RFI/2023/2 Post-implementation Review IFRS 15 Revenue from Contracts with Customers

Feedback to respondents – EFRAG Final Comment Letter

January 2024

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Request for Information RFI/2023/2 *Post-implementation Review IFRS 15 Revenue from Contracts with Customers* ('the RFI') on 27 October 2023. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

Background to the RFI

The IASB is required to conduct a Post-implementation Review of each new IFRS Accounting Standard or major amendment under its due process (cf. IFRS Foundation Due Process Handbook 6.48 et seq.). The objective of a PIR is to assess whether the effects of applying new requirements on users of financial statements, preparers, auditors, and regulators are as intended when the IASB developed those new requirements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15' or 'the Standard') which replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*. IFRS 15 became effective for annual periods beginning on or after 1 January 2018.

The objective of IFRS 15 is to establish the principles that an entity applies to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. To meet the objective, the Standard:

- established a core principle for revenue recognition—an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services; and

- introduced a five-step model to support the core principle. The five steps an entity applies in recognising revenue are:

  Step 1—identify the contract(s) with a customer;

  Step 2—identify the performance obligations in the contract;

  Step 3—determine the transaction price;

  Step 4—allocate the transaction price to the performance obligations in the contract; and

  Step 5—recognise revenue when (or as) the entity satisfies a performance obligation.

Further details are available on the IASB website.

EFRAG's draft comment letter

EFRAG published a draft comment letter ('DCL') for consultation on 24 July 2023. The DCL was informed by a review of related literature and extensive outreach to multiple stakeholders[1] (preparers, auditors, national standard setters, users, and academics) before and after the issuance of the IASB RFI (hereafter referred to as preparatory outreach).

In the DCL, EFRAG noted that the Standard was generally working well in practice and the five-step revenue recognition model and accompanying application guidance were robust and principle-based requirements suitable for contracts with customers of varying complexity. Findings from the user respondents to a survey conducted during an EFRAG-sponsored academic study were included in the DCL. These findings showed that the combination of the IFRS 15 disclosures and its effects on the financial statements improved the relevance and comparability of reported revenue.

Some potential areas for targeted improvements of the Standard were identified. Specifically, EFRAG identified the following application challenges (listed in order of priority):

- determining whether a reporting entity is a principal or an agent which is a challenge that arose across a breadth of business models;
- accounting for contracts involving licences;
- applying the requirements of IFRS 15 along with the requirements of IFRS 3 *Business Combinations*, IFRS *16 Leases*, IFRS 10 *Consolidated Financial Statements*, and IFRS 11 *Joint Arrangements*;
- identifying performance obligations related to contracts with upfront fees, pre-production services, and those involving licences; and
- determining the transaction price in respect of the requirements for the estimation of variable consideration and the accounting treatment of 'negative' revenue.

Comments received from respondents

EFRAG received nine comment letter responses to the DCL from one user organisation, an enforcer, an academic organisation and six national standard setters. These comment letters are available on the EFRAG website.

After publishing the DCL, EFRAG also conducted targeted outreach to users with a focus on the disclosure requirements. In addition, the EFRAG-supported academic

[1] Feedback provided by stakeholders before the publication of the DCL is included here.

survey completed the data gathering from preparers on the implementation costs and preparer benefits[2].

Summary of comment letter feedback

Respondents indicated that the Standard has achieved its intended objectives, is generally working well and provides robust guidance for revenue accounting but there is room for targeted improvements. They also noted that implementation of the standard was time and resource-consuming and, in many cases, it did not lead to significant changes in amounts reported in the primary financial statements compared to previous revenue recognition practices.

Respondents confirmed the application challenges articulated in the DCL related to the principal versus agent guidance; contract involving licences; identifying separate performance obligations; and the interaction between IFRS 15 and IFRS 3, IFRS 10 and IFRS 16. They suggested illustrative examples for principal versus agent determination, contracts involving licences, and identifying performance obligations.

On determining the transaction price, some respondents detailed the inadequate guidance on the treatment of sales-based taxes and most respondents to this question recommended that the IASB provides guidance on the treatment of 'negative' revenue. Some respondents also highlighted fact patterns where challenges in recognising revenue arise and suggested improvements including the guidance on enforcement of payments.

The feedback on disclosure requirements echoed the range of views expressed in the DCL. Most respondents agreed that the disclosure requirements resulted in entities providing useful information to users of financial statements. However, some respondents questioned the usefulness of some of the specific disclosure requirements.

Targeted user outreach feedback

After publishing the DCL, EFRAG conducted a targeted outreach through meetings with the members of two user organisations. The feedback obtained was indicative that IFRS 15 requirements and disclosures in particular marked a significant improvement from previous revenue recognition requirements and resulted in improved comparability across entities of reported revenue. The users elaborated on the usefulness of the disclosures of a) changes in contract assets and contract liabilities; and b) remaining performance obligations.

EFRAG-supported academic study

The EFRAG-supported academic survey (with 196 preparer and 48 non-preparer respondents[3]) provided detailed evidence of one-off and ongoing costs. Inter alia, the survey feedback showed that disclosures are among the costliest components of IFRS 15 requirements. The survey feedback also detailed preparer benefits (e.g., better contract management), user benefits (increased ability to forecast earnings, assess margin and stewardship; and improved comparability), and the often-limited impacts on the amount and timing of reported revenue.

EFRAG's final comment letter

EFRAG issued its final comment letter ('FCL') on 27 October 2023. Based on the feedback received and FR TEG discussions, the FCL largely retained the tentative views expressed in the DCL and made the following amendments:

- The response to question 1 (overall assessment of IFRS 15) included detailed findings from the EFRAG-supported academic survey to preparers on the costs and benefits of implementing IFRS 15.
- The responses to questions 2 (identifying performance obligations), 5 (principal versus agent considerations) and 6 (licensing) recommended

[2] Findings on the adoption of IFRS 15 based on data collected from users and other non-preparer stakeholders was already incorporated in the DCL.

[3] See Appendix 2 for breakdown of respondents by background.

the inclusion of targeted illustrative examples related to services, intangible assets and bundled offerings including licences around the principal versus agent consideration application challenge.

- The response to question 6 (licensing) was updated to suggest that the IASB should clarify the accounting treatment of licence renewals.
- The response to question 4 (when to recognise revenue) added the application challenge entities face to assess whether an entity has an enforceable right to payment for performance obligations completed to date (i.e., IFRS15.35 (c)).
- The response to question 7 (disclosures), enhanced the articulation of the usefulness of disclosures, elaborated on the costs of the disclosures, and recommended that the IASB consider whether it should conduct a further targeted outreach to both preparers and users to explore whether the suggested modifications to disclosures in order to improve the overall cost-benefit balance.
- The response to question 11 (other matters) incorporated two additional issues related to the interaction with IFRS 9 *Financial Instruments* and expanded on the issues raised on sales-based taxes.

The drafting of question 8 (transition requirements) and question 10 (convergence with US GAAP) did not change. Details of the amendments to the DCL are reflected in the next section of this report.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 1 *Overall assessment of IFRS 15*

Introduction

The objective of IFRS 15 is to establish the principles that an entity applies to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. To meet the objective, the Standard establishes a core principle for revenue recognition and introduces a five-step model to support the core principle.

The IASB expected the benefits of the new requirements to be ongoing and to justify the costs of implementing the requirements (for example, systems and operational changes), which would be incurred mainly in transitioning from the previous revenue recognition requirements.

In question 1 of the RFI, the IASB sought stakeholders' views on IFRS 15 as a whole, including its understandability. The IASB also sought evidence to help assess whether the costs and benefits of preparing, auditing, enforcing, and using information about revenue reported under IFRS 15 were as intended when the Standard was developed.

EFRAG's tentative position

EFRAG considered that the Standard was generally working well in practice but with potential areas for targeted improvements. The five-step revenue recognition model and its accompanying application guidance were generally seen as robust and principles-based requirements suitable for contracts with customers of varying complexity. Furthermore, the Standard was considered to be well-structured and understandable, and stakeholders complimented its numerous illustrative examples.

Some aspects of the Standard were initially challenging (e.g., the estimation of transaction price including determining the estimated selling practice) but over

EFRAG's response to respondents' comments

EFRAG final position

The comment letter feedback received and findings from the EFRAG-supported academic survey were largely confirmatory of the positions expressed in the DCL. Hence the FCL retained the DCL's drafting with minor amendments made to the responses on overall suitability and understandability. In addition, the cost-benefit response was updated to include the findings of the EFRAG-supported academic survey related to preparer costs and benefits.

In the FCL, the following amendments to the DCL's drafting were made:

- Overall suitability: the FCL noted that a more thorough field testing prior to implementation of the Standard might have resulted in a more effective cost-benefit analysis and a possible reduction of the initial implementation costs.
- Understandability: the FCL suggested the IASB should use webinars and training materials when implementing future standards similar to those used in recent projects. (e.g., on Supplier Finance Arrangements Amendment to IAS 7 and IFRS 7). The pivotal role of the Transition Resource Group ('TRG') in aiding implementation was acknowledged and it was suggested that such a group should be in place for the implementation of future IFRS Accounting standards.
- Cost-benefit: the FCL included an example of the components of ongoing costs from the telecommunications industry. In addition to the users' benefits (forecasting earnings, assessing margin and stewardship) enumerated in the DCL, the detailed findings from the EFRAG-supported academic survey related to preparers on the one-off and ongoing costs and benefits (i.e., real effects such as better contract

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
time, stakeholders had acclimated with many of these aspects of the requirements and market practice had matured. The DCL also had suggestions for additional illustrative examples related to some challenging fact patterns. The significant implementation and ongoing costs of the Standard faced by some companies coupled with the observed limited change to the amount and timing of revenue for many companies led to some stakeholders questioning whether the whole change had been worth it. However, some preparers also pointed to the enhancements in contract management/documentation and increased interdepartmental communication, which led to a better understanding and management of their businesses. Furthermore, a majority of non-preparer respondents to an EFRAG-supported academic study highlighted that the combination of the Standard's disclosures and its effects on the financial statements had increased the overall relevance and comparability of reported revenue. *Respondents' comments* The feedback received on the overall suitability and understandability of the Standard was aligned with the positions expressed in the DCL. Respondents indicated that the Standard had achieved its intended objectives. One of the respondents suggested the use of webinars to ensure the understandability of future IFRS Accounting Standards. Some national standard setters indicated that the ongoing costs were still significant for some industries and provided some relevant examples. Academic evidence shared by a respondent indicated that the comparability across financial statements had generally increased, and the revenue amounts were better mapped into cash flows. And there was an increase in the relevance and faithful representation of financial statements. They also noted the disclosure requirements provided more useful information for the decision-making.	management) of implementing the standard were incorporated into the FCL. Reference was made to the related evidence available in other academic studies.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
The EFRAG-supported academic survey provided detailed evidence of one-off and ongoing costs and showed that disclosures were among the costliest components of the IFRS 15 requirements. The survey also detailed preparers' benefits.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 2 *Identifying performance obligations in a contract*

Introduction

IFRS 15 requires an entity to identify performance obligations in its contracts with customers. A performance obligation is defined as a promise in a contract with a customer to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In question 2 of the RFI, the IASB aimed to understand under what circumstances stakeholders find identifying performance obligations difficult along with the pervasiveness of these circumstances.

EFRAG's tentative position

During the preparatory outreach, EFRAG received feedback on the complexities faced by preparers when identifying performance obligations in an arrangement, particularly in determining whether the promise is distinct in the context of the contract. Fact patterns posing application challenges include those related to upfront fees, pre-production services, and contracts involving licences.

EFRAG suggested that the IASB should provide additional illustrative examples of those fact patterns that preparers struggle with.

Respondents' comments

Most respondents supported the introduction of examples to address the challenging aspects of this area.

EFRAG's response to respondents' comments

EFRAG final position

Based on the comment letter feedback received, in the FCL, EFRAG retained the positions (i.e., issues and suggestions for IASB action) expressed in the DCL. However, the FCL enhanced the articulation of the complexity that may arise in identifying performance obligations in a contract. It included a challenging fact pattern raised by a respondent due to the unavailability of guidance equivalent to the withdrawn IFRIC 18 *Transfers of Assets from Customers*. There is a challenge in determining if connection fees received or transfer of assets from customers represent consideration for a separate performance obligation.

The FCL's response to Question 6 *Licensing* covers challenges in circumstances whereby determining whether the promise to grant a licence to a customer is distinct from other promised goods or services in the contract can be challenging.

The FCL did not incorporate an issue raised by a respondent on whether shipping and handling costs should be treated as either fulfilment costs or separate performance obligations. It was considered that accounting for all shipping and handling costs as fulfilment costs would create an exception to the revenue recognition model and that the purpose of the PIR is not to resurrect discussions on the appropriateness of the Standard's recognition and measurement requirements.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
An enforcer provided a fact pattern to illustrate the application challenges faced by preparers. Software developers that sell on-premise software licences plus maintenance services often apply significant judgment to determine whether the delivery of the licence is distinct from the maintenance services. The enforcer highlighted that, in some cases, there are different accounting treatments of similar fact patterns. In addition, a respondent suggested that shipping and handling should be considered as fulfilment costs in all instances (i.e., to be expensed in all instances and, thus, avoiding the assessment of whether shipping and handling costs are a separate performance obligation). Another national standard setter indicated that in its jurisdiction, due to the withdrawal and unavailability of guidance equivalent to IFRIC 18 *Transfers of Assets from Customers*, entities that are subject to rate regulation in the utilities sector have to apply complex judgment to determine if connection fees received or transfer of assets from customers represent consideration for a separate performance obligation.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

RFI Question 3 *Determining the transaction price*

Introduction

IFRS 15 defines the transaction price as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The Standard also provides specific requirements for determining the transaction price if consideration includes a variable amount, a significant financing component or any consideration payable to the customer.

In question 3 of the RFI, the IASB sought to understand the pervasiveness of entities paying incentives to end customers and the cases of 'negative'[4] revenue, how entities account for such incentives and 'negative' revenue and why, and how various accounting treatments affect the usefulness of the resulting information to users of financial statements.

EFRAG's tentative position

EFRAG suggested that the IASB should clarify whether and under what circumstances 'negative' revenue should be presented under the 'expenses' categories. In addition, in light of variable consideration featuring across a wide variety of buyer-seller transactions, and the variable consideration estimation constraint not working as intended, EFRAG's view was that the IASB should explore potential improvements to the existing guidance on how to apply the estimation constraint.

EFRAG final position

Based on the feedback received from constituents and FR TEG discussions, in the FCL, EFRAG retained the positions (i.e., issues and suggestions for IASB action) expressed in the DCL. Specifically, on the need for further guidance on 'negative revenue' and variable consideration estimation constraint. On the latter issue, based on the FR TEG discussions, the FCL was redrafted to indicate that, in some situations, a highly probable threshold for the estimation constraint is useful.

A respondent suggested additional guidance on instances where a contract had a significant financing component. However, this issue was not included in the FCL as EFRAG did not consider it to be a high priority.

Based on the FR TEG discussion, and to allow a focus on the highest priority issues, issues around sales-based taxes were addressed in EFRAG's response to question 11 (Other items) instead of Question 3.

[4] 'Negative' revenue arises in instances where a consideration payable to a customer exceeds the amount of consideration expected to be received from the customer.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
Respondents' comments Most respondents to this question recommended that the IASB should provide guidance on how the 'negative' revenue should be accounted for. Suggestions for additional guidance on instances where a contract has a significant financing component and on the determination of the variable consideration as part of the transaction price were also raised. Some respondents also addressed the need for guidance on whether to include sales-based taxes in the transaction price. Some respondents presented fact patterns which highlighted the lack of and/or challenges in applying the Standard's principle versus agent guidance for sales-based taxes, and the resulting diversity in practice that has arisen within jurisdictions.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

RFI Question 4 *Determining when to recognise revenue*

Introduction

IFRS 15 requires an entity to recognise revenue when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of that good or service.

In question 4 of the RFI, the IASB aimed to understand under what circumstances stakeholders find determining when to recognise revenue difficult as well as the pervasiveness of these circumstances.

EFRAG's tentative position

During the preparatory outreach, most stakeholders did not identify any application challenges in this area. Nonetheless, EFRAG considered that related past issues raised to the IFRS IC and the agenda decisions issued thereafter on how an entity applies the criteria included in IFRS 15.35 were indicative of the challenges that had arisen on this aspect of the requirements. The DCL also included a fact pattern identified by an enforcer highlighting the difficulties faced by entities in the automotive industry in applying the criteria in IFRS 15.35 to determine if the entity's performance creates an asset with an alternative use to the entity. These criteria help to determine whether to recognise over time or at a point in time. EFRAG sought constituents' views on the significance and pervasiveness of this issue.

Respondents' comments

Similar to the preparatory outreach that preceded the DCL publication, many respondents to the DCL did not identify any application challenges in determining when to recognise revenue. However, two respondents highlighted challenges related to assessing if an entity's performance creates an asset with an alternative use (i.e., IFRS15.35(c)). Citing two illustrative cases, a respondent asked for additional guidance to assess whether an entity has an enforceable right to payment

EFRAG final position

Based on the feedback received from constituents, the FCL retained the tentative position (i.e., issue and suggestion for IASB action) expressed in the DCL. Specifically, on the application challenge entities face to assess whether an entity has an alternative use of a created asset (i.e., IFRS15.35 (c)).

The FCL was updated to reflect the suggestion from some respondents for additional guidance to assess whether an entity has an enforceable right to payment for performance obligations completed to date. EFRAG considered that this suggestion could benefit other IFRS Accounting Standards that incorporate or are inspired by IFRS15.35 (c) (e.g., RRA final Standard).

The following issues raised by different respondents were not considered a high priority and thus were not included in the FCL:

- The suggested development of illustrative examples demonstrating how to apply judgement in determining which input method for measuring progress towards complete satisfaction of a performance obligation was the most relevant. It was unclear the specific IFRS 15 requirements that were leading to the concern.
- The suggested need for guidance on how to depreciate capitalised costs related to performance obligations with different patterns of transferring the customer the goods or services to which the asset relates.
- The suggestion for an illustrative example which incorporates the concepts highlighted in the IFRS IC agenda decision *'Costs to Fulfil a Contract'.*

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
for performance obligations completed to date. The respondent suggested that additional guidance could be drawn from the 2018 IFRS IC agenda decisions. Other issues raised by the respondents to this question were the need for further examples that help entities select the most appropriate method for measuring progress towards complete satisfaction of a performance obligation and the lack of guidance on the approach to depreciate capitalised costs when they relate to performance obligations with different patterns of measuring progress. In addition, a respondent considered that an illustrative example could be added to the standard to incorporate the concepts outlined in the IFRS IC agenda decisions from June 2019[5].	

[5] IFR IC decision - Costs to fulfil a contract (IFRS 15)

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 5 *Principal versus agent considerations*

Introduction

When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is either a principal or an agent based on the nature of its promise and on whether it controls the good or service before it is transferred to the customer. According to IFRS 15, a principal controls a good or service before it is transferred to a customer while an agent merely facilitates the sale of goods or services between a principal and the customer.

In question 5 of the RFI, the IASB sought to understand under what circumstances stakeholders find applying the concept of control and the related indicators difficult and the pervasiveness of these circumstances.

EFRAG's tentative position

The challenges identified stemmed from the application of the transfer of control principle and the related indicators in IFRS15B.37 in identifying whether an entity was a principal or an agent. The application challenge which was raised by many stakeholders related to a broad range of business models. EFRAG considered the IASB should further emphasise the primacy of the assessment of the transfer of control principle whilst determining whether a reporting entity is a principal or an agent. Hence, the IASB should enhance the prominence of this principle by elevating its articulation in BC385H from the Basis for Conclusions to the main body of the Standard.

Respondents' comments

Respondents to this question confirmed the challenges associated with the IFRS 15 principal versus agent guidance consistent with the views expressed in the DCL. They provided differing views on the reasons for such challenges including an unclear description of the relationship between the concept of control and the related

EFRAG's response to respondents' comments

EFRAG final position

Based on the feedback received from constituents, in the FCL, EFRAG retained the positions (i.e., issues and suggestions for IASB action) expressed in the DCL. In addition, the suggestion made by respondents for targeted illustrative examples (i.e., related to services, intangible assets and bundled offerings including licences) was included in the FCL.

A respondent suggested that the IASB should clarify whether the control indicators included in IFRS15.B37 should be weighted and provide application guidance and illustrative examples on the application of the control indicators. Another respondent suggested that the IASB should reintroduce the criterion of credit risk assumption in the evaluation of principal-agent relationships. However, these suggestions were not incorporated into the FCL as they were inconsistent with EFRAG's main recommendation that primacy should be accorded to the transfer of control principle (i.e., it should be elevated from the Basis for Conclusions to the main Standard). Similarly, the challenge related to estimating the amount of revenue that was raised by a respondent was not included in the FCL as it was considered an enforcement issue rather than an application challenge.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
indicators (IFRS15.B37), the reduced weight of the control assessment in the principal versus agent guidance or the difficulties in applying the indicators. Conversely, two respondents considered that the indicators provide good principles-based guidance. Many respondents noted that specific challenges arise in situations where an entity sells a /service, licences of IP and bundles of items including licences and some of them encouraged the IASB to provide examples to support the principal versus agent guidance. Some respondents also highlighted the limitations of the principal versus agent guidance whilst determining whether to include sales-based taxes in the transaction price (i.e., conflicting conclusions of applying different indicators and the inapplicability of the notion of transfer of control in the administration of sales-based taxes). On the way forward, a majority of respondents suggested that the IASB should give more prominence to the principle of assessment of control, a view that aligns with the DCL. Other suggestions included additional application guidance including on which of the indicators should have more weight and illustrative examples on the application of the control indicators. A respondent suggested the reintroduction of the credit risk criteria. A respondent also flagged that some entities that act as principals have to estimate the amount of revenue to recognise if they do not have information about the amounts charged to end customers by an intermediary. Even though the IASB had concluded that the issue was not pervasive (IFRS 15.BC385X), the respondent encouraged the IASB to reassess its importance and provide guidance if necessary.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 6 *Licensing*

Introduction

For contracts that grant licences of intellectual property (IP) to customers, IFRS 15 requires an entity to determine whether the promise to grant a licence is distinct from other goods or services promised in the contract and to determine whether the licence transfers to a customer either at a point in time or over time.

The Standard also provides special requirements for recognising revenue for sales-based and usage-based royalties when the royalties relate only to a licence of IP or when a licence of IP is the predominant item to which the royalties relate.

In question 6 of the RFI, the IASB sought to understand under what circumstances stakeholders find applying the licensing requirements difficult and the pervasiveness of these circumstances.

EFRAG's tentative position

EFRAG raised several challenges related to the accounting for contracts involving licences:

- Determining whether a licence is a distinct performance obligation from other goods or services in a contract;
- Determining whether a licence of intellectual property (IP) is the predominant component of a single performance obligation; and
- Difficulties in distinguishing, especially in the pharmaceutical industry, out-licensing arrangements from the pure sale of patents of a drug (IP).

For the first two challenges, EFRAG suggested that the IASB could provide additional illustrative examples for complex fact patterns. For the third challenge, EFRAG suggested that the IASB could further assess whether amendments that extend the

EFRAG's response to respondents' comments

EFRAG final position

Based on the comment letter feedback received, in the FCL, EFRAG retained the positions (i.e., issues and suggestions for IASB action) expressed in the DCL. Nonetheless, the FCL provided more colour on the challenges faced by stakeholders (i.e., complexities in determining whether a licence is a right to use or right to access and determining whether an entity acts as a principal or agent when providing the licence). Furthermore, the FCL reflected the suggestion by a respondent for additional Illustrative examples.

The FCL also incorporated the call from some respondents for the IASB to clarify the accounting treatment of licence renewals to help entities determine whether to recognise revenue when the renewal is agreed upon by the parties or when the renewal period begins. The FCL pointed to the fact that the FASB had amended Topic 606 and developed implementation guidance to clarify this aspect.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
sales-based and usage-based royalty constraint to fact patterns similar to the pure sale of IP could be made. In this question of the RFI, the IASB sought to *Respondents' comments* Several respondents expressed comfort with the guidance for accounting of contracts involving licences. Concurrently, consistent with the position expressed in the DCL, some respondents affirmed the application challenges associated with contracts involving licences and they pointed to similar issues raised in the DCL (i.e. when licences are a separate performance obligation) and other additional aspects (e.g. right of use versus right of access, determining whether an entity acts as a principal or agent when providing the licence, and the need to clarify the accounting treatment of licence renewals). On the way forward, several respondents suggested illustrative examples. A respondent did agree with the issues identified and suggested solutions in the DCL including possibly extending the royalty constraint. Another respondent also suggested the need to clarify the accounting treatment of licence renewals.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

RFI Question 7 *Disclosure requirements*

Introduction

In developing IFRS 15, the IASB sought to improve on the disclosure requirements in previous Standards to enable entities to provide more useful information about the nature, amount, timing, and uncertainty of revenue. To achieve that objective, an entity discloses qualitative and quantitative information about the following:

(a) its contracts with customers (e.g., including disaggregation of revenue, significant changes in contract assets and liabilities, transaction price allocated to the remaining performance obligation, any impairment loss recognised on receivable or contract assets);

(b) the significant judgements, and changes in the judgements, made in applying IRS 15 to those contracts;

(c) any assets recognised from the costs to obtain or fulfil a contract with a customer; and

(d) Any practical expedient used.

As part of the initial feedback gathered by the IASB, stakeholders raised concerns about the disclosure requirements related to:

(a) the costs of meeting some disclosure requirements potentially exceeding the usefulness of the resulting information to users of financial statements; and

(b) entities sometimes omit the information required by IFRS 15 which may be caused by a lack of specificity in the disclosure requirements.

In question 7 the RFI, the IASB sought evidence on the causes and pervasiveness of these concerns.

EFRAG final position

Based on the feedback, in the FCL, EFRAG amended the DCL drafting to:

(a) reflect the articulated benefits that users derive from disclosure of changes in contract assets/liabilities, remaining performance obligations and allocation of the transaction price to remaining performance obligations;

(b) reflect the concerns expressed by respondents around the costs of the disclosure of changes in contract assets and contract liabilities and the presentation options and practical expedients allowed for the disclosure of remaining performance obligations;

(c) reflect the feedback and FR TEG discussions on the DCL's drafting on backlog disclosures. The observation in the DCL on the possible usefulness of this disclosure was deleted as it is not a required disclosure, it is disclosed in the management report, and serves a different purpose from the required disclosure of remaining performance obligations;

(d) include the key findings from preparer respondents to the EFRAG-supported academic survey on the cost of disclosures.

Furthermore, as a result of the mixed views on benefits versus costs, the FCL recommended that the IASB consider whether it should conduct a further targeted outreach to both preparers and users to explore whether the suggested improvements to disclosure (enhancing disaggregation of revenue requirements, eliminating the presentation options for remaining performance obligations, and requiring a reconciliation of transaction price allocated to

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
EFRAG's tentative position EFRAG reflected the mixed views expressed by different stakeholders during the pre-DCL outreach on the usefulness versus the costs of the required disclosures. Feedback from users was supportive of the disclosures. Moreover, the user respondents to the EFRAG-supported academic survey conveyed that the disclosure requirements increased their ability to estimate future cash flows and assess revenue margins and stewardship. In contrast, some preparers, auditors, and national standard setters questioned the usefulness of some disclosures (e.g., changes in contract assets and contract liabilities) and made suggestions for their improvement. The DCL reflected several suggested improvements to the disclosures including: • noting the disaggregation of revenue is not done at a useful level and that it is better suited for entities in the scope of IFRS 8 *Operating Segments;* • observing that users seem more interested in the backlog information than the remaining performance obligations; • suggesting a requirement for the reconciliation of the transaction price allocated to the remaining performance obligations at the beginning and at the end of the reporting period as well as an explanation of how the reported amount was calculated. The DCL had a question to constituents on the usefulness, costs, observed variation in quality, and suggested improvement of the required disclosures. *Respondents' comments* *Comment letter feedback* <u>*Usefulness of disclosures*</u>: The comment letter feedback echoed the range of views expressed in the DCL. Most respondents considered that the disclosure requirements result in entities providing useful information to users of financial	remaining performance obligations) could improve the overall cost-benefit balance. Based on FR TEG discussions, the FCL did not incorporate the proposal by a respondent to limit the disclosure of changes in contract assets and contract liabilities to long-term business models. It was noted that the application of the IAS 1 materiality requirements suffices for entities to determine when it is decision-useful to provide this disclosure.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
statements. However, some national standard setter respondents questioned the usefulness of the disclosure of changes in contract assets and contract liabilities and the remaining performance obligations. The concern on the former is due to the costs of providing the information while the concern on the latter is due to the presentation options and practical expedients allowed that hampers comparability. A respondent suggested limiting the changes in contract assets and contract liabilities to long-term business models. *Suggested possible improvements expressed in the DCL*: Some respondents questioned the costs associated with the proposed reconciliation of the transaction price allocated to the remaining performance obligations. A respondent disagreed with what they interpreted as a suggestion for the extension of disclosure requirements to include backlog information. *Costs of disclosures:* Some national standard setters noted the ongoing costs associated with manual gathering of information about the main changes in contract assets and contract liabilities; and time-consuming and costly allocation of the transaction price to the remaining performance obligation. *Targeted user outreach feedback* Users expressed strong support for the current disclosure requirements. They elaborated on why different disclosures are useful and how they could be improved. Specifically, • the disclosure of changes in contract assets and contract liabilities helps to assess how these balances change over time (e.g. changes in revenue assumptions and visibility of disputes that may arise). This disclosure is useful for long-term business models; • they pointed to the lack of detailed information relating to the disaggregation of revenue (e.g., reduced information relating to the distinction between variable and fixed components in the	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
telecommunication industry when compared with that disclosed under IAS 18). They also noted the difficulties in reconciling this information to that provided for the operating segments; • they highlighted that information about the remaining performance obligations is relevant for forecasting future cash flows and is useful for companies in the engineering and construction industry; and • they agreed that the proposed reconciliation of the transaction price allocated to the remaining performance obligations could provide useful information although they acknowledged it may be costly for preparers. *EFRAG-supported survey feedback* Feedback from the preparer respondents to the EFRAG-supported academic survey indicated that providing disclosures is among the costliest components of IFRS 15 requirements.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

RFI Question 8 *Transition requirements*

Introduction

IFRS 15 allowed an entity applying IFRS 15 for the first time a choice between two transition methods:

(a) applying the Standard retrospectively to each prior reporting period presented in accordance with IAS 8 subject to some practical expedients (retrospective method); or

(b) applying the Standard retrospectively with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application (modified retrospective method).

IFRS 15 also required an entity to explain which practical expedients were used and, to the extent reasonably possible, to provide a qualitative assessment of the estimated effect of applying each practical expedient.

In question 8 to the RFI, the IASB sought feedback on whether and why the transition requirements worked as intended and whether these requirements achieved the right balance between reducing preparer costs and providing useful information.

EFRAG's tentative position

Based on the outreach feedback and academic evidence, the DCL indicated there was diversity in the transition method applied by preparers with the majority applying the modified retrospective method. The DCL noted that several preparers welcomed the Standard's allowed practical expedients for the retrospective method and users' needs for comparable information were likely met by the retrospective method. The DCL stated that the IFRS 15 transition requirements achieved an appropriate balance between minimising transition costs for preparers of financial statements while providing useful information to users of financial statements.

EFRAG final position

The FCL retained the drafting of the DCL with no changes.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
Respondents' comments Respondents to this question confirmed that the modified transition method has been used extensively in practice, although the full retrospective approach in general provided users with more useful information.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 9 *Applying IFRS 15 with other IFRS Accounting Standards*

Introduction

As part of the initial feedback gathered by the IASB, stakeholders raised concerns about the interaction between IFRS 15 and the following standards:

(a) IFRS 3. Stakeholder suggested that, sometimes, the difference between the measurement principles in IFRS 3 (fair value) and those in IFRS 15 (transaction price) might create difficulties for entities when measuring contract assets and contract liabilities acquired as part of a business combination;

(b) IFRS 9. Price concession vs impairment losses. Stakeholders were unsure whether, when an entity accepts lower consideration from a customer whose financial position has deteriorated, the entity needs to account for this reduction as a contract modification in accordance with IFRS 15 or as impairment of receivables in accordance with IFRS 9;

(c) IFRS 9. Liabilities arising from IFRS 15. Stakeholders suggested that entities might be unsure of which requirements to use to account for liabilities arising from IFRS 15 other than those already specified in the Standard, especially if they could meet the definition of financial liability; and

(d) IFRS 16. Stakeholders suggested that in some cases entities might find accounting for contracts that include a service component and a lease component difficult due to differences between the requirements in IFRS 15 and IFRS 16.

In question 9 of the RFI, the IASB sought to understand from stakeholders under what circumstances:

EFRAG's response to respondents' comments

EFRAG final position

In the FCL, EFRAG made clarifying edits relating to the interaction between IFRS 15 and IFRS 16 and suggested that the IASB provides further guidance within IFRS 16 (rather than IFRS 15) to assist entities in assessing whether the contract (or a part of it) is either in the scope of IFRS 15 or IFRS 16.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
(a) the differences between the requirements in IFRS 3 and IFRS 15 lead to significant fair value adjustments at acquisition (i.e., during business combinations), how pervasive the matter is and how it affects entities' financial statements and the usefulness of the resulting information to users of financial statements; (b) they find determining how to account for reduced consideration difficult and why, and entities' current accounting policies for these items; (c) they are unsure of the requirements to apply to liabilities arising from IFRS 15, the nature of these liabilities and entities' current accounting policies for these liabilities; and (d) they are unsure of how to apply the requirements in IFRS 15 alongside the requirements in IFRS 16, how pervasive these circumstances are, what causes the ambiguity and how that ambiguity affects the usefulness of information to users of financial statements. *EFRAG's tentative position* EFRAG suggested that the IASB should prioritise addressing the application challenges arising from the interaction between the Standard and the following IFRS Accounting Standards that were identified in the RFI: • IFRS 3 *Business Combinations:* The DCL suggested a review of whether targeted amendments are needed to ensure consistency in the accounting treatment applied for acquirer and acquiree contracts assets and contract liabilities. • IFRS 16 *Leases*: The DCL suggested the IASB provides clarifying guidance or illustrative examples on challenging fact patterns where it is unclear whether IFRS 15 or IFRS 16 is applicable (e.g., in assessing whether, in a sale and leaseback transaction, the initial transfer of the underlying asset from	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
the seller-lessee to the buyer-lessor is a sale and in identifying components in lease contracts). The DCL sought constituents' views on the interactions with the following Standards that were considered a high priority by EFRAG but not included in the IASB RFI: • IFRS 10 *Consolidated Financial Statements*: the DCL suggested the IASB should explore adding a narrow-scope project that would require an entity to apply IFRS 15 instead of IFRS 10 for the sale of a single-asset subsidiary to a customer through a corporate wrapper; and • IFRS 11 *Joint Arrangements*: the DCL suggested the IASB should clarify which collaborative arrangements are considered to be outside of the scope of IFRS 15. The RFI also included the challenges arising from the interaction between IFRS 15 with IFRS 9. EFRAG also received feedback on this issue. However, it was not considered a high priority and was addressed in the response to Question 11 (other matters). *Respondents' comments* Some respondents agreed with the DCL positions relating to the interaction between IFRS 15 and IFRS 3, IFRS 10 and IFRS 16. Furthermore, a national standard setter suggested that the IASB should provide further guidance in IFRS 16 to assist in the assessment of whether the arrangement represents a lease in the scope of IFRS 16 or a sale in the scope of IFRS 15. A few respondents commented on the interaction between IFRS 15 and IFRS 11. A national standard setter respondent indicated they were not aware of any concerns on this interaction but the two other respondents agreed with the DCL position.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

RFI Question 10 *Convergence with US GAAP Topic 606*

Introduction

As noted earlier, IFRS 15 was developed jointly with the FASB Topic 606. When issued, the requirements in IFRS 15 and Topic 606 were substantially converged, except for some minor differences. The IASB and the FASB amended their respective standards in 2016. The amendments to Topic 606 were more extensive than those to IFRS 15, which resulted in further differences between these two Standards.

In question 10 to the RFI, the IASB sought respondents' views on how important retaining the current level of convergence between IFRS 15 and Topic 606 is.

EFRAG's tentative position

EFRAG generally received positive feedback on the convergence between IFRS 15 and US GAAP with stakeholders acknowledging that it improved the comparability of entities across the globe. Furthermore, 55% of the non-preparer respondents (i.e., investment professionals, auditors, and academics) to the EFRAG-supported academic study considered that IFRS 15 had improved the comparability with other entities reporting under US GAAP.

Although stakeholders generally expressed that convergence (i.e., either enhancing or retaining converged requirements) is a desirable outcome, some stakeholders, including users, also expressed comfort that a level of divergence may inevitably occur. Relatedly, EFRAG considered that further convergence should only occur if it enhances the quality of reported information (e.g., with respect to changes related to the interaction between IFRS 15 and IFRS 3, IFRS 10 as discussed in the responses to Question 9).

EFRAG's response to respondents' comments

EFRAG final position

The FCL retained the drafting of the DCL with no changes.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
Respondents' comments Respondents to this question welcomed the existing level of convergence with US GAAP as it increases global comparability, and they suggested it should be maintained as far as possible. A national standard setter respondent suggested that any amendment to IFRS 15 that is not adopted by analogy in US GAAP should be avoided unless it significantly enhances the quality of the information reported.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

RFI Question 11 *Other matters*

Introduction

In question 11 to the RFI, the IASB asked for any other information that would help in assessing whether: 1) there were fundamental questions about the principles in IFRS 15; 2) the benefits to users were significantly lower than expected; or 3) the costs of applying IFRS 15 requirements and auditing and enforcing their application were significantly greater than expected.

EFRAG's tentative position

In response to Question 11, the DCL included the treatment of sales-based taxes (i.e., whether an entity is collecting taxes on behalf of an authority or on behalf of itself and thus should include such taxes in the transaction price). This issue was raised by an enforcer based on numerous queries posed. However, the DCL stated that EFRAG did not consider the issue a high priority after taking into account that the IASB decided against its possible inclusion in the RFI after taking the view that any diversity in practice likely reflects the differences in tax legislation across jurisdictions. It was noted the issue predates the IFRS 15 requirements.

The DCL response summarised other issues identified during the preparatory outreach (i.e., contract modification, significant financing component, estimating transaction price, other aspects of principal-agent considerations besides the transfer of control, cost recognition, and other aspects of interaction with IFRS 9). The DCL stated that EFRAG did not consider these issues to be of a high priority (i.e., there were neither indications of how widespread these issues were nor were the shortcomings within the related IFRS requirements sufficiently articulated).

Respondents' comments

Some respondents (an enforcer and national standard setter) commented on the lack of guidance for some sales-based taxes, and they provided evidence of the

EFRAG final position

Based on the feedback received and FR TEG discussions, in the FCL, EFRAG amended the DCL's drafting on sales-based taxes by including the substantiation that respondents provided on this issue. The FCL suggested the IASB should provide guidance and illustrative examples on the assessment of whether an entity is collecting taxes on behalf of authorities.

In addition, the FCL noted the two challenges raised by respondents related to the interaction between IFRS 15 and IFRS 9:

- *Question of possible double counting – expected credit losses and significant financing component*: EFRAG noted the discount rate applied for the significant financing component is not a credit-adjusted rate under the requirements of IFRS 9 since the rate is not adjusted for subsequent changes in credit characteristics, and thus there ought to be no double counting.
- Measurement of joint operator assets: the FCL highlighted an application challenge raised by a respondent that is related to the interaction between IFRS 15 and IFRS 9 and faced by joint operators in the oil and gas sector.

The FCL retained the DCL drafting which stated the other issues raised by stakeholders (contract modification, significant financing component, estimating transaction price, other aspects of principal-agent considerations besides transfer of control, and other interactions with IFRS Standards besides those raised in Question 9) were not a high priority for EFRAG.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
pervasiveness of the issue and explained why current IFRS 15 guidance including principal versus agent guidance has limitations. In particular, they called for additional guidance and examples that would help entities assess whether sales-based taxes are collected on behalf of a third party and whether to include these taxes in the transaction price. Some respondents commented on the interaction between IFRS 15 and IFRS 9. They highlighted challenges related to the accounting for expected credit loss and significant financing component (where there was a question of possible "double counting") and the measurement of the joint operator assets. Other topics (e.g., determination and allocation of the standalone selling price to separate performance obligations, costs to fulfil a contract, warranties) with application challenges were raised by some respondents.	

Appendix 1: List of respondents

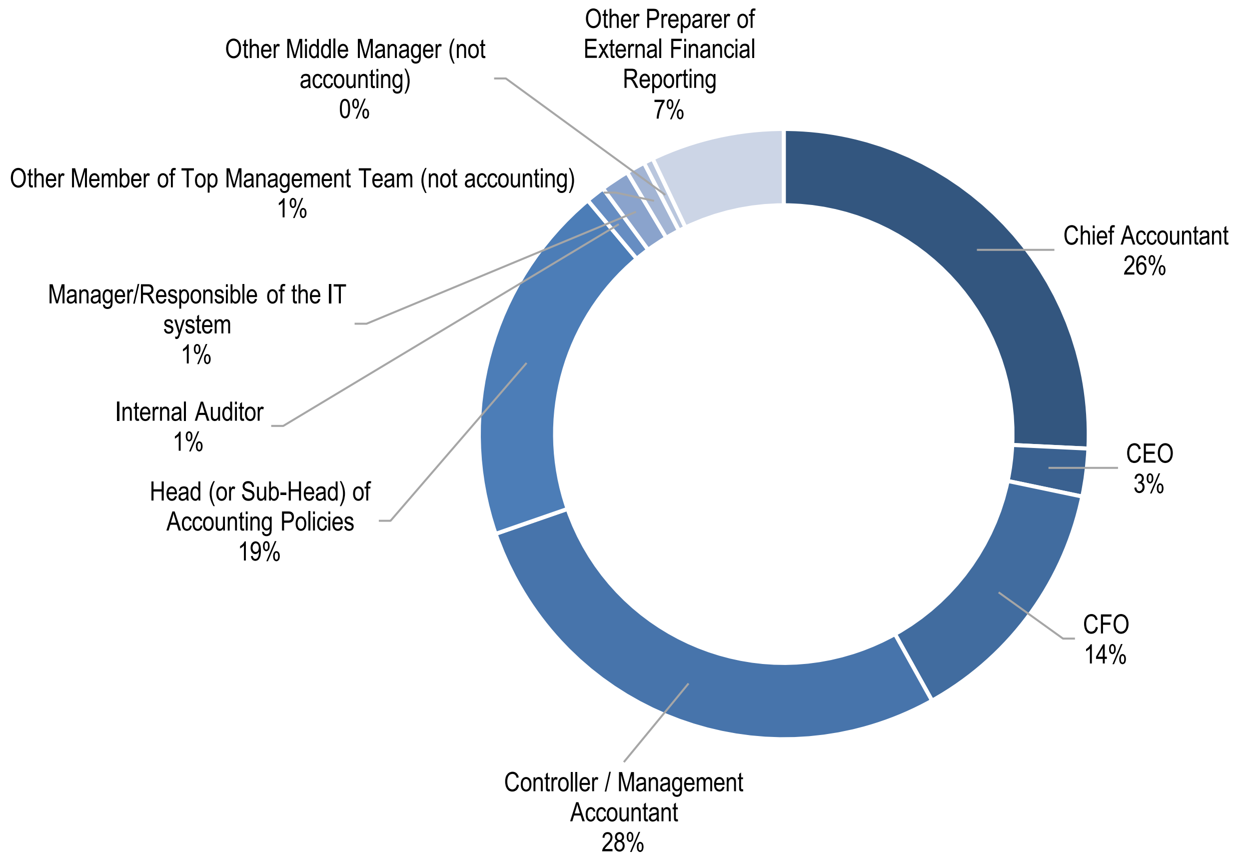
Table 1: List of respondents

Name of respondent	***Country***	***Type / Category***
Swedish Financial Reporting Board (SFRB)	Sweden	Standard Setter
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator/Enforcer
European Federation of Financial Analysts Societies (EFFAS)	Europe	Users/ User organisation
European Accounting Association (EAA)	Europe	Academic association
Accounting Standards Committee of Germany (ASCG)	Germany	Standard Setter
Norwegian Accounting Standards Board (NASB)	Norway	Standard Setter
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	Standard Setter
Organismo Italiano di Contabilità (OIC)[6]	Italy	Standard Setter

[6] Comment letter received after the EFRAG FRB finalised the FCL.

Appendix 2: EFRAG-supported academic study: breakdown of respondents by background

Breakdown of respondents by type of preparer



Breakdown of respondents by type of non-preparer