27 October 2023

Dr Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
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Via online submission: www.ifrs.org

Dear Andreas

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

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Request for Information (the RFI) and make this submission on behalf of our members and in the public interest.

Our main observations and recommendations based on feedback received from stakeholder outreach activities undertaken as part of developing this submission are set out below.

The revenue recognition model introduced through IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) has resulted in significant improvement to the accounting for revenue recognition practices, including an improvement in the quality of relevant financial information. The five-step revenue recognition model is generally seen as robust, providing a comprehensive solution to appropriate revenue recognition outcomes across a range of business models. While implementing IFRS 15 was challenging and costly initially, the ongoing benefits justify these initial implementation costs.

There is scope for targeted enhancements, through Application Guidance and/or Illustrative Examples, to support preparers in three high priority areas:

- Identifying performance obligations: Non-refundable upfront fees pose a particular challenge in the context of identifying performance obligations. It is sometimes unclear whether the fees relate to a transfer of goods or services, and if so, whether they represent a separate performance obligation. We recommend the IASB update the existing Illustrative Example 53 (Paragraphs IE272-IE274) and include more Illustrative Examples, including the thought process and rationale, to assist preparers identify performance obligations.

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- Determining the transaction price: When determining the transaction price, three areas have been highlighted where there is divergence in practice.
  - It is unclear whether consideration payable to customers should be presented as negative revenue or as an expense.
  - The estimation constraint on recognising variable consideration does not appear to be well understood.
  - When the total contract price is allocated to performance obligations within the contract, sometimes this is taken as the transaction price even if it does not represent the stand-alone price.

- Principal versus agent considerations: There appears to be diversity in practice whereby some preparers apply the indicators of control (over specified goods or services), instead of the assessment of control which is required in determining whether the entity is a principal or agent. We recommend that the IASB clarifies the requirements and gives greater emphasis to the assessment of control as the primary criteria for determining whether the entity is a principal or agent.

However, our outreach activities indicate there is no desire for any change to the technical requirements of IFRS 15 and therefore, any clarifications should seek to avoid any unintended consequences.

We also note there are currently nine Agenda Decisions relating to IFRS 15, indicating areas of complexity that have been clarified by the IFRS Interpretations Committee. We suggest the IASB considers whether these Agenda Decisions should be incorporated into the Standard as additional Illustrative Examples. This has the benefit of ensuring a more consolidated Standard, one of the original primary motives in its development.

Our responses to the specific questions raised in the RFI are included in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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Attachment

Question 1—Overall assessment of IFRS 15

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

(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?

(a) The overall feedback we have received indicates IFRS 15 has achieved its objective and the five-step revenue recognition model is generally seen as robust. Notwithstanding the overall view, entities in some industries, especially those in software services and telecommunications, and those that have contracts involving more than two parties, found IFRS 15 challenging to implement mainly in respect of the identification of performance obligations (see our response to Question 2). However, there is no appetite for further change to the core accounting requirements in IFRS 15. Instead, there is a preference for more detailed practical guidance to establish consistency in accounting treatment.

(b) The core principle stated in IFRS 15, paragraph 2 provides a consistent baseline that is well understood. This is a strength which may be considered for the future developments of IFRS Accounting Standards. Feedback from preparers is that some targeted enhancements to the Application Guidance and/or Illustrative Examples would assist with the critical judgements needed to correctly apply the requirements in the standard. See our responses to the proceeding questions for our specific recommendations in this regard.

In addition, there are currently nine Agenda Decisions relating to IFRS 15, indicating areas of complexity that have been clarified by the IFRS Interpretations Committee. We suggest the IASB considers whether these Agenda Decisions should be incorporated into the standard as additional Illustrative Examples. This has the benefit of ensuring a more consolidated standard, one of the original primary motives in its development.

(c) We understand that the implementation of IFRS 15 has, in most instances, led to improved quality of financial information for users along with improved contract management processes for preparers. While the initial costs and amount of work to implement IFRS 15 were significant, on balance, generally preparers and users agree the resulting information has proved useful and provides improved comparability. The ongoing costs vary depending on the industry and the entity's contracts and accounting systems. The volume, diversity and complexity of revenue contracts are the main drivers of costs.

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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?

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

(a) The judgement involved in identifying and assessing performance obligations is often challenging when a contract includes bundled performance obligations, or when there are combinations of contracts. However, on the upside, we have heard that there are synergies arising within an organisation as preparers better understand the entity's revenue-generating business activities when they understand the contractual obligations within the relevant revenue-related contracts.

There are application challenges that arise when a non-refundable upfront fee is charged to the customer. It can be difficult to assess whether the payments relate to the transfer of a promised good or service and, if so, whether these promises represent separate performance obligations. Importantly, membership application and service arrangement set-up fees have a similar underlying economic substance, yet they can have different accounting outcomes. The challenge of identifying performance obligations is particularly prevalent for contracts involving licences as discussed in our response to Question 6.

(b) We recommend the IASB updates Illustrative Example 53 (Par. IE272-IE274) and/or provides more Illustrative Examples relating to non-refundable upfront fees that consider more complex scenarios. It is important that the rationale is clearly articulated so the principles can be applied to other contracts where there are variations in facts that could lead to a different outcome.

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?

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

(a) Feedback we received is that IFRS 15 generally provides a clear basis to determine the transaction price in the contract. However, three areas have been highlighted where there is divergence in practice:

- Consideration payable to customers - there is limited guidance on whether customer incentives/penalties should be presented as reductions of revenue (i.e., negative revenue) or as expenses.
- Variable consideration - it is difficult to estimate the variable consideration for some transactions, including applying the notion of "highly probable" that the revenue will not be significantly reversed (the estimation constraint). Determining "significantly reversed" is also another estimate by itself. In relation to the estimation constraint, feedback indicates that it is unnecessarily complex, and we suggest this is simplified.

- Allocating the transaction price - when the total contract price is allocated to performance obligations within the contract, sometimes this is taken as the transaction price even if it does not represent the stand-alone price, being the price for the same good or service when sold individually.

(b) We recommend that the IASB revisits existing principles in IAS 1 *Presentation of Financial Statements* paragraphs 32-35 on “Offsetting” or other relevant principles to develop more specific guidance on accounting for consideration payable to customers.

In addition, Illustrative Examples and/or Application Guidance discussing the intended application of “highly probable” and “significant reversal” would be welcomed.

We recommend clarifying paragraphs 73-86 of IFRS 15 relating to “Allocating the transaction price to performance obligations” by way of Application Guidance and/or Illustrative Examples.

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?

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

(a) Generally, we have not heard significant concerns relating to the timing of revenue recognition. We believe that in most cases, there is a sufficient basis to determine when to recognise revenue. However, some preparers pointed out that the “alternative use” criterion in paragraph 35(c) of IFRS 15 may not always work as intended, and that there is divergence in practice when applying this criterion. There are limitations to the alternative use assessment because it must be determined at the point of contract inception and cannot be updated unless there are substantial changes to the performance obligations (IFRS 15, paragraph 16).

(b) We recommend the IASB reconsiders paragraph 35(c) with a view to providing clarifications, but we suggest not making any substantive amendments as this may have unintended consequences.

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?

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

(a) Our outreach activities indicate that determining whether an entity is a principal or an agent is a common challenge. There appears to be diversity in practice whereby some preparers apply the indicators (IFRS 15, paragraph B37) to assess whether an entity controls the specified good or service before it is transferred to the customer instead of the assessment of control (paragraphs B34 and B34A). Furthermore the IFRIC Agenda Decision, Principal versus Agent: Software Reseller (May 2022) appears to give more prominence to the indicators than to the assessment of

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control, and yet does not conclude whether the reseller was acting as a principal or as an agent. Therefore, the agenda decision has not reduced the inconsistency.

(b) We recommend that the IASB gives greater prominence to the transfer of control being the primary assessment in determining whether an entity is a principal or an agent by elevating paragraph BC385H from the Basis for Conclusions to the Application Guidance.

Question 6—Licensing

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

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

(a) Many contracts with licences are bundled, therefore identifying performance obligations for contracts involving licences can be particularly challenging as discussed in our response to Question 2.

We also note that paragraph B63A of IFRS 15 does not provide any specific criteria for determining whether a licence of intellectual property is the predominant item of a single performance obligation.

(b) We recommend the IASB provides Application Guidance to assist with determining whether the licence of intellectual property is the predominant item of a single performance obligation. We recommend the IASB provides a more complex example than that in Illustrative Example 60 (Paragraphs IE307-IE308) to assist with identifying whether a licence is the predominant item of a single performance obligation. In addition, we recommend the IASB provides additional Illustrative Examples relating to identifying separate performance obligations for 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?

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

(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?

(a) Overall, feedback we have received suggests the disclosure requirements are providing useful information to users of financial statements.

(b) Feedback we have received suggests that the initial costs to implement the disclosure requirements were considerable. However, overall, the ongoing costs are incremental. We have also been advised that these disclosures are useful information for investors therefore these incremental costs are justified.

(c) We understand that there is a considerable difference in the quality of disclosures in practice, from boilerplate disclosures with minimal relevant information to informative yet succinct disclosures. This variation is attributed to factors not related to the IFRS 15 disclosure requirements. Therefore, we are of the view that a standard setting response is not required.

Question 8—Transition requirements

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

Feedback we have received indicates the transition requirements are effective and practical. We understand that the option to restate each prior reporting period (retrospective method) was popular with some preparers because the modified retrospective method required additional disclosures, therefore the transition to IFRS 15 was not necessarily any more cost-effective with either method. However, the practical expedients in both the retrospective and modified retrospective methods provided some cost-effective measures which struck the right balance between a 'true and fair' restatement and the cost of implementing IFRS 15. The practical expedients in paragraph C5 for the retrospective method were especially positively received.

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?

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

(a) Applying the IFRS 15 requirements (and other relevant IFRS Accounting Standards) appears to work sufficiently in most instances. However, we understand there are some complex decisions which may arise when applying IFRS 15 in conjunction with IFRS 16 *Leases* (IFRS 16) and IFRS 17 *Insurance Contracts* (IFRS 17) in particular. An example is a sale and leaseback transaction where the recognition requirements are referenced to IFRS 15 (paragraph 99, IFRS 16) and the measurement requirements are in paragraphs 100-103 of IFRS 16,. With the implementation of IFRS 17, some insurance contracts in the form of prepaid plans that meet the definition and primary purpose in paragraph 8 of IFRS 17 may choose to apply either IFRS 15 or IFRS 17. Some preparers find these variations and requirements unnecessarily complex. Based on our outreach activities, we understand this application issue is not pervasive.

(b) We are of the view that no further standard setting activity is required but clarifications are useful where there is confusion amongst preparers.

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Question 10—Convergence with Topic 606

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

Our members have expressed mixed views on the level of convergence between IFRS 15 and Topic 606. Some members hold the view that it is important for listed companies and multinationals with US reporting requirements along with subsidiaries of US based companies. Other members hold the view that convergence is not important due to the small numbers of entities that are required to prepare financial statements in accordance with US GAAP. On balance, we believe that retaining the current level of convergence between IFRS 15 and Topic 606, or further enhancing it where it improves the usefulness of information, is a desirable outcome.

Question 11—Other matters

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?

We have not identified any additional matters of high priority for the IASB to examine as part of this post-implementation review.