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Post-implementation Review of IFRS 15

Issues Paper

OBJECTIVE

- 1 The purpose of this session is to seek EFRAG FR TEG-CFSS members' views on the feedback received and tentative decisions by the IASB on the Request for Information (RFI) of the Post-implementation Review of IFRS 15 (PIR IFRS 15). This is in preparation for the ASAF meeting later in March 2024. The RFI was open for comments from 30 June to 27 October 2023. Based on the feedback received, in February 2024, the IASB made tentative decisions on identifying performance obligations, principal versus agent (PA) considerations, and licensing and this paper includes an analysis of the reasoning underpinning these tentative decisions.
- 2 The EFRAG Secretariat notes that, in March 2024, before the ASAF meeting, the IASB will redeliberate on determining the transaction price, determining when to recognise revenue, and disclosure requirements. Stakeholders' feedback on these aspects is summarised in the Appendix of this paper. We note that EFRAG's comment letter included negative revenue and the variable consideration estimation constraint as high-priority issues for determining the transaction price. Our comment letter response (other matters) also highlighted that whether sales-based taxes are included in the transaction price was a high-priority issue for EFRAG's constituents.

EXECUTIVE SUMMARY

- 3 As noted, in February 2024, the IASB made tentative decisions on the following three topics:
 - (a) **Topic 1: Identifying performance obligations in a contract** (see paragraphs 1 to 11. The IASB tentatively decided to: i) take no further action on matters raised related to the identification of performance obligations in a contract; and ii) discuss at a later date whether to add some explanations from Basis for Conclusions (BC) paragraphs

BC105 and BC116K to the Standard, along with possible clarifications of other aspects of IFRS 15.

- (b) **Topic 2: PA considerations** (see paragraphs 12 to 28). The IASB tentatively decided to: i) take no further action on matters raised related to PA considerations except to classify as a low priority the matter related to assessing control over services and intangible assets and to consider it in the next agenda consultation; and ii) to discuss at a later date whether to add some explanations from paragraphs BC385E and BC385H to the main body of the Standard.
- (c) **Topic 3: Licensing** (see paragraphs 29 to 42). The IASB tentatively decided to take no further action on the matters raised by respondents.

- 4 The above three topics/application challenges were deemed to be high-priority items for targeted improvements in EFRAG's comment letter (see link) and by many other respondents to the RFI. As can be seen above, the IASB will only further discuss and may only undertake further action on some of the suggestions made for identifying performance obligations in a contract and PA considerations (i.e., consider the suggested elevation (including by EFRAG) to the main Standard of the related clarifying BC paragraph 385H on the primacy of transfer of control). The detailed IASB staff analysis conveys their view that the related existing requirements including interpretations and illustrative examples are sufficient. Moreover, whilst acknowledging the complexity and challenges arising from various fact patterns raised by respondents, it is also considered that the exercise of judgment is inherent to the application of principle-based Standards. In some cases (e.g. on suggestions for the alignment with US GAAP requirements for the treatment of shipping costs and licence renewals), along with other factors (e.g., comparability with other types of contract renewals), there is consideration of the risk of disruption to existing practices. In other cases (e.g., extending the royalty exception), along with other factors, there is consideration of whether the matter had been raised as a concern by users.
- 5 The EFRAG Secretariat is cognisant of the overall feedback (including by EFRAG) that IFRS 15 is working well in practice. Nonetheless, we also observe that the IASB's tentative decisions on areas identified by stakeholders as a high priority for targeted improvements may point to the need for further clarification and dialogue with stakeholders on the IASB's threshold for considering matters as high-priority PIR matters for any further action (i.e., standard setting, referring to IFRIC, providing examples, flowcharts to aid application etc). This would be helpful for stakeholders' consideration whilst responding to future PIRs (e.g., IFRS 16) (EFRAG Secretariat analysis is included later in the document).

- 6 **Paper structure:** The remainder of the paper fleshes¹ out the IASB staff analysis on the mentioned three topics where IASB has made tentative decisions. It also includes the EFRAG Secretariat analysis, and next steps. Thereafter, the questions to members for this session include the questions in the ASAF agenda paper (attached as background agenda paper 08-02). The Appendix includes feedback on matters yet to be redeliberated at the time of writing this paper.

TOPIC 1: IDENTIFYING PERFORMANCE OBLIGATIONS IN A CONTRACT

Overall feedback

- 1 Many respondents indicated that IFRS 15 provides a clear and sufficient basis for identifying performance obligations in most contracts. However, many others (including EFRAG) noted practical challenges, particularly in respect of the following three issues:
- (a) Applying the notion of 'distinct', especially in licensing arrangements.
 - (b) Challenges in identifying promises to transfer goods or services; and
 - (c) Achieving convergence with US GAAP Topic 606.
- 2 Users provided mixed views on this aspect of IFRS 15. Some users found disclosures on the identification of performance obligations satisfactory while others highlighted that the quality of disclosure varies, and they emphasised the importance of detailed information on judgments in identifying performance obligations and revenue disaggregation.
- 3 In response to the feedback, as noted earlier, the IASB tentatively decided to take no further action and only discuss at a later date whether to add some explanations from paragraphs BC105 and BC116K to the Standard, along with possible clarifications of other aspects of IFRS 15. Below are further details of matters raised by respondents to the RFI and the related IASB staff analysis (included in the [IASB staff paper AP6A: Identifying performance obligations in a contract](#)) that was considered for the IASB tentative decisions.

Feedback to RFI and related IASB staff analysis

Applying the notion of 'distinct'

- 4 Respondents, particularly from the software, technology, and telecommunications sectors, reported challenges in applying the guidance in paragraphs 27(b) and 29 of IFRS 15 on determining if promises to transfer goods or services are 'distinct' within contract contexts.

¹ In this paper, there was a need to include a summary of IASB staff analysis underpinning the IASB tentative decisions because the ASAF slides (Agenda Paper 08-02) primarily only had links to the detailed 140+ pages of related IASB staff papers.

- 5 Challenges were mainly related to software licensing arrangements, especially in bundled arrangements including the software licence and other goods or services, requiring significant judgment due to technical complexity and a variety of contract elements. A few respondents observed diversity in applying 'distinct', particularly in software licensing and emerging business.
- 6 Respondents' suggestions to address these challenges included additional illustrative examples and guidance, especially for bundled arrangements including software licensing and modern business models. Step-by-step guidance such as flowcharts and incorporation of discussions on 'separable risks' and 'transformative relationships' from BC105 and BC116K to the main body of the Standard were also proposed.
- 7 In response to the feedback, the IASB staff was of the view that the IFRS 15 requirements are sufficient, and that no situation had been identified where its principles could not be applied. They acknowledged respondents' challenges in analysing complex transactions, but in their view, judgement is inherent in principle-based requirements. The IASB staff acknowledged concerns about useful explanations being only included in the BC (BC105 and BC116K) and that elevating these explanations into the Standard might help entities make judgments. Thus, the IASB will further discuss this suggestion at a future meeting.

Identifying a promise to transfer goods or services

- 8 A few respondents noted the complexity and significant judgment needed in distinguishing promises to transfer goods or services from activities that do not transfer a good or service. Respondents (including EFRAG) provided a few examples of application challenges related to the accounting treatment of non-refundable fees, pre-production services, marketing incentives and connection fees. Suggestions from respondents to address these challenges included updating illustrative examples, incorporating additional guidance, and addressing the question on pre-production activities in the IASB's Intangibles project.
- 9 In response to the feedback, taking account of existing requirements including the related January 2019 IFRIC decision², the 2015 TRG, and the illustrative example 53; the IASB staff was of the view that the requirements provide sufficient guidance for identifying a promise to transfer goods or services.

Matters related to convergence with FASB ASC Topic 606

- 10 A few respondents highlighted challenges in determining if shipping should be treated as a separate performance obligation or a fulfilment activity. They proposed that the IASB

² [Assessment of promised goods or services](#)

consider adopting changes made by the FASB, allowing entities to make an accounting policy choice to account for some shipping and handling activities as fulfilment activities. A few respondents also suggested incorporating Topic 606 amendments which do not require an entity to assess immaterial promised goods or services as performance obligations.

11 In response, the IASB staff noted that the matters raised by respondents were previously addressed by the TRG, leading to amendments by the FASB. The IASB staff noted that the IASB did not (and ought not to) make similar amendments because:

- (a) Allowing an accounting policy choice for shipping and handling activities would create an exception to the revenue recognition model and hinder comparability among entities; and
- (b) Introducing a clarification for immaterial items was deemed unnecessary given the principle of materiality in IFRS Accounting Standards.

TOPIC 2: PRINCIPAL VERSUS AGENT CONSIDERATIONS

Overall feedback

12 Most respondents (including EFRAG) highlighted the complexities in determining whether entities act as principals or agents in multi-party arrangements. While many acknowledged the clarity of existing requirements, challenges in applying judgment to complex scenarios were also noted by many respondents. Application challenges identified mainly related to:

- (a) Applying the concept of control and related indicators;
- (b) Identifying a customer of a supplier that sells its goods or services through an intermediary;
- (c) Identifying performance obligations; and
- (d) Disclosure requirements.

13 Suggestions included elevating clarifying language from BC to the Standard, additional guidance, examples, and educational materials to help entities in assessing complex fact patterns. However, some respondents cautioned against significant changes to avoid disruption. A few respondents pointed out that the challenges are cross-cutting, affecting various IFRS Accounting Standards.

14 As noted earlier, the IASB tentatively decided to take no further action on matters related to principal versus agent (PA) considerations except a) to classify as low priority the matter related to assessing control over services and intangible assets and to consider it in the next

agenda consultation; b) to discuss at a later date whether to add some explanations from paragraphs BC385E and BC385H to the main body of the Standard. Below are further details of matters raised by respondents to the RFI and the related IASB staff analysis (included in the [IASB AP6B: Principal versus agent considerations.](#)) that was considered for the IASB tentative decisions.

Feedback to RFI and related IASB staff analysis

Applying the concept of control and related indicators

- 15 Many respondents (including EFRAG) indicated that entities face difficulties in applying the concept of control and the related indicators. The challenges are common in service industries and include arrangements that involve digital services, intangible assets and licences bundled with services. Most application matters related to:
- (a) the lack of clarity about the relationship between the concept of control and the indicators in paragraph B37 of IFRS 15; and
 - (b) difficulties in assessing control over services and intangible assets.

Relationship between the concept of control and the indicators in B37

- 16 Concerns raised by respondents included entities relying solely on indicators and overlooking the concept of control, challenges when indicators point to different conclusions, and ambiguity regarding the relationship between indicators and the concept of control.
- 17 To address these concerns, suggestions included moving explanations of the relationship between the indicators and the concept of control from the BC to the main body of the Standard, clarifying the relative weight of the indicators in paragraph B37, and having additional guidance, illustrative examples, or flow charts.
- 18 Some respondents proposed applying the thought process outlined in the May 2022 IFRS IC agenda decision³ as a basis for an illustrative example or additional guidance. However, a few respondents considered that agenda decision gives more prominence to the indicators than to the assessment of control.
- 19 The IASB staff was of the view that the clarifications made by the IASB adequately address most concerns raised by respondents and paragraphs B34A, B35A, B37 and B37A provide sufficient guidance on the relationship between the concept of control and the indicators. However, they acknowledged concerns about useful explanations included in the BC.

³ [Principal versus Agent: Software Reseller](#)

Elevating these explanations into the Standard might help entities make judgments. Consideration could be given to adding explanations from BC385H to the Standard. The IASB will further discuss this suggestion at a future meeting.

Assessing control over services and intangible assets

- 20 Respondents noted that certain indicators, such as the "inventory risk" indicator, seem more applicable to tangible goods than to services and intangible assets. Diversity in practice was also raised as a potential issue, illustrated⁴ by situations like a reseller developing a user access portal for a streaming service. Respondents urged the IASB to provide additional guidance and illustrative examples for assessing control in complex digital business models involving multiple service providers.
- 21 A few respondents requested specific aspects of the guidance or illustrative examples including clarifying the application of the inventory risk indicator to services and intangible assets and the meaning of obtaining legal title "only momentarily" in paragraph B35. There were also suggestions for expanding the list of indicators to better suit intangible goods and services including discretion in supplier selection, involvement in product or service specifications, and credit risk, among others.
- 22 Respondents also considered that the assessment of control for services and intangible assets requires significant cost and effort (e.g., requires consultation with experts) and these challenges arise for emerging arrangements involving digital platforms and/or digital offerings.
- 23 In response to the feedback, referring to existing requirements and application guidance (the 2016 IFRS 15 amendment and Paragraphs 34A and B35A, and Examples 46A, 47, 48 and 48A), the IASB staff was of the view that the feedback did not provide sufficient evidence to suggest that there are fundamental questions about applying the concept of control and the related indicators to services and intangible assets. However, the IASB staff acknowledged that the costs of applying these requirements might be greater than expected.

Identifying a customer of a supplier that sells its goods or services through an intermediary

- 24 A few respondents highlighted challenges in identifying the customer in multi-party arrangements due to the lack of explicit guidance in paragraph 6 of IFRS 15. They suggested that the IASB add guidance, illustrative examples, or educational materials to improve

⁴ While some argue that the reseller is a principal because it controls the end-user access and has insights into the viewing choices, others view it as an agent due to its lack of control over video content.

consistency in practice. Suggestions included expanding existing explanations in the BC, developing flowcharts to illustrate the decision-making process and providing guidance to link the assessment of control to the definition of a customer.

- 25 In response to the feedback, the IASB staff considered that there was not enough evidence to suggest fundamental issues with applying IFRS 15 in this context. However, the IASB staff acknowledged concerns about useful clarifying explanations being only included in the BC. Elevating these explanations into the Standard might help entities make judgments. Consideration could be given to adding explanations from BC385E to the Standard. The IASB will further discuss this suggestion at a future meeting.

Identifying performance obligations

- 26 A few respondents highlighted challenges in identifying performance obligations in multi-party arrangements, especially in scenarios involving partnerships or subcontractors that provide digital services such as internet advertising or payment processing. The earlier analysis regarding the notion of 'distinct' in the identification of performance obligations section applies.

Disclosure requirements

- 27 To enhance the usefulness of information, a few users suggested disclosures on revenue recognised on both a gross and net basis, factors considered in determining the entity's role as principal or agent, and for principals, revenue that would have been presented if the entity concluded it was an agent and, vice versa for agents.
- 28 In response to the feedback, the IASB staff noted that IFRS 15 requires disclosure of judgments that significantly affect the determination of revenue. Additionally, the guidance on disclosure of disaggregated revenue in paragraph B89 of IFRS 15 already covers sales channels, including those involving intermediaries, which indirectly addresses the PA consideration. Hence, the IASB staff considered that the existing disclosure requirements are adequate for providing information about arrangements involving PA considerations.

TOPIC 3: LICENSING

Overview of the feedback

- 29 Many respondents (including EFRAG) commented on the challenges in applying judgement when analysing complex licensing arrangements. Most of the challenges are related to identifying performance obligations in licensing arrangements and these are discussed in Topic 1 above. Other reported challenges relate to:
- (a) the clarity of the accounting requirements for licence renewals;

- (b) determining the nature of a licence (the 'right to access' versus the 'right to use');
- (c) determining the scope of licensing guidance; and
- (d) accounting for sales-based or usage-based royalties.

30 As noted earlier, in response to the feedback, and consistent with the IASB staff recommendation the IASB tentatively decided to take no further action on the matters raised by respondents. Below are further details of matters raised by respondents to the RFI and the related IASB staff analysis (included in the [IASB Staff Paper AP6C: Licensing](#)) that was considered for the IASB tentative decisions.

Feedback to RFI and related IASB staff analysis

Accounting requirements for licence renewals

31 Some respondents (including EFRAG) pointed to the lack of guidance to determine the timing of revenue recognition for licence renewals. A few of them noted that this is especially challenging if the extension of a licence term is combined with other changes to terms and conditions (price, scope, etc.). Many of the respondents raising this issue suggested the IASB consider the FASB's amendment to Topic 606, which requires an entity to recognise revenue from a licence renewal no earlier than the beginning of the renewal period. In their view, the amendment would simplify accounting, reduce diversity in practice and improve convergence with Topic 606.

32 In response to the feedback, the IASB staff was of the view that, in light of the TRG, a clarification about the application of the contract modifications requirements specifically for renewals of licensing arrangements was not necessary. Moreover, adding guidance on contract renewals similar to that provided by the FASB would lead to increased convergence with Topic 606 but might reduce the comparability of information about contract modifications for licence renewals and renewals of other types of contracts. In addition, it may disrupt established accounting practices.

Determining the nature of a licence

33 A few respondents noted that entities, especially in software, media, entertainment and pharmaceutical industries, find the requirements for determining whether a licence is a 'right to access' or 'right to use' difficult to apply. A diversity in practice notably with cloud-based solutions and licences involving continuous updates was highlighted. A few respondents suggested the IASB add further guidance, examples and educational materials on how to determine the nature of a licence and others specified that it is challenging to determine whether a stand-alone functionality is significant.

- 34 In response to the feedback, the IASB staff noted that the clarifications to IFRS 15 issued in April 2016 addressed concerns and questions raised regarding the identification of the nature of a license. The staff was of the view that providing illustrative examples for specific complex situations might not be beneficial, as outcomes could heavily depend on the particular facts and circumstances involved. The IASB staff also considered that aligning the licensing guidance in IFRS 15 with the Topic 606 guidance would increase convergence and could result in better comparability but the amendments would cause disruption for entities with established accounting practices.

Determining the scope of licensing guidance

- 35 A few respondents noted that entities have difficulties in deciding whether to apply the specific IFRS 15 licensing guidance or the general requirements, especially for SaaS arrangements. They indicated that there is diversity in practice. A few respondents noted that distinguishing between licenses and sales of IP is challenging, particularly in contracts resembling IP sales, like those in the pharmaceutical industry. Respondents also suggested that the IASB provide a definition of a licence and additional guidance or illustrative examples for applying IFRS 15 licensing guidance.

- 36 In response to the feedback, the IASB staff noted that paragraph B52 of IFRS 15 helps entities exercise judgment to determine if their contract is a licence or a service. In addition, paragraph BC406(b) of IFRS 15 provides an example related to cloud-based software contracts. The IASB also deliberated on determining what type of licenses could be defined as 'in-substance sales' but decided against it in December 2015 due to potential complexity and unintended consequences.

- 37 Considering that only a few respondents raised challenges about determining the scope of licensing, the IASB staff concluded that the existing requirements in IFRS 15 generally provide sufficient guidance for entities to exercise judgment. The IASB staff was also of the view that defining a licence and developing additional guidance could lead to a widespread disruption for entities with established accounting policies.

Accounting for sales-based or usage-based royalties

- 38 A few respondents (including EFRAG) suggested the IASB broaden the scope of the royalty exception in paragraph B63 of IFRS 15 including extending it to the variable consideration requirements and sales of intellectual property (IP).
- 39 A few respondents suggested adding application guidance to determine if a licence of IP is the predominant item to which the royalty relates. Concerns were also raised about the

lack of specific criteria in IFRS 15 for assessing whether a licence predominates in a single performance obligation.

- 40 In response to the feedback, the IASB staff indicated that in developing IFRS 15, the IASB considered expanding the scope of paragraph B63 to constrain all estimates of variable consideration when that consideration depends on the customer's future actions. However, it decided against these due to complexity and potential drawbacks like the need to create an exception to account for customer rights of return.
- 41 Regarding the determination of the predominant items to which the royalties relate, paragraph B63A aids in determining if a licence of IP is the predominant component by focusing on customer-perceived value. In addition, example 60 in IFRS 15 illustrates this guidance, assisting entities in making judgments across fact patterns.
- 42 Despite the feedback indicating that diverse requirements for sales-based or usage-based royalties may lead to different amounts of recognised revenue, the IASB staff noted that the exception was introduced in response to concerns from users and preparers. They argued that applying general variable consideration requirements to IP licenses would necessitate significant revenue adjustments throughout the contract term. Such adjustments would not result in relevant information. In addition, feedback on the RFI did not suggest significant concerns from users.

EFRAG SECRETARIAT ANALYSIS

- 43 As noted earlier, the EFRAG Secretariat observes that the IASB tentative decisions on application challenges deemed a high priority for targeted improvements by EFRAG and many other respondents may point to the need for further clarification and dialogue with stakeholders on the IASB's threshold for considering matters as high-priority PIR matters for any further action (i.e., standard setting, referring to IFRIC, providing examples, flowcharts to aid application etc). This would be helpful for stakeholders' consideration whilst responding to future PIRs (e.g., IFRS 16).
- 44 For instance, it is sometimes unclear how, notwithstanding the reported feedback indicating the pervasiveness of an issue and evidence of diversity of practice and application, there can concurrently be a conclusion that there is not sufficient evidence of fundamental questions about applying the requirements.
- 45 There is also a need to clarify the IASB's concern about 'disrupting existing practices' which was noted in respect of amendments that would align with US GAAP or in respect of some suggestions made by respondents for additional illustrative examples. Disrupting existing

practice is inherent to any amendment to existing Standards and the primary consideration on whether to take any action ought to be the implications for the usefulness of information (e.g. relevance, faithful representation, understandability, enhanced comparability including through convergence, etc.) and with due weighting of these qualitative characteristics of useful information. Moreover, the EFRAG letter primarily conveyed stakeholders have little appetite for **significant** disruption and an expectation of targeted improvements.

NEXT STEPS

46 The below table outlines the expected next steps included in IASB staff papers.

Topic	Expected timing
Determining the transaction price / Determining when to recognise revenue / Disclosure requirements	March 2024
Applying IFRS 15 with other IFRS Accounting Standards / Other matters	April 2024
Academic literature review	May 2024
Summary discussion—Joint IASB–FASB education session	June 2024
Overall assessment of IFRS 15 Summary discussion—IASB only	July 2024

47 The IASB staff plan no specific agenda papers on transition requirements as, in their view, no further analysis is needed on these requirements and convergence with US GAAP Topic 606. The latter issue is/will be addressed whilst considering the RFI respondents' comments on aligning IFRS 15 requirements with US GAAP Topic 606.

Questions for EFRAG FR TEG-CFSS members

48 Do you have any comments on the tentative decisions made by the IASB?

- (a) Identifying performance obligations (paragraphs 3)
- (b) Principal versus agent considerations (paragraphs 14)
- (c) Licensing (paragraph 30)

49 Do you have any comments on the rest of the feedback received by the IASB on the RFI (see Appendix)?

50 Do you have any comments on the IASB's next steps?

APPENDIX: FEEDBACK RECEIVED YET TO REDELIBERATED⁵

Overall assessment of IFRS 15

The objective, core principle and five-step revenue recognition model

- 1 Overall, the feedback on IFRS 15 was positive, it had achieved its objective and the five-step model was widely seen as suitable for analysing contracts across a diverse range of industries and business models. Many respondents and almost all users considered that IFRS 15 has improved the usefulness and comparability of revenue information, attributed partly to convergence with FASB requirements. The application challenges addressed elsewhere were highlighted.
- 2 Some respondents indicated that IFRS 15 is well-structured and understandable, with supporting guidance and illustrative examples helping entities in making judgments. TRG discussions were noted by a few as particularly useful in supporting the implementation. However, some respondents observed a significant learning process for entities during implementation and suggestions were made for enhancement to the accessibility.
- 3 Overall, most respondents considered that the benefits of IFRS 15 outweigh its implementation and application costs.

Determining the transaction price

- 4 Many respondents said that IFRS 15 generally provides a clear and sufficient basis to determine the transaction price in a contract, but they identified the following specific application matters:
 - (a) Consideration payable to a customer;
 - (b) Variable consideration;
 - (c) Sales-based taxes;
 - (d) Significant financing component; and
 - (e) Non-cash consideration.

⁵ Yet to be redeliberated at time of writing this paper. The related IASB Staff papers are [IASB January meeting AP6A: Feedback summary-IFRS 15 requirements](#) and [IASB January meeting AP6B: Feedback summary - Applying IFRS 15 with other IFRS Accounting Standards](#)

Consideration payable to a customer

Marketing incentives

- 5 Many of those commenting on the topic noted entities' uncertainty in accounting for incentives in multi-party arrangements, particularly when a party acting as an agent provides a marketing incentive to end customers - with some entities accounting for such incentives by reducing revenue and others treating them as marketing expenses. Requests for guidance on accounting for incentives paid by an agent to end customers were common, along with illustrative examples.
- 6 Some users highlighted diversity in how entities disclose consideration payable to customers, hindering the comparison of margins. A few users suggested disclosures on gross revenue, amounts of incentives deducted and rationale behind accounting policy choices.

'Negative' revenue

- 7 Many respondents indicated that there is diversity in accounting for consideration payable to a customer that exceeds the amount of consideration expected to be received from a customer, with some treating the excess as 'negative' revenue and others as an expense. Instances of 'negative' revenue commonly occur when entities offer significant incentives to enter new markets or incur large penalties for poor-quality goods or services.
- 8 Respondents sought guidance on whether revenue can be negative and when to reclassify it as an expense. Additionally, a few of them asked for guidance on the unit of account.

Other matters

- 9 A few respondents asked the IASB for guidance on how to account for a prepayment made for consideration payable to a customer and how to measure equity-based consideration payable to a customer.

Variable consideration

- 10 Some respondents cited challenges related to applying the requirements on accounting for variable consideration. Challenges included:
- (a) Estimating variable consideration, especially when historical data is not available, uncertainty is high or an entity is dealing with numerous transactions involving discounts or refunds. A few respondents observed diversity in practice due to the high level of judgment required.
 - (b) Applying constraints on estimates of variable consideration, with diverse interpretations of the 'highly probable' threshold. A few respondents questioned whether the constraint is working as intended because some entities adopt

extremely conservative judgments, constraining variable consideration to zero initially, while others update transaction prices only when uncertainties are fully resolved or invoices are issued.

- 11 Most of these respondents suggested additional guidance and illustrative examples to help entities apply the requirements. A few respondents also sought guidance on choosing between estimation methods and on the inclusion of certain charges or payments like claims or penalties in assessing variable consideration.

Sales-based taxes

- 12 Some respondents considered that IFRS 15 lacks guidance for accounting for sales-based taxes and determining whether an entity is responsible for paying the tax itself or is collecting the tax on behalf of the tax authority. They noted the diversity in practice within industries, particularly regarding excise taxes on alcoholic beverages and fuel. While some suggested more guidance and illustrative examples, others proposed considering the FASB's approach, allowing entities to make an accounting policy choice.

Significant financing component

- 13 A few respondents, notably from Brazil, criticised paragraph 64 of IFRS 15 for its requirement not to update the discount rate for inflation after inception, particularly for long-term contracts. They proposed the update of the discount rate on each reporting period for contracts exceeding 12 months. A few other respondents expressed uncertainty about updating the discount rate when contracts are modified or circumstances change after inception, suggesting the IASB provide additional guidance. Moreover, a few other respondents sought clarity on assessing whether a significant financing component exists, applying the criterion in paragraph 62(c) of IFRS 15.

Non-cash consideration

- 14 A few respondents observed a lack of clarity on accounting for non-cash consideration. The main issue was the measurement date, either at contract inception, when the consideration is received or when the performance obligation is fulfilled. Most of them suggested adopting the FASB's amendment to measure non-cash consideration at inception.

Determining when to recognise revenue

- 15 Many respondents said that IFRS 15 generally provides a clear and sufficient basis for determining when to recognise revenue. However, some reported some challenges. Revenue disaggregation based on the timing of its recognition was seen as useful by users, but entities do not always provide it. A few users requested more detailed information

about judgements made by entities in determining when to recognise revenue and noted some diversity in the timing of revenue recognition.

16 Most of the challenges related to:

- (a) applying the concept of control and the criteria for over time revenue recognition in paragraph 35 of IFRS 15; and
- (b) selecting the appropriate method for measuring progress.

Applying the concept of control and the criteria for over time revenue recognition

17 Some respondents noted that applying the requirements in paragraph 35(c) of IFRS 15 is challenging, especially in relation to assessing whether the right to payment is enforceable:

- (a) the assessment is complex and costly, especially for smaller entities, leading to diverse outcomes due to considerations of laws and historical business practices;
- (b) some transactions might not reflect its economic substance, particularly in real estate in Brazil. Illustrative examples and educational materials were suggested;
- (c) there were also requests for clarification on specific issues, such as considering the customer's right to terminate the contract.

18 A few respondents also reported challenges in making judgments on the 'alternative use' requirement in paragraph 35(c) of IFRS 15.

19 Respondents emphasized the need for additional guidance, illustrative examples, or educational materials tailored to their industries or types of contracts.

Selecting the appropriate method for measuring progress

20 A few respondents noted that entities struggle with selecting the appropriate method for measuring progress, particularly in the construction and software industries. This inconsistency may result in entities applying different methods for similar transactions. They suggested adding guidance and illustrative examples to help entities in applying judgment.

Disclosure requirements

21 Most respondents observed that the disclosure requirements of IFRS 15 have resulted in entities providing sufficient and useful information to users. During the IASB's outreach, users generally considered that IFRS 15 has improved the quality of disclosed information, particularly appreciating disaggregation of revenue and information about contract assets and liabilities, which help them in forecasting revenue streams and cash flows, assessing working capital movements and may indicate deterioration of an entity's financial position.

- 22 However, some respondents questioned the balance of costs and benefits for certain disclosures, such as those related to remaining performance obligations. They expressed the view that the information is costly to produce while the benefit is questionable as it reflects the existing contracts but not the earning potential of the entity. Others expressed concerns about the costs associated with providing information on contract assets and liabilities especially when an entity has many contracts.
- 23 Some respondents cited variations in the quality of disclosures. A regulator suggested more prescriptive requirements and additional guidance to clarify how the disclosure objectives should be applied to ensure meaningful information provision.
- 24 During the IASB's outreach, users highlighted diversity in the level of detail and quality of information provided by entities, especially in disaggregating revenue. They suggested a need for more entity-specific disclosures.

Interaction with other IFRS Accounting Standards

Interaction with IFRS 3

- 25 Most stakeholders commenting on this topic highlighted challenges with the interaction between IFRS 15 and IFRS 3. Some, including a few users, noted that fair value measurement of contract liabilities could result in a downward adjustment and distort the depiction of an entity's post-acquisition performance. Some respondents also questioned the initial measurement and subsequent accounting (especially presentation) of contract assets and contract liabilities. Some users struggled to understand fair value adjustments on acquisition due to an insufficient related explanation from entities.
- 26 Most stakeholders suggested adopting changes made by the FASB requiring an entity to apply Topic 606 for measuring contract assets and liabilities acquired in a business combination. However, others suggested retaining fair value measurement for all assets and liabilities acquired, seeing it as the most appropriate basis for accounting in business combinations.

Interaction with IFRS 9

- 27 Some respondents noted diversity in practice when entities accept lower consideration from customers. Some treat the reduction as a price concession under IFRS 15, reducing revenue, while others account for it as an expected credit loss under IFRS 9.
- 28 Furthermore, a few respondents indicated that there is diversity in practice because IFRS 15 does not specify whether to classify certain liabilities, such as those related to loyalty programs, gift cards or refund liabilities, as non-financial (contract) liabilities or financial

liabilities under IFRS 9. They recommended additional guidance and illustrative examples to clarify these accounting matters.

Interaction with IFRS 16

- 29 Most respondents commenting on this matter raised concerns about applying IFRS 15 alongside IFRS 16. Challenges included separating lease and non-lease components, determining lease term and contract duration, and measuring variable consideration in contracts containing both lease and non-lease elements, as the requirements differ between the two standards. Additionally, assessing whether the transfer of an asset in a sale and leaseback transaction constitutes a sale under IFRS 15 presents difficulties. Some respondents highlighted that these challenges result in diversity in practice and called for additional guidance and illustrative examples to address these issues.

Interaction with IFRS 10

- 30 Some respondents asked the IASB to clarify whether corporate wrappers should be accounted for under IFRS 10 or IFRS 15. Many of them reported diversity in practice, especially in real estate, pharmaceuticals, and utilities although a few noted that common practice has developed. A few respondents considered that the IASB should reevaluate the priority for this matter (i.e. the IASB decided to assess the demand for resolving this matter in the next agenda consultation).
- 31 Most respondents to this matter suggested that accounting for corporate wrappers should reflect the substance of the transaction, favouring the application of IFRS 15. This approach would lead to closer alignment with US GAAP.

Interaction with IFRS 11

- 32 A few respondents reported challenges related to the interaction between IFRS 15 and IFRS 11, including:
- (a) how to determine whether a collaborative arrangement is in the scope of IFRS 15, IFRS 11 and/or another Standard;
 - (b) how to account for arrangements that contain both supplier-customer and joint control components; and
 - (c) how to account for arrangements when no joint control is established and when neither party is seen as a customer.

The respondents asked for more guidance on these questions.

Interaction with IFRIC 12

- 33 A few respondents noted some issues on the interaction between IFRIC 12 and IFRS 15:

- (a) Paragraph BC62 of IFRIC 12 says that an operator's asset is classified as a financial asset in some instances while IFRIC 12 requires to account for construction or upgrade services in accordance with IFRS 15, which would result in non-financial contracts assets;
- (b) The absence of guidance on significant financing components or discounting in IFRIC 12 although concessions are usually long-term contracts; and
- (c) IFRIC 12's requirement to apply IAS 37 for recognizing obligations to restore infrastructure was seen as incongruent as in the respondents' view they should be accounted as contract liabilities under IFRS 15.

34 Respondents suggested amending IFRIC 12 to align it with IFRS 15.

Transition requirements

35 Many respondents found the transition to IFRS 15 challenging but appreciated the helpfulness of the modified retrospective method and practical expedients. Many entities opted for the modified retrospective method primarily for cost-benefit reasons, while some used both transition methods.

36 Users generally found the transition smooth, with disclosures helping their understanding of the Standard's impact. However, a few users suggested that a fully retrospective method would be preferable for assessing trends.

37 Suggestions for future transition requirements included continuing to assess costs and benefits for both preparers and users considering the use of modified retrospective methods and practical expedients, including the potential lack of comparative information for users, and conducting more in-depth field testing.

Convergence with Topic 606

38 Almost all respondents stressed the importance of maintaining the current degree of convergence between IFRS 15 and Topic 606 to enhance comparability and reduce costs for preparers. Users strongly supported convergence for improved comparability. However, a few respondents considered that convergence should not stop the IASB from making amendments if they significantly enhance the usefulness of financial information. A few respondents from jurisdictions less affected by US GAAP indicated that convergence was not their top concern. Additionally, some respondents urged reducing differences between the standards and considering some or all of the FASB amendments.