



EFFAS[®]

The European Federation
of Financial Analysts Societies

Mr. Wolf Klinz
EFRAG FRB Chair
35 Square de Meeûs,
1000 Brussels, Belgium

Sophienstraße 44 DE – 60487
Frankfurt am Main, Germany
Direct number: +49 69 98959519
E-mail: office@effas.com
Internet: www.effas.com

***DCL-Request for Information -Post-implementation
Review IFRS 15 Revenue from Contracts with
Customers***

Contact: Raquel Zaragoza

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Dear Mr. Klinz,

The EFFAS Commission on Financial Reporting (“Commission”, “We”) would like to share with you its views on EFRAG’s Draft Comment Letter (“DCL”) *Request for Information –Post-implementation Review IFRS 15 Revenue from Contracts with Customers*.

The Commission acknowledges the general view of stakeholders based on EFRAG’s outreach noting that the standard is working broadly well. We agree with that view and think that there is no need for any major amendments. We also support EFRAG’s DCL suggestion requiring further clarification with illustrative examples in issues related to licenses and third-party fees.

Regarding the key points of the DCL, we would like to comment as follows.

1. Overall suitability of IFRS 15

The Commission supports the five-steps approach and agrees with EFRAG’s comments that the standard has largely achieved its objectives. Although the implementation of the standard was challenging, the benefits undoubtedly outweighed the costs, and it has enhanced the information for users.

In line with EFRAG’s views, we consider the standard is well-structured and easier to understand.

2. Identifying performance obligations in a contract

We understand that identifying an obligation arising from a contract involving licences might be challenging for preparers. However, users want to know the origin of revenues to better understanding a company’s business.

Regarding question 2(b), we agree that updating the illustrative examples would be very helpful.

3.- Determining the transaction price

EFFAS comments on: *EFRAG’s DCL -Post-implementation Review IFRS 15 Revenue from Contracts with Customers*



The Commission agrees with EFRAG's comments regarding the need to explore potential improvements to the existing guidance on how to apply the estimation constraint on variable consideration. This point is relevant for preparers and for users of financial statements as the revenue reported reflects the total consideration the entity expects to receive. It is very important to get this right. Diversity in practice can make, or would make, the financial information less useful and less comparable.

4.- Determining when to recognize revenue

The Commission considers that the standard clearly defines when to recognize revenues after assessing the pattern of transfer of control of a good or service. Moreover, we consider that entities by and large report revenue adequately following the standard.

5.- Principal versus agent considerations

The Commission recognizes the difficulties in applying the transfer of control indicators particularly for entities that do not have physical possession of the good such as entities providing licences. This can lead to a diversity of practices making its assessment difficult for users. EFFAS supports EFRAG's request to give priority to address this issue.

6.- Licensing

Recognizing revenue from licences and similar, such as multiple-elements arrangements, is probably the most challenging aspect of the standard. In addition to EFRAG's remarks on royalties related to the drug and pharmaceutical industry, licences and software subscriptions for instance are contracts whereby revenue is particularly difficult to determine since significant judgment might be required. Therefore, we agree with EFRAG's suggestion that the IASB could further assess the possibility of introducing an amendment providing additional clarity on this point.

We would like to add that costs and revenues are connected to the customer service and to the commercial contract. For instance, contracts with a claw back clause -the option to close the contract before the contractual official deadline- should be closely monitored as contracts should be aligned with the local and European regulations.

7.- Disclosure requirements

The disclosure requirements introduced in IFRS 15 had a positive impact for primary users on the usefulness of the information. The disclosures facilitate calculating cash flows and provide better information on long-term contracts. The reconciliation of contract assets and contract liabilities is particularly useful. The ability to match both sides facilitates a better understanding of the timing of the cash flow generation. This information also provides a better understanding of the potential evolution of an entity's business and helps to gauge its growth potential. Having additional information on the backlog of an entity is also very helpful.



For disaggregation, we think the information disclose whether by (1) primary geographical markets, (2) major goods and services or (3) timing of revenue recognition should be consistent over the years for comparability purposes.

A final comment on disclosures is that the information provided must be relevant to users to be useful. No material information should be avoided.

8.- Transition requirements

The Commission agrees with EFRAG's comments as additional useful information is being disclosed.

9.- Applying IFRS15 with other Accounting Standards

The Commission supports EFRAG's comments by and large, and the views depicted on the specific standards: IFRS 3 *Business combinations*, IFRS 16 *Leases*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint arrangements*.

10. Convergence with US GAAP Topic 66

IFRS 15 has undoubtedly improved the comparability with other entities reporting under US GAAP. The Commission considers that any further step taken to reduce the differences between IFRS and US GAAP is a positive move to improve comparability between entities across the globe.

11. Other matters

No further comments.

If you would like to further discuss the views expressed in this letter, please contact us.

Javier de Frutos, Chair
EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 14-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium), Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany), and Andreas Schenone (SFAA, Switzerland).

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