially within the telecommunication industry. However, most costs are non-recurring once changes have been implemented.

Summary of comments from targeted user outreach

121 Constituents representative of user's perspective affirmed the benefits arising from IFRS 15 disclosures and highlighted that:

(a) IFRS 15 represents a big improvement and a robust standard which has improved comparability across entities;

(b) The quality of the information provided under IFRS 15 significantly increased, even if some diversity across entities exists (e.g., some entities provide better and more useful information than others);

(c) Required disclosures are useful to assess margins and to forecast future revenue.

122 In particular, they provided the following comments:

(a) Disclosure of changes in contract assets and contract liabilities – it is very useful, especially for long-term contracts, because it provides useful information to users to assess how these balances change overtime (e.g., changes in the underlying revenue assumptions, it gives visibility to disputes that may arise);

(b) Disaggregation of revenue - Lack of detailed information relating the disaggregation of revenue and difficulties in reconciling this information with that provided for the operating segments. Furthermore, a users' organisation highlighted that, albeit in very limited circumstances (e.g., telecommunication industry), such a disclosure as provided could reduce the information relating the distinction between the fix and variable components of revenues;

(c) Remaining performance obligations – it provides a very relevant information to forecast future cash flows and the general direction of the entity's business, especially in the engineering and construction industry;

(d) Proposed reconciliation of the transaction price allocated to the remaining performance obligations – some users questioned the cost-benefits balance of this proposed additional disclosure, especially under preparers' perspective; however, they generally agreed that it could be a useful information.

123 Furthermore, feedback by the preparer respondents to the EFRAG-supported academic survey (see Appendix 2) is indicative that providing disclosures is among the costliest components of IFRS 15 requirements.

Question 8 – Transition requirements

Summary of constituents' comments

124 Two respondents noted the modified transition method has been used extensively in practice since it has significantly reduced costs and the burden of transition for preparers of financial statements. However, these respondents also noted that there was no significant loss of information for users of the financial statements because of additional disclosures the entities had to provide when applying the modified retrospective method according to IFRS 15.

125 A national standard setter noted significant efforts in order to manage the implementation in the telecommunication industry, but without any significant impact on reported figures, and in the construction industry due to certain application challenges in determining when to recognise revenue.

126 An academic organisation respondent also commented on the full retrospective approach; in particular, it was noted that, although more complex, it provides users with more useful information than the modified method to assess the impact of the new standard. However, any negative effects identified appear to be of a temporary nature.

127 Two national standard setters considered that transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

128 A national standard setter encouraged the IASB to use the option of the modified retrospective method also in further standard setting projects.

129 A national standard setter believed that costs for first-time analysis and initial implementation of a new standard can be brought down significantly in the future by employing more in-depth field testing and more thorough cost-benefit analysis of the standard setter beforehand.

130 A users' organisation agreed with the comments included in EFRAG's DCL.

131 Two of the seven comment letters did not comment on transition requirements.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

Summary of constituents' comments

132 Respondents generally agreed with EFRAG's preliminary assessment relating to the interaction between IFRS 15 and other IFRS Accounting Standards.

133 A national standard setter and a users' organisation agreed with EFRAG's DCL without comments.

134 Five respondents commented on the Standard's interaction with IFRS 3, IFRS 10 and IFRS 16. Two national standard setters commented on the interaction with IFRS 11 expressing differing views.

Interaction with IFRS 10

135 Five respondents commented on this question. They all agreed with the pervasiveness, the materiality and the existing diversity in practice relating the interaction between IFRS 10 and IFRS 15 in instances where an entity, as part of its ordinary activities, enters into a contract to sell an asset through selling the equity interest in a single asset entity (i.e., through "corporate wrapper").

136 All of these respondents acknowledged that accounting for such a transaction is a cross-cutting issue (e.g., IFRS 16, IAS 40 and paragraph 15(b) and 22(c) of IAS 12) and could impact different types of construction projects where the asset is packaged in companies for fiscal purposes (e.g., wind power plant, solar panels, or product rights in the pharmaceuticals

industry). However, this increases the importance of the issue and the urgency of finding a solution.

137 Commenting on the proposed solution, respondents provided the following suggestions:

(a) A national standard setter recommended the IASB to clarify that IFRS 15 should be applied when the substance of the transaction is a sale of good or service in scope of IFRS 15;

(b) A national standard setter suggested the IASB to address this issue in the short term within a narrow-scope amendment project instead of assessing the demand for resolving this matter in the next agenda consultation.

(c) An enforcer reiterated its view that the IASB should ensure that the applicable treatment reflects the substance of the transactions.

(d) A national standard setter suggested the IASB to include additional guidance in IFRS 15, unless a wider project would not be undertaken.

Interaction with IFRS 3

138 Two respondents commented on this question.

139 A national standard setter pointed out that the measurement of contract asset and liabilities acquired in the context of a business combination is pervasive and affects many of the acquisitions in its jurisdiction, especially in the software sector.

Furthermore, this respondent highlighted that the FASB acknowledged this issue and simplified purchase price accounting for deferred revenue under US-GAAP by releasing Accounting Standards Update (ASU) 2021-08. This new approach provides the following benefits:

(a) improving comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination;

(b) reducing the complexity associated with determining the fair value of contract liability at the acquisition date by providing better information to investors and stronger comparability by specifying for all acquired revenue contracts regardless of their timing of payment the circumstances in which the acquirer should recognize contract assets and contract liabilities that are acquired in a business combination and how to measure those contract assets and liabilities;

(c) improving comparability of post-acquisition reporting by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination;

(d) eliminating a need to revalue deferred revenue and determine the cost to deliver contracted services; and

(e) reducing the effort and costs associated with post-acquisition accounting.

In its view this approach significantly enhances information comparability in the pre-acquisition and post-acquisition periods for users of financial statements. Therefore, this constituent strongly encouraged the IASB to resolve the inconsistency between the requirements for measuring contract assets and contract liabilities in IFRS 15 and IFRS 3 and to update IFRS 3 regulations accordingly. Moreover, such an amendment would increase convergence between IFRS and US-GAAP requirements, which is considered very important at least with regard to revenue accounting.

140 A national standard setter suggested the IASB should exclude from the scope of IFRS 3 the acquired contract assets and liabilities to avoid diversity in practice and to lead to convergence with US GAAP.

Interaction with IFRS 16

141 Two respondents commented on the interaction with IFRS 16.

142 A national standard setter experienced questions and challenges in determining which standard apply and provided the following examples:

(a) the sale of mobile phones with a financing arrangement and where the customer has the right to return the phone after a period of time but before the total transaction price has been paid; and

(b) transaction where is difficult to assess whether a customer contract represents a finance lease or an instalment sale.

For both situations this respondent suggested the IASB to provide further guidance in IFRS 16 to assist the assessment of whether the arrangement represents a lease in scope of IFRS 16 or a sale in scope of IFRS 15.

143 A national standard setter commented on the same application challenges included in the EFRAG's DCL and provided the following suggestions:

(a) Sale and leaseback transactions: there is lack of specific or additional guidance within IFRS 16, whereas IFRS 15 requirements are sufficiently clear.

(b) Scoping assessment in the real estate industry: existing diversity in practice should be considered by the IASB, including the lessor's perspective.

Interaction with IFRS 11

144 Three respondents commented on the interaction with IFRS 11.

145 One national standard setter commented on the interaction with IFRS 11 and stated that it did not receive the feedback that there are any difficulties in applying the requirements of IFRS 15 together with IFRS 11.

146 Another national standard setter and a users' oragnisation stated that the lack of guidance to address the challenges in the accounting for some collaborative arrangements should definitely be addressed by the standard setter activity.

Question 10 – Convergence with US GAAP Topic 606

Summary of constituents' comments

147 Six respondents commented on this question.

148 All of them considered that the convergence with US GAAP is desirable as it increases the global comparability and should be maintained as far as possible, especially in the revenue accounting as it is one of the key topic in the financial statements. However, they agreed that the IASB should not achieve the full convergence (i.e., no need to remove existing differences).

149 A national standard setter suggested that any amendment to IFRS 15 that is not adopted by analogy in US GAAP should be avoided, unless it significantly enhances the quality of the information reported.

150 A national standard setter stated that the retention of the current level of convergence between IFRS 15 and Topic 606 is not particularly important.

Question 11 – Other matters

Summary of constituents' comments

151 Seven respondents commented on this question.

152 A national standard setter did not identify any other matters.

153 A national standard setter responded that diversity in practice exist in relation to the costs to fulfil a contract, and particularly in determining which costs meet the recognition criteria set in paragraph 95 of IFRS 15.

154 A national standard setter suggested the IASB to provide additional clarifications about the accounting for warranties, customers' unexercised rights, contract modifications and some marketing expenses paid to the customers (e.g., as in-kind expenses). However, this respondent did not provide specific fact patterns neither indications of how widespread these issues were.

155 A national standard setter responded that diversity in practice exist in the telecommunication industry (where certain up-front customer costs are capitalized and amortised) in relation to the presentation of amortisation of capitalized contract cost. Indeed, some entities include it within the operating expense, whereas others present it as amortisation. This respondent suggested that guidance would be provided to clarify the presentation of this cost to ensure consistency, either as an amendment to IFRS 15 or as part of the Primary Financial Statements project.

156 An academic organisation respondent pointed out that there might be the risk that the immaterial impact of IFRS 15 on the amount of revenue recognised was due to revenue management practice rather than the relatively moderate impact of the new standard (e.g., some companies, especially those with a longer revenue cycle, extend the contract period in sales contracts to compensate for the accelerated revenue recognition after adoption).

157 An enforcer commented on the following topics:

(a) Determination and allocation of the standalone selling price to separate performance obligations;

(b) Sales-based taxes; and

<u>Determination and allocation of the standalone selling price to separate performance obligations</u>

158 This respondent considered that the IASB could further examine and provide additional guidance or examples relating the allocation of the transaction price to separate performance obligations. This refers in particular to the estimation of stand-alone selling prices, for example in the software industry, which can in practice be very judgemental.

In particular, this respondent provided the following fact patterns:

(a) Contracts which include separated performance obligations, such as the sale of a software and related services in the software industry and the sale of an equipment (e.g., mobile phone) and related services in the telecommunication industry. In these contexts, additional guidance and examples might be helpful to understand how to determine the standalone selling prices when discounts on list prices differ significantly between contracts or observable prices are not available (e.g., for software updates);

(b) Scenarios where an entity operating the in the telecommunication industry acts, within the same contract, as an agent for one performance obligation and as a principal for the other one (e.g., contracts which include the sale of mobile phone and an insurance contract for the screen provided by a third party). In these contexts, significant judgment is required to allocate the transaction price to both performance obligations (i.e., mobile phone sale and arrangement for the sale of the insurance).

Sales-based taxes

159 This respondent highlighted divergent practice among European entities in different industries (e.g., breweries, energy) regarding the inclusion of certain sales-based taxes in the transaction price and revenue. In particular, this respondent provided the following fact patterns:

(a) accounting for excise taxes related to brewery activities by European breweries. Some of the issuers, with which European enforcers have interacted, generally view the excise tax as a production tax and recognise the amount to be paid as excise tax as part of the revenue, while other issuers generally view it as a sales tax and therefore the amount to be paid in excise tax is not recognised as part of the revenue. It was observed that including the tax in the transaction price significantly increases the revenue of breweries (in some cases by over 40%). As the entities sell their products in the same markets, the divergence in presentation does not seem to be caused by differences in tax legislation.

(b) Accounting for a Public Service Obligation ("PSO") included as a component of an electricity tariff charged to customers by an electricity supplier. The government in the jurisdiction of the entity used the PSO payments, which were determined as a specific currency amount for each kWh of the consumed electricity, to finance strategic energy projects and initiatives (e.g., green energy). While the entity could not claim refund of the tax if the customer failed to pay it and therefore bore the price risk, the entity was not exposed to any inventory risk and had no power to establish the pricing of the PSO component. The PSO component was not separately presented on the invoices. Also in this case, the assessment of whether PSO amounts were collected on behalf of third parties was highly judgemental.

Given the prevalence and material impact of the discussed issues related to sales taxes and similar payments, this respondent recommended that the IASB include in IFRS 15 guidance and examples which would help entities to assess whether those payments are collected on behalf of third parties. Furthermore, it reiterated its view that no accounting policy election relating to presentation of sales taxes (either on a gross or on a net basis) should be introduced, as such accounting policy choice would decrease comparability of IFRS financial statements and would create an exception to the revenue recognition model that does not reflect the economics of the arrangement.

In conclusion, this respondent considered important to include in IFRS 15 guidance and examples that would help entities to assess whether those payments are taxes on the entity or are taxes collected on behalf of third parties (i.e., the tax authorities).

This application challenge was also raised by a national standard setter. It highlighted that the current guidance in IFRS 15 for the gross/net presentation for sales-based taxes leads to diversity in practice. The relevant IFRS 15 guidance is the PA consideration. However, some entities seem to put more weight on the substance and the rationale behind the tax than on the PA guidance itself (i.e., they argue that the tax is collected on behalf of the government when the intention is not to increase the cost of production). This respondent considered that the IASB should provide guidance in the form of examples to clarify whether it is the control model in IFRS15.B35-B37 that should be used or whether also the rationale for the tax should be considered.

Interaction between IFRS 15 and IFRS 9

160 Three respondents commented on the interaction between IFRS 15 and IFRS 9 providing the following comments.

161 An enforcer agreed with the respondents that informed the IASB, as mentioned in the RFI, that it would be helpful to clarify some issues around the interaction between IFRS 15 and IFRS 9. In particular, this respondent highlighted an issue about the recognition of revenue by a joint operator for output arising from a joint operation when the output it receives in a reporting period is different from the output to which it is entitled. It was discussed in particular:

(a) which of the two revenue recognition methods, sales method or entitlement method should be applied; and

(b) if the sales method should be applied, whether the assets recognised for 'underlift' positions, which result from imbalances between the output received by an operator and the output the operator is entitled to, should be measured in accordance with the requirements of IFRS 9.

This respondent pointed out that a similar fact pattern was discussed by the IFRS IC and in the agenda decision published in March 2019, the IFRS IC explained that a revenue recognition method which depicts the output received from the joint operation (i.e., sales method) should be applied. However, the IFRS IC did not specify in its decision the nature of the assets and liabilities recognised as a result of the application of this method and how to measure them.

Therefore, this respondent suggested the IASB to clarify the interaction between the requirements in IFRS 15 and in IFRS 9 regarding the assets (or liabilities) recognised by applying the sales method.

162 A national standard setter commented on the application challenges included in the IASB RFI arising from the interaction between IFRS 15 and with IFRS 9 as follows:

(a) Issues relating price concessions and the impairment losses – in its view the existing requirements set out in IFRS 15 are sufficiently clear;

(b) Issues relating liabilities arising from IFRS 15 – in its views the application challenges resulting from the application of IFRS 15.B64-B76 (and related to the repurchase agreements) are not pervasive and the Illustrative Example 62 appears to be sufficiently clear. Furthermore, in its view the complexity of these application challenges did not exceed the complexity level of other estimates required by other IFRS Accounting Standards.

163 A national standard setter commented on the accounting of the expected credit loss combined with a significant financing component. In its view, this could result in credit losses being deducted from operating profit twice ("double hit") when interests are presented as part of net finance. However, this respondent had no suggestions to the IASB on how to solve the issue.

Appendix 2: EFRAG-supported academic survey

1 The findings of the EFRAG-supported academic survey to preparers show that the costs of implementation differed across industries and comprised of.

(a) *One-off costs*: As shown in Figure 1, for the sample entities/preparer respondents (i.e., 196 preparer respondents), the most common impacts (i.e., affecting 50% of them) were 1) the changes made to performance indicators (e.g., business KPIs) and 2) changes made to IT systems[6] to provide detailed information in the notes to the financial statements.

(b) *Ongoing costs*: As shown in Figure 2, the most common ongoing costs for the survey respondents are related to changes in performance indicators and staff training[7] (mostly to commercial staff).

Figure 1 Impacts on IT systems

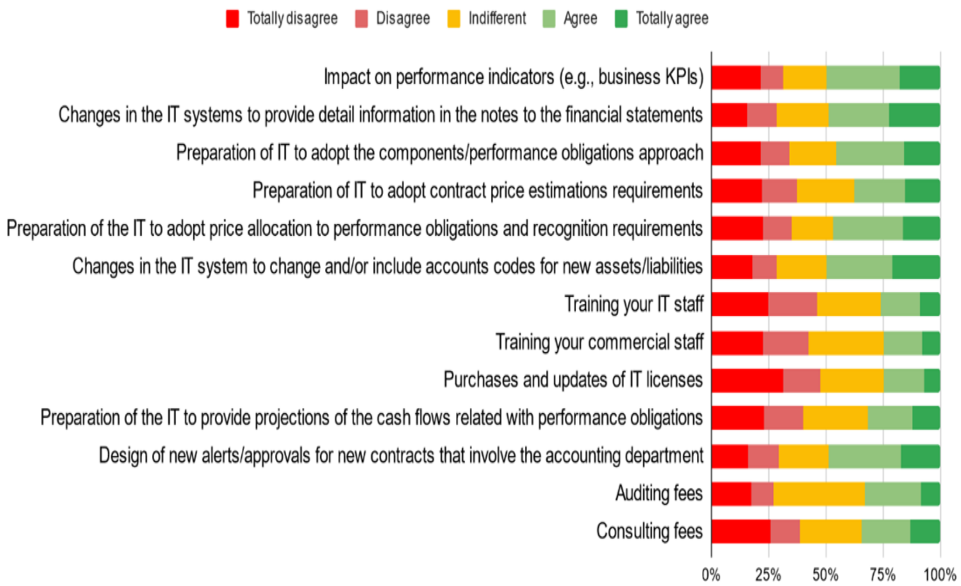
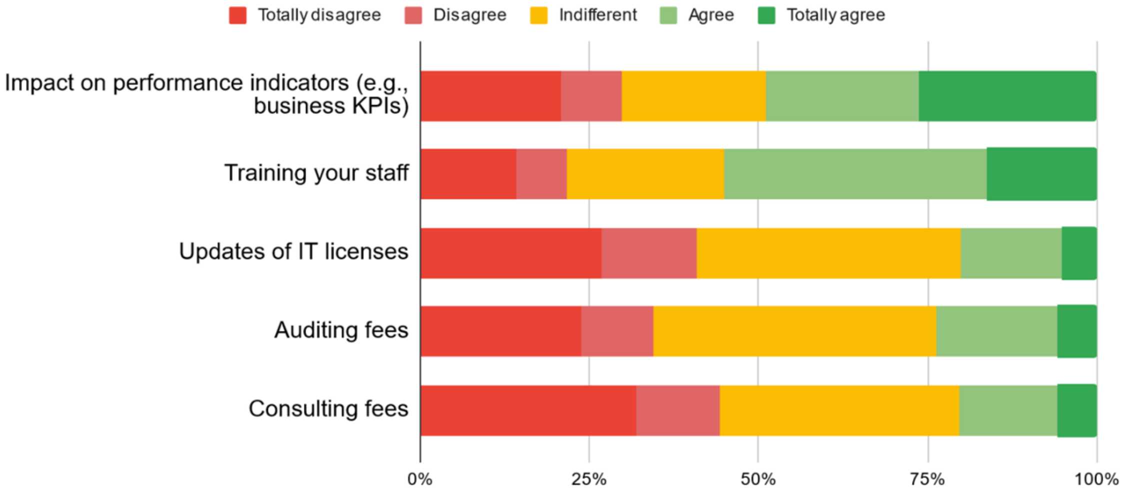


Figure 2: Ongoing costs of the IT systems

[6]Interviews with preparers indicated that the main costs were payments for licences and the adaptation of the standardised software and the consequent changes in IT systems, auditing and consulting fees, opportunity cost of human capital, i.e., time spent training the staff, among others.

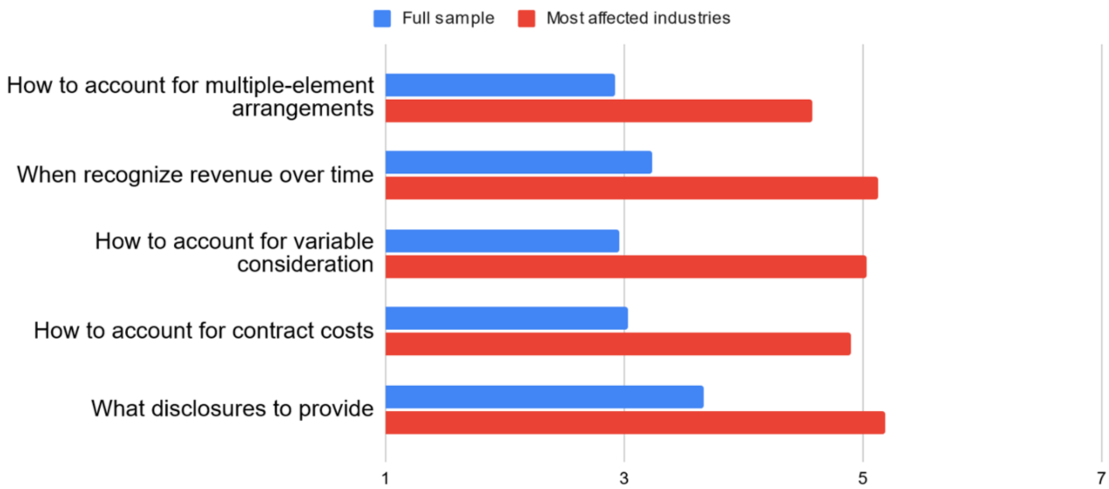
[7] From interviews, it was ascertained that the cost of training the staff, is not related to the technical accounting issues and/or the accounting staff (whose training must be done with any change in the standards) but other types of training and to staff from other departments (e.g., the commercial department)



2 Furthermore, a majority (53%) of the preparer respondents either introduced new IT systems or updated their existing IT systems. The overall impact on IT systems ranged from moderate to high for approximately 25% of the preparer respondents. Furthermore, more than 25% of the preparer respondents took between 12 and 36 months and approximately 5% took more than 36 months to implement their IT systems.

3 As shown in Figure 3, for the preparer respondents, the IFRS 15 requirements for disclosures, recognising revenue over time, and accounting for variable consideration had the most impacts on IT systems. These impacts were high for the most affected industries.

Figure 3: IFRS 15 requirements impact on IT systems[8]



Full sample- average impact of all 196 respondents.

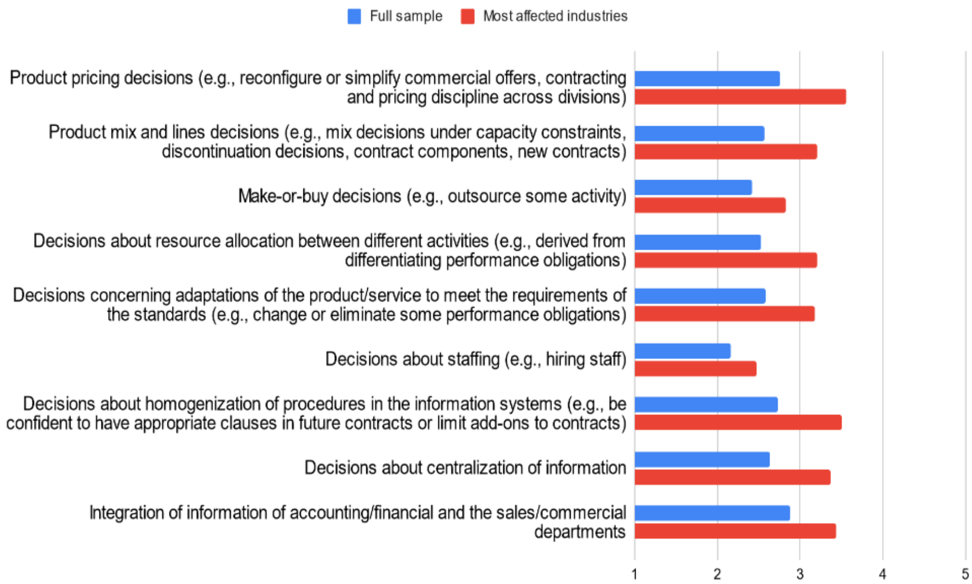
Preparer benefits (i.e., "real effects")

As seen in Figure 4, feedback from the preparer respondents to the EFRAG-supported academic survey shows the most prominent impacts of IFRS 15 implementation on decision-making were on product pricing decisions (e.g., reconfiguring or simplifying commercial offers, contracting and pricing discipline across divisions). The positive impacts

[8] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

on decision-making are more pronounced in the most affected firms. The latter firms experienced more than moderate impacts in all aspects except 'make or buy' decisions and hiring staff.

Figure 4: Impact on the decision-making process[9]



User benefits

4 Non-preparer respondents to the EFRAG-supported academic survey[10] perceived the following improvements as a result of the adoption of IFRS 15:

(a) *Improvements in relevance of information*: As shown in Figure 5, IFRS 15 increased the ability to estimate future cash flows (74% of respondents)[11], assess revenue margins (65% of respondents) and assess management's stewardship[12] (64% of respondents). Furthermore, as detailed in our response to Question 7 on disclosures, a majority of respondents considered that each of the required IFRS 15 disclosures increased the ability to estimate future cash flows.

(b) *Improvements in comparability of information*: Over 60% of the respondents considered that IFRS 15 had improved the comparability with other entities using IFRS while nearly 55% of the respondents considered that IFRS 15 had improved the comparability with entities reporting under US GAAP.

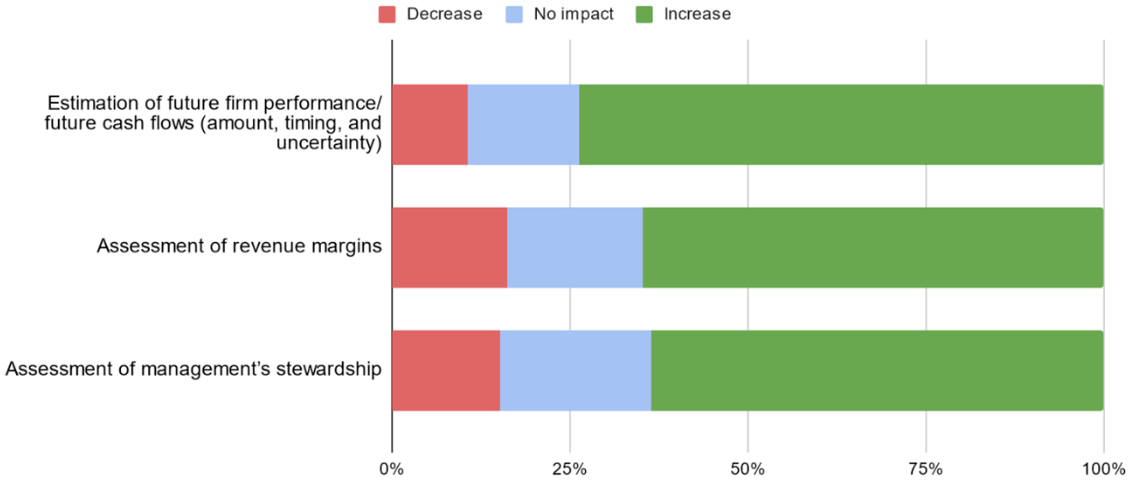
Figure 5: Impact on information usefulness

[9] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

[10] Feedback from 48 non-preparer survey respondents[10] (i.e., 14% - investment professionals, 17% -other users including retail investors and lenders, and the rest-69%- auditors, academics, consultants, regulators, and supervisors) that took part in the EFRAG-supported academic study.

[11] The remaining respondents either indicated that there was no impact or that there was a decrease in usefulness and those that did not have a view are not considered in determining the percentage responses.

[12] 25% of the non-preparer respondents did not express any specific view on the usefulness of information for the stewardship objective.



5 Figure 6 shows the perceived increase in the usefulness of changes to the income statement while Figure 7 depicts the perceived increase of usefulness of the IFRS 15-related line items in the statement of the financial position.

Figure 6: Usefulness: Income statement

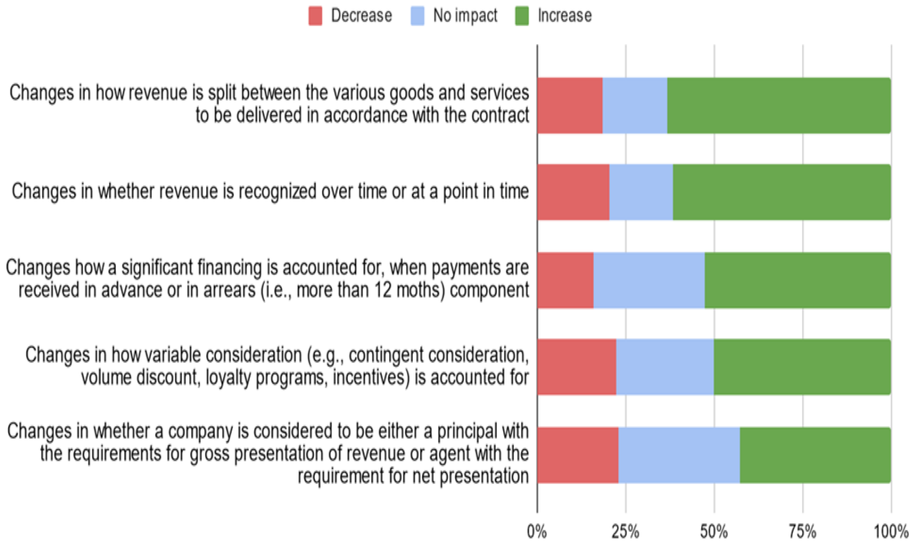
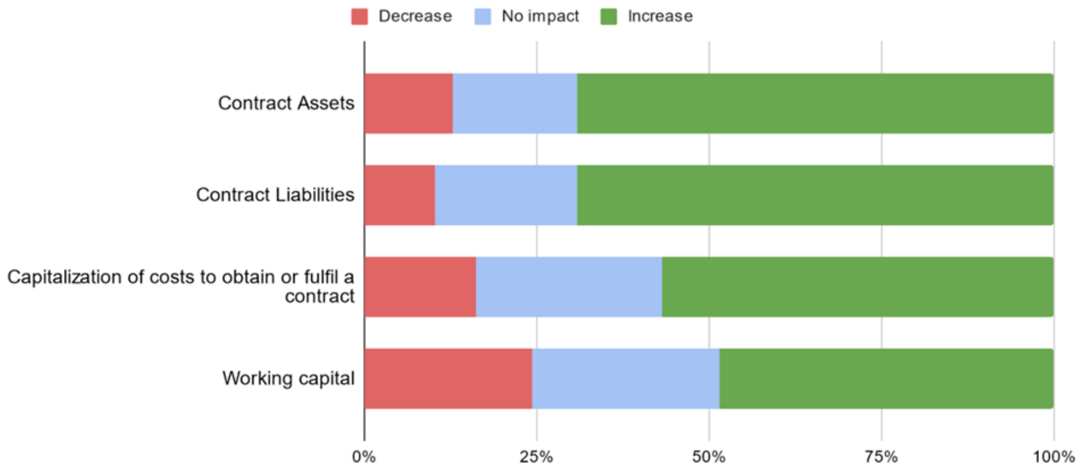


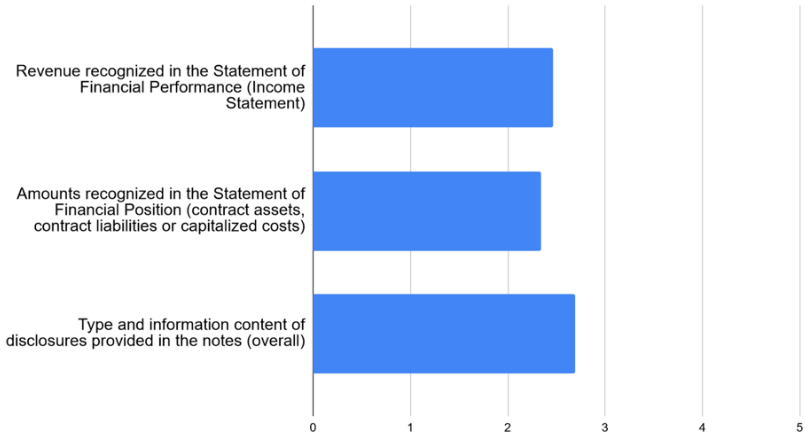
Figure 7: Usefulness: Financial position statement



Other considerations

6 The academic survey reflects the limited effect on the amount and timing of revenue for many companies (see Figure 8).

Figure 8: Impact of financial statements[13]



[13] Both a 7-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) and 5-point likert scale (0- respondent indicating there no impact, 1- low impact and 7 indicating high impact) were applied to assess respondent views on impacts. The two were used jointly in the study to lessen the risk of respondent mechanised responses. Methodologically, neither scale is superior to the other.

Appendix 3: List of respondents

1 Comment letters received:

No	Name of constituent	Country	Type/Category
CL001	SFRB	Sweden	National Standard Setter
CL002	ICAC	Spain	National Standard Setter
CL003	ESMA	Europe	Enforcer
CL004	EFFAS	Europe	Users
DCL1	Draft 1	Europe	Academics
DCL2	Draft 2	Germany	National Standard Setter
DCL3	Draft 3	Austria	National Standard Setter
DCL4	Draft 4	Norway	National Standard Setter