DRSC / ASCG • Joachimsthaler Str. 34 • 10719 Berlin

Wolf Klinz
EFRAG FR Board President
35 Square de Meeûs
B-1000 Brussels

Financial Reporting Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 27 October 2023

Dear Mr Klinz,

IASB RfI *Post-implementation Review IFRS 15 Revenue from Contracts with Customers*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's Request for Information – Post-implementation Review IFRS 15 *Revenue from Contracts with Customers* by providing our feedback vis-à-vis the IASB.

We provide our response to EFRAG's questions to constituents in the appendix of this letter and attach our comment letter to the IASB, containing our detailed comments on the questions raised in the RfI.

If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the DCL

Question 3 – Determining the transaction price

Do you agree with the priority of the variable consideration issue identified by EFRAG? Do you agree with the suggestions to address it? Are you aware of any other pervasive issue in the determination of the transaction price?

We agree with the EFRAG's observation that there is a lack of guidance on whether incentives/penalties to customers by intermediaries should be presented as reductions of revenue or as expenses. Further, some of our constituents also indicated that there is a lack of guidance in instances where the consideration payable to a customer exceeds the amount of consideration expected to be received from it ('negative' revenue). Thus, we agree with the suggestions to address it. However, we do not consider this issue to be a high priority for addressing by the IASB as it does not appear to be a widespread issue.

Question 4 – Determining when to recognise revenue

Are you aware of any pervasive issues, including the one outlined in paragraphs 55 and 56 above, that give rise to diversity in practice in the timing of revenue recognition as a result of the IFRS 15 requirements of when to recognise revenue (i.e., over time or at a point in time) after assessing the pattern of transfer of control of a good or service? If yes, please elaborate.

We did not receive any concerns regarding the issue described by EFRAG in paragraphs 55 and 56 of the DCL. However, we received feedback on some other matters that appears to be challenging in practice in assessing the timing of revenue recognition. Please refer to our explanation to question 4 in the comment letter to the IASB attached below.

Question 7 – Disclosure requirements

Do users (and other stakeholders) of financial statements agree with the concerns and suggestions for improvement of the individual disclosure requirements detailed in paragraph 87?

As noted in our comment letter to the IASB, we also question the balance between the costs and benefits of some disclosures required in IFRS 15. We have received feedback from some of our stakeholders that they have not yet received any requests for additional information as part of their investor relations communications. For further explanation, please refer to our answer to question 9 in the attached comment letter to the IASB.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

Should the IASB address the interaction between IFRS 15 and IFRS 10 as detailed in paragraphs 120-123 and 127-128? In your experience, is this matter pervasive? If yes, please explain.

Yes, we believe that the IASB should address the interaction between IFRS 15 and IFRS 10 with respect to corporate wrapper matter since this matter is pervasive and the accounting treatment is currently inconsistent.

Furthermore, please refer to our comments on the interaction between IFRS 15 and IFRS 3 *Business Combinations*, IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* in the attached comment letter to the IASB.

Should the IASB address the interaction between IFRS 15 and IFRS 11 as detailed in paragraphs 124-126 and 129? In your experience, under what circumstances/fact patterns has it been difficult to determine whether collaborative arrangements are in the scope of IFRS 15 and is this matter pervasive? If yes, please explain.

We have not obtained feedback that entities face difficulties to determine whether collaborative arrangements (or portions of these contracts) fall under the scope exception of IFRS 15 as detailed by EFRAG in paragraphs 124-126 and 129 of the DCL. However, we agree with EFRAG's observations and with the recommendation to clarify it. We do not see this issue to be of high priority.

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

ASCG • Joachimsthaler Str. 34 • 10719 Berlin

IFRS Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Mr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Berlin, 27 October 2023

Dear Andreas,

IASB RfI *Post-implementation Review IFRS 15 Revenue from Contracts with Customers*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Request for Information Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*, issued by the IASB on 29 June 2023 (herein referred to as 'RfI'). We appreciate the opportunity to respond to questions raised in the RfI. The views expressed hereafter are based on our experience with the application of IFRS 15 in Germany and reflect our consultations of German constituents on the IASB's RfI that we performed in September and October 2023.

We consider that IFRS 15 is a principles-based, well-structured, and understandable Standard that is generally working well in practice. Overall, we consider the core principle and the supporting five-step revenue recognition model to provide useful information about an entity's revenue from contracts with customers.

We observed that various aspects of IFRS 15 were challenging during the implementation phase of the Standard but over time, pragmatic and well working solutions were found in practice. We believe that stability should be the primary objective of the PiR; fundamental conceptual discussions and fundamental changes to the Standard should be avoided.

Some of our constituents suggested that the IASB could provide additional illustrative examples for the more complex fact patterns where preparers face accounting challenges. Even though illustrative examples can be very helpful for the application of the Standard provisions to a specific fact pattern, we doubt whether providing additional illustrative examples would resolve similar application challenges the preparers face in other cases or industries. Instead, we believe, the IASB should consider a principle-based solution when addressing matters identified by its constituents and should focus on widespread matters.

With respect to cost-benefit balance, we obtained feedback that the implementation and transition costs were significant while the effect on the amount of revenue recognised in the financial statements was often limited.

Also, the ongoing costs remain still significant for some industries. The main cost driver appears to be data collection to meet disclosure requirements. We suggest that the IASB should seek an exchange with users of financial statements to evaluate whether and to what extent these disclosures are relevant for investment decisions making.

Our responses to the questions in the RfI are laid out in the appendix to this letter. During our outreach events we received further feedback not elaborated on below, in particular on matters, that do not appear to be widespread or may lead to rule-based standard-setting activities. However, we can gladly share this additional input received with the IASB on a staff level.

If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions raised in the 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:

(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.

Response to (a)

We consider that IFRS 15 is a principles-based, well-structured, and understandable Standard that is generally working well in practice. In our view, the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting for entities in various industries. Overall, we consider them to provide useful information about an entity's revenue from contracts with customers.

However, we see the need for some targeted improvements to IFRS 15; please refer to our responses to IASB's Questions 2, 3, 5 and 9 below.

Response to (b)

We observed that various aspects of IFRS 15 were challenging during the implementation phase of the Standard (e.g., revenue recognition over time, principal-agent considerations, interaction with other IFRSs, especially with IFRS 9) but over time, pragmatic and well working solutions were found in practice. For some complex issues, entities still need to use significant judgement in applying the requirements of IFRS 15, which might lead to inconsistent outcomes between entities and thus could affect comparability. However, in our view, this may be less due to the conceptual weaknesses of the Standard then to the varying complexity of modern business models.

For this reason, we believe that stability should be the primary objective of the PiR; fundamental conceptual discussions and fundamental changes to the Standard should be avoided. Instead of Standard amendments, some stakeholders indicated a need for more illustrative examples. Even though illustrative examples can be very helpful for the application of the Standard provisions in some cases, we are sceptical whether providing additional illustrative examples would resolve the application challenges the preparers face in other – similar – cases. Instead, we believe, the IASB should consider a principle-based solution when addressing the widespread matters identified by its constituents.

Response to (c)

We obtained feedback that the implementation and transition costs were significant while the effect on the amount of revenue recognised in the financial statements was limited. Thus, some stakeholders have questioned the cost-benefit ratio in implementing the requirements of IFRS 15 . In further standard-setting projects, the IASB should pay more attention to ensuring that the benefits of the new or amended Standard exceed the costs of implementing it.

Notwithstanding, there are benefits from the application of the Standard, such as improvements in the contract management systems of the entities, better understanding of the business models, as well as the improved comparability of the reported revenue not only with entities reporting under IFRS, but also with competitors applying US-GAAP.

The ongoing costs remain still significant for some industries. The main cost driver appears to be data collection to meet disclosure requirements (in particular, disaggregation of revenue and the reconciliation of contract assets/contract liabilities). Furthermore, analysing new transactions is associated with a high level of effort, which may be mainly due to the increasing complexity of the transactions.

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?

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?

Response to (a)

We agree with the IASB's observation that identifying goods or services promised in a contract and determining whether those goods or services are distinct is sometimes challenging. Particularly, we noted that application challenges arise for license agreements as well as for software-as-a-services arrangements (SaaS) and cloud-based solutions.

Complexity also arises when identifying performance obligations for contracts involving transport services which are not part of entity's ordinary activities. Since IFRS 15 does not include any specific provisions in this respect, an entity must consider the overall objective of IFRS 15 as well as materiality considerations in assessing promised goods or services and identifying performance obligations.

Response to (b)

When IFRS 15 was issued, many business models did not yet exist or were not widespread. Further, business models are continuously changing, so applying the principle-based requirements of the Standard for new business models will still remain challenging. In our view, the core principles of IFRS 15 provide a sufficient basis for identifying performance obligations, even if this is challenging in individual cases in practice.

However, we suggest that the IASB explores adding a narrow-scope project on assessing the accounting for shipping and handling activities in the context of the contract for purposes of identifying performance obligations. In this regard, the FASB's Accounting Standards Update ASU 2016-10 introduced an accounting policy election that permits reporting entities to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfilment cost rather than as an additional promised service (i.e. a promised service in the contract). Reporting entities applying this election will include any fee received for shipping and handling as part of the transaction price and recognise revenue when control of the good transfers. In our view, the IASB should examine the possibility of aligning IFRS 15 with these provisions. An alignment would not only solve the application challenges but also result in more converged requirements and improved comparability of revenue information.Furthermore, we suggest that the IASB should assess whether the principles of the Standard on identifying performance obligations in a contract are sufficient to reflect SaaS arrangements which have increased tremendously in the era of digital transformation. The IFRS Interpretations Committee has published two agenda decisions (March 2019 and April 2021) clarifying how arrangements in respect of SaaS should be accounted for. However, we received the feedback that application challenges in this respect still remain. We noted that the fact patterns in respect of SaaS-arrangements can be very complex, and every SaaS arrangement is unique. Consequently, we do not believe that providing additional illustrative examples for the complex fact patterns could resolve the accounting challenges preparers face. From our point of view, principle-based solutions should be evaluated, if the IASB conclude in the assessment that the requirements in IFRS 15 for SaaS arrangements are not sufficient.

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?

Response to (a)

In our view, IFRS 15 generally provides a clear and sufficient basis to determine the transaction price in a contract. However, we received feedback on challenges faced by preparers when determining the transaction price in the following cases.

Some stakeholders stated that there was diversity in practice in the accounting for incentives payable to a customer (e.g., marketing incentives) by an agent within a three-party arrangement, i.e., it is not clear whether these incentives should be presented as reductions of revenue or as expenses. However, we observed that the fact pattern regarding the incentives paid by an agent to the end customer and the question of how to account for this fact pattern does not appear to be a widespread issue.

Our constituents also highlighted that there is a lack of guidance in cases where the consideration payable to a customer exceeds the amount of consideration expected to be received from the customer ('negative' revenue). Particularly, it appears unclear, whether any compensation payment beyond the transaction price should be recognised as an expense or as negative revenue. Based on our observation, this issue appears to be widespread.

Furthermore, some stakeholders indicated that there was diversity in application when estimating the variable consideration, particularly, when assessing the "highly probable" threshold that the revenue will not be reversed in the future.

Response to (b)

We suggest that the IASB considers clarifying whether the consideration payable to a customer which exceeds the amount of consideration expected to be received from the customer should be presented as an expense or as negative revenue.

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?

Response to (a)

We share the IASB's observation that the initial challenges - some of which were significant - related to determining whether to recognise revenue over time or at a point in time have largely been overcome.

Nonetheless, existing challenges can still be observed in the software sector.

Further, we observed that the criterion included in IFRS 15.35(c) – "an enforceable right to payment for performance completed to date" – is challenging to apply and is interpreted differently in practice.

Some stakeholders have expressed that there were application challenges in the revenue recognition over time if the performance obligation is satisfied within a very short period of time (e.g., within one day). As IFRS 15 does not include an explicit criterion of time for the satisfaction of performance obligations, entities should consider the materiality considerations in determining when to recognise revenue.

Furthermore, some stakeholders indicated that applying the concept of control in IFRS 15.31–.34 alongside the related indicators in IFRS 15.38 is challenging. Entities sometimes assess whether a performance obligation is fulfilled over a certain period of time or at a certain point in time solely on the indicators and thereby overlook the control concept.

Response to (b)

In our view, the challenges in determining when to recognise revenue arise not because the requirements of the Standard are unclear, but because of the complexity of legal contract drafting. Notwithstanding the above feedback, we cannot assess how widespread these or similar issues are. Therefore, we do not have any specific suggestions for any standard setting activities on this topic.

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?

Response to (a)

Determining whether an entity is a principal or an agent is not an IFRS 15-specific, but a cross-cutting issue across various IFRSs relevant wherever more than two parties are involved in a transaction. E.g., IFRS 10, IFRS 16, and IFRS 9 contain principal versus agent requirements. We acknowledge that principal versus agent determination is challenging when applying these requirements.

IFRS 15 requires an entity to determine whether it is a principal or an agent based on the concept of control. Additionally, IFRS 15 includes a non-exhaustive list of indicators of control to help entities assess whether they control the goods or services before they are transferred to the customer. In our opinion, the relationship between the concept of control and the corresponding indicators is not clearly described in the Standard. 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. In these cases, an entity uses judgement that has a significant impact on revenue accounting and thus, the numbers reported in the financial statements.

We received feedback that entities sometimes struggle to apply the concept of control in relation to services, especially to digital services. Some stakeholders said that illustrative examples included in IFRS 15 do not appear to be supportive in this respect since they do not cover cases in which indicators point to different conclusions in relation to the concept of control.

Response to (b)

We suggest 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. The link of the indicators to the control concept should be clarified. In doing so, the IASB should consider convergence with the related requirements in Topic 606 (see response to Question 10).

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?

Response to (a)

We share the IASB's observations that the identification of performance obligations in SaaS arrangements as well as in those arrangements that include both the obligation to provide goods or services and a license are applied inconsistently. However, in our view, this is due to the complexity of the respective contract agreements, which means that using judgement cannot be avoided or ruled out.

Some stakeholders pointed out that there is a lack of clarity on how to account for the licence renewal, i.e., whether to recognise revenue when the renewal period starts or when the renewal is agreed.

Overall, we believe that the Standard provides a sufficient basis for identifying performance obligations and accounting for contracts involving licences. Therefore, we do not see the need for standard setting in this respect.

Response to (a)

If the IASB decides to amend the Standard on this topic, it should first collect concrete examples in which the requirements are unclear. Instead of amending IFRS 15, the IASB could provide educational materials which include more complex fact patterns involving licences.

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?

Response to (a)

Overall, we consider the disclosure requirements to be sufficient and suitable for providing users of financial statements with a picture of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. However, in our view, some disclosures that do not provide useful information (see our explanations below). We see no need for any additional disclosure requirements. We do not share the IASB's observation that entities sometimes omit the disclosures required by IFRS 15 because the disclosure requirements are not sufficiently specific.

A (non-representative) feedback we received from our stakeholders in our outreach on the question whether IFRS 15 disclosure requirements provide useful information did not provide a uniform picture. Slightly half of the respondents (45%) answered that the disclosure requirements result in entities providing useful information. However, 40 % of respondents said that disclosure requirements are partly insufficient because the focus is not the right one. A small number of respondents (15%) does not think that the disclosure requirements provide useful information.

Regarding the individual disclosure requirements, the respondents gave the following ranking in order of descending usefulness:

1. Disaggregation of revenue
2. Significant judgments an entity makes when reporting revenue
3. Remaining performance obligations
4. Reconciliation of contract assets and liabilities
5. Disclosures on costs to obtain or fulfil a contract
6. Other disclosures

In addition, we received some feedback that users of financial statements have not indicated a need for the information about the significant changes in the contract asset and the contract liability balances during the reporting period.

Response to (b) and (c)

In our view, the ongoing costs of complying with some disclosure requirements of IFRS 15 do exceed the benefits for users of financial statements, e.g.:

- Disclosures on 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. We expect costs to remain high in the long term.
- Providing disclosures on the amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date are also very time-consuming and costly. Moreover, we observed that there is diversity in practice as to as how entities approach this disclosure requirements. In addition, the benefit of the information provided by these disclosures seems to be questionable because it does not reflect the outstanding performance obligations that will become revenue in the future.

We question the usefulness of the information to be provided under these disclosure requirements and thus, the balance between the costs and benefits of the whole set of disclosures required in IFRS 15. We suggest that the IASB should seek an exchange with users of financial statements to evaluate whether and to what extent these disclosures are relevant for investment decisions making.

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 retrospective 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.

Response to (a)

The modified retrospective method option has been used extensively in practice since this method has significantly reduced costs and the burden of transition for preparers of financial statements. In our view, 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. Therefore, we consider 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. We encourage the IASB to use the option of the modified retrospective method also in further standard setting projects.

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?

Response to (a)

We consider that application challenges arise from applying IFRS 15 and the following four other IFRSs:

- IFRS 3 *Business Combinations* – measuring contract assets and contract liabilities acquired as part of a business combination;
- IFRS 9 *Financial Instruments* – derecognition of contract assets;
- IFRS 10 *Consolidated financial statements* – accounting for sales of assets via corporate wrappers, and
- IFRS 17 *Insurance Contracts* – assessing whether the contract transfers significant insurance risk.

These issues are explicitly identified in the IASB's RfI. We consider them to be of high priority, since these are common issues, whose accounting is currently inconsistent.

Response to (b)

Interaction with IFRS 3 *Business Combinations*

Regarding IASB's Spotlight 9.1 – IFRS 3 *Business Combinations* we would like to point out that the issue described is pervasive and affects many of our acquisitions, especially in the software sector.

The current regulations in IFRS 3 require a revaluation of deferred revenue acquired in a business combination to its fair value. Fair value of deferred revenue is generally determined by computing an amount equal to the cost of providing services in the post-acquisition period plus a reasonable profit margin, which typically results in a significant downward adjustment (commonly referred to as a 'haircut') in the consolidated statements of the acquiring company.

The relating revenues are never realised, which distorts investors since they usually expect higher revenues after an acquisition has taken place.

The FASB acknowledged this issue and simplified purchase price accounting for deferred revenue in US-GAAP by releasing Accounting Standards Update (ASU) 2021-08. This ASU requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with ASC 606, the revenue standard. Consequently, an acquiring entity will generally account for deferred revenue as if it had originated the contract, resulting in no deferred revenue 'haircuts' at the date of acquisition.

As mentioned by the FASB, the new approach offers several benefits like:

- improving comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination,
- 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,
- 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,
- eliminating a need to revalue deferred revenue and determine the cost to deliver contracted services, and
- reducing the effort and costs associated with post-acquisition accounting.

This relief is available for all public and private entities applying US-GAAP and significantly enhances information comparability in the pre-acquisition and post-acquisition periods for users of financial statements.

We strongly encourage 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. Such an amendment would fit with the other provisions of the Standard , since there are other areas in IFRS 3 that are not based solely on fair value measurement, but on the relevant accounting in the respective Standards. Moreover, such an amendment would increase convergence between IFRS and US-GAAP requirements, which we consider to be very important, at least with regard to revenue accounting (see our answer on Question 10 below).

<u>Interaction with IFRS 9 *Financial Instruments*</u>

In cases where an entity transfers its contract assets to another party, e.g. in the context of a factoring agreement, the question arises as to how to assess whether the contract asset is to be derecognised in this case. In the absence of specific requirements in IFRS 15, entities might apply the derecognition provisions of IFRS 9. We suggest that the IASB might consider providing guidance in this respect.

<u>Interaction with IFRS 10 *Consolidated financial statements*</u>

The corporate wrapper matter was already addressed by many stakeholders in the different contexts. The IASB decided not to include a question about accounting for the sale of assets via corporate wrappers in the RfI of the PiR of IFRS 15 but to reserve it for the next agenda consultation. We acknowledge that accounting for the sale of assets via corporate wrappers is a cross-cutting issue and thus, developing a comprehensive solution for corporate wrappers could affect multiple IFRSs. Therefore, we understand that the IASB has not included this issue in this RfI. Nonetheless, we suggest that the IASB addresses this issue in the short term within a narrow-scope project instead of assessing the demand for resolving this matter in the next agenda consultation.

<u>Interaction with IFRS 17 *Insurance contracts*</u>

IFRS 17 defines an insurance contract based on whether the contract transfers significant insurance risk. We observed that noninsurance entities still face challenges in assessing whether services they provide transfer significant insurance risk and, thus, have to be accounted for applying the requirements of IFRS 17.

Question 10 – Convergence with Topic 606

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

<u>Response to (a)</u>

We believe that generally, convergence should not be a primary objective of the IASB when developing Standards. However, regarding revenue accounting, we consider convergence to be very important. Firstly, the two Standards - IFRS 15 and ASC 606 - were developed jointly by the IASB and the FASB. Secondly, revenue accounting is one of the key topics in financial reporting. In this respect, the IASB should continue to exchange views with the FASB and maintain convergence as far as possible. Any amendments to IFRS 15 that are not adopted by analogy in U.S. GAAP should be avoided unless these amendments significantly enhance the quality of the information reported.

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.

Response to (a)

During our outreach events we received feedback on some further matters not elaborated on above. The Financial Reporting Technical Committee discussed these matters and decided not to address them in the comment letter on the IASB's RfI since these matters do not appear to be widespread or may lead to rule-based standard-setting activities. However, we are happy to share this additional input received with the IASB on a staff level.