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ic/ac Instituto de Contabilidad y
Auditoría de Cuentas

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Ref: Request for Information – *Post-implementation Review IFRS 15 Revenue from Contracts with Customers*

Madrid, 11th October 2023

Dear Wolf,

In the present letter the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) gives its view on EFRAG's position presented in your draft comment letter in response to the IASB request for information on the Post-implementation Review of IFRS 15 revenue from contracts with customers.

First of all, the ICAC welcomes the IASB's initiative to review the implementation of IFRS 15.

IFRS 15 represented an important change in the recognition of revenue from ordinary activities. The standard establishes principles for presenting financial information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. In addition, the standard introduced new rules for accounting for licenses, the granting of a right of return of the product sold with a refund of the price charged, or asset repurchase agreements.

Many of the initial challenges involved in the introduction of IFRS 15 were overcome by entities, confirming the benefits of the new accounting framework. However, there are certain areas where new challenges have become evident for preparers and users of financial information.

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The Spanish accounting standard on revenue from sales and the rendering of services has been amended to adopt IFRS-UE 15 in order to achieve greater convergence with international standards.

The new standard came into force in January 2021. The decision at this point has meant assuming the methodology developed at the international level and introducing it into the recognition and measurement standard. The decision involves assuming the methodology developed, incorporating into the General Accounting Plan the basic principle consisting of recognizing revenue when the transfer of control of the goods or services promised to the client occurs and for the amount that it expects to receive from the latter, based on a sequential process of stages. It has been developed through a Resolution issued by the ICAC. However, it has been decided to introduce in the General Accounting Plan all the disclosure requirements to be included in the notes.

Although this new standard in the Spanish local Gaap is relatively recent, ICAC is receiving numerous queries about its implementation, there are several challenges in its application in line with those pointed out by EFRAG. Therefore, as a general comment we support and are interested in all the clarifications that can be introduced as additional guidance and further examples to give a better understanding of the standard.

Our responses to the questions are explained below.

IASB RFI Question 1 – Overall assessment of IFRS 15.

(a) In your view, has IFRS 15 achieved its objective? Why or why not?

Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.

(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

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(i) in developing future Standards; or

(ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?

(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

If, in your view, the ongoing costs of applying IFRS 15 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain why you hold this view.

(a) The entry into force of IFRS 15 has led to the establishment of a five-step revenue recognition model that has created a concrete and comprehensive accounting framework applicable to all sectors of the economy. As a result, it has enabled companies to provide more homogeneous and understandable information to users of financial information.

The standard succeeds in achieving its objectives of improving the presentation of useful information for users of financial statements and the comparability of this information between companies.

(b) We agree with EFRAG on the introduction of illustrative examples that could facilitate the implementation of certain operations (licensing).

(c) With the entry into force of IFRS 15, in an initial phase, implementation costs were high in certain sectors (technology, pharmaceuticals, construction, real estate) because of the changes introduced by the standard, with a particular impact on internal control: new IT systems, staff training, implementation of new internal procedures, etc. In general terms, the benefits of applying IFRS 15 outweigh the costs.

IASB RFI Question 2 – Identifying performance obligations in a contract.

(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?

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Please describe fact patterns in which the requirements:

- (i) are unclear or are applied inconsistently;
- (ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or
- (iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

(a) The determination of performance obligations is a key issue for revenue recognition. As indicated by EFRAG, as well as comments received by the IASB, sometimes based on the nature of the transaction, discerning whether the goods or services committed to are distinct and are also distinct in the context of the customer contract can be challenging for entities.

(b) We agree with EFRAG on the introduction of illustrative examples to help identify performance obligations more clearly in certain specific cases. In our view, one of the most problematic agreements to identify performance obligations are licensing agreements. The main difficulty arises when the agreements involve, in addition to the assignment of a license, other services by the entity.

IASB RFI Question 3 - Determining the transaction price.

(a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not?

Please describe fact patterns in which the requirements on how to account for incentives paid by an agent to the end customer or for negative net consideration from a contract (see Spotlight 3) are unclear or are applied inconsistently. If diversity in application exists, please explain and provide supporting evidence about





how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

In relation to the accounting for the consideration payable to a customer, we agree with EFRAG that it is necessary to clarify when there is "negative revenue" because of the consideration payable to the customer being greater than the consideration expected to be received.

In addition to the issue raised by the IASB, EFRAG has identified an issue related to transaction pricing that it also considers to be a high priority for the IASB to consider, namely variable consideration.

EFRAG indicates some examples where variable consideration has caused certain problems. Although in our view, the standard provides guidance for its determination, more may be necessary.

IASB RFI Question 4 – Determining when to recognise revenue.

(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4). If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

To recognise as revenue in accordance with paragraph 31 of IFRS 15, an entity must satisfy the performance obligation by transferring a committed good or service to a customer. In addition, the performance obligation may be satisfied by the entity at one point in time or over time when one of the requirements in paragraphs 35 and 38 of IFRS 15 is met.

In the case of performance obligations satisfied over time, entities shall perform a rigorous review of their customer contracts including all clauses to determine whether any of the requirements are met. The

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introduction of judgements by firms is more evident in this section of the standard. Clarification of the criteria would make it easier for entities to do this, for example, in construction and property development contracts.

IASB RFI Question 5 – Principal versus agent considerations.

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5). If diversity in application exists, please explain, and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified

(a) In our view, the identification of principal and agent has been one of the most important challenges arising from IFRS 15. The standard provides a concept of control as well as control indicators that are adequate to determine the difference between principal and agent. However, as EFRAG points out in certain transactions, clarifying whether the entity is acting as principal, or agent is more complicated. Some examples where the application of the standard to determine the transfer of control, in addition to those mentioned above, would be transactions between franchisees and franchisors and intermediation services provided by institutions to their customers depending on which is the principal activity of the firm.

(b) In view of the difficulties highlighted in the assessment of control, we agree that the inclusion of paragraph BC385H could solve and clarify both the application of the definition of control and the use of the indicators contained in the standard.

IASB RFI Question 6 – Licensing

(a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?





Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to matters described in Spotlight 6. If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

In the cases of companies in the software industry, there is a wide variety of products as well as services that are provided by these companies, so in our view, the inclusion of more illustrative examples would provide greater clarity in determining whether a license and other goods or services committed to the customer are differentiated or not when the agreements have several components in addition to the license assignment such as maintenance service, implementation and training service, etc.

We also believe it would be necessary to clarify the accounting treatment of license renewals, i.e. to determine whether the licensor recognises revenue from ordinary activities when the renewal is agreed by the parties or when the renewal period begins.

IASB RFI Question 7 - Disclosure requirements

(a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.





(c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?

In relation to the information to be disclosed, we consider, in general, that the standard includes sufficient information to enable users to obtain information on the entities' revenue area, as well as their risks.

Likewise, the new requirements introduced by IFRS 15 allow companies to have greater knowledge and internal control of their contracts, as well as their management.

IASB RFI Question 8 - Transition requirements

(a) Did the transition requirements work as the IASB intended? Why or why not?

Please explain:

- (i) whether entities applied the modified transition method or the practical expedients and why; and
- (ii) whether the 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.

IFRS 15 proposed two transition methods for its implementation. In choosing the method, entities had to assess and consider various factors, considering the significant impact on revenue recognition and the adjustment to be made at the date of initial application.

IASB RFI Question 9 - Applying IFRS 15 with other IFRS Accounting Standards

(a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?

Please describe and provide supporting evidence about fact patterns in which it is unclear how to apply IFRS 15 with the requirements of other IFRS Accounting Standards, how pervasive the fact patterns are, what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the





resulting information to users of financial statements. The IASB is particularly interested in your experience with the matters described in Spotlights 9.1–9.3.

(b) Do you have any suggestions for resolving the matters you have identified?

We agree with EFRAG on the issues raised regarding the interaction of IFRSs with IFRS 15.

IASB RFI Question 10 - Convergence with US GAAP Topic 606

(a) How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?

We have no comment on this issue.

IASB RFI Question 11 - Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.

Other matters that may be taken into consideration for clarification include the following: warranties; customers' unexercised rights; contract modifications; the treatment of marketing expenses paid by a company to its clients (as in-kind expenses), such as e.g. client advertising brochures, merchandising delivery.

It would be appropriate to clarify the parent/subsidiary relationships in the separate financial statements when assets are used to provide a service, that is, whether the control has been transfer to the client and therefore they have been sold or control has not been transferred. In practice, the treatment is diverse, revenue or expenses are being registered, considering the distributor with low risk as the principal.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

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Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

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