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[Draft] Comment Letter

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Comments should be submitted by 11 October 2023.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX October 2023]

Dear Mr Barckow,

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

Overall suitability and understandability: Based on the outreach to stakeholders, EFRAG considers that IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15' or 'the Standard') is generally working well in practice but we have identified potential areas for targeted improvements. The five-step revenue recognition model is generally seen as a robust and principles-based approach suitable for the breadth of possible revenue from contracts with customers' transactions that are of varying complexity. Stakeholders have mostly described IFRS 15 as a well-structured and understandable Standard, and they have complimented its numerous illustrative examples. That said, some preparers have pointed to the steep learning curve initially faced and noted that the effective implementation of the Standard needed expert input before they came to grips with all its nuances and subtleties.

Some stakeholders observed that several aspects of the Standard were initially challenging (e.g., the estimation of transaction price including determining the estimated selling practice) but over time, they have acclimated with many of these aspects of the requirements and market practice has matured.

Cost-benefit: EFRAG is cognisant that stakeholders have, at this point in time, little appetite for any significant, disruptive changes to the current revenue accounting requirements. 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 has led to questions on whether the whole change had been worth it. On the other hand, some preparers have pointed to the enhancements in contract management/documentation and increased interdepartmental communication, which have led to a better understanding and management of their businesses. Furthermore, a majority of non-preparer respondents to an EFRAG-supported academic study have highlighted that the combination of the Standard's disclosures and its effects on the financial statements has increased the overall relevance (i.e., estimating future cash flow, assessing revenue margins and assessing stewardship) and comparability of reported information.

Application challenges: Consistent with stakeholders' expectations that only targeted improvements should occur, EFRAG considers that the following issues in order of priority should be addressed by the IASB:

- *Principal versus agent (PA) considerations* (Question 5): This was the most frequently raised application challenge by stakeholders and it relates to a broad range of business models. EFRAG considers 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 agent, and the IASB should enhance the prominence of this principle by elevating its articulation from the Basis for Conclusions to the main Standard. We acknowledge that challenges related to PA determination are cross-cutting across various IFRS Accounting Standards including IFRS 10 and Supplier Finance Arrangements.
- *Accounting for Licenses* (Question 6): Accounting for licenses is a significant practical challenge affecting current and emerging business models. EFRAG considers the IASB could provide illustrative examples for identified challenging fact patterns. The IASB could also review whether to extend the royalty constraint to the pure sale of intellectual property.
- *Applying IFRS 15 with other IFRS Accounting Standards* (Question 9). EFRAG suggests that the IASB should prioritise addressing the application challenges from the interaction between the Standard and IFRS 3 *Business Combinations* and IFRS 16 *Leases.* EFRAG suggests a review of whether targeted amendments are needed to ensure consistent accounting between acquirer and acquiree contracts assets and contract liabilities. And for the IASB to provide clarifying guidance or illustrative examples on challenging fact patterns on whether IFRS 15 or IFRS 16 is applicable.

  EFRAG also acknowledges that the IASB has indicated that, at a future agenda consultation, it will seek stakeholders' views on the priority of addressing the issues arising from the interactions with IFRS 10 *Consolidated Financial Statements* on corporate wrappers and IFRS 11 *Joint Arrangements* on collaborative arrangements. As the interactions with these two Standards have been initially assessed as a high priority, EFRAG is also seeking constituent views and suggestions for any possible related IASB actions.
- *Identifying performance obligations (Question 2)*: EFRAG suggests the IASB should provide additional illustrative examples of fact patterns related to identifying performance obligations that have posed application challenges. In addition, whilst considering the costs and benefits of the overall package of disclosures and perhaps reviewing which disclosures could be dropped and/or added, the IASB could review the adequacy of current disclosures on identifying performance obligations.
- *Determining the transaction price (Question 3)*: EFRAG suggests that the IASB should clarify whether and under what circumstances 'negative' revenue should be reclassified to the 'expense' categories. In addition, in light of variable consideration featuring across a wide variety of buyer-seller transactions, the IASB should explore potential improvements to the existing guidance on how to apply the variable consideration constraint. And given the backdrop of rising interest and the limited reporting on significant financing components across business models where this aspect would be expected to arise, the IASB should also clarify the extent to which reasons other than the provision of finance could be met when applying the Standard's requirements on significant financing components.

Disclosures (Question 7): EFRAG has received contrasting feedback from different stakeholders on the current usefulness of the Standard's specific disclosure requirements. Non-preparer respondents to the EFRAG-supported academic survey including primary users indicate that each of the required disclosures increased the ability to estimate future cash flows albeit to varying degrees. In contrast, during EFRAG's outreach, some preparers, auditors, and national standard setters have questioned the usefulness of some of the required disclosures (e.g., the contract asset and contract liabilities reconciliation and remaining performance obligations) and made suggestions to enhance the usefulness of particular disclosures (e.g., transaction price allocated to remaining performance obligations). Hence, before developing a position that takes account of the cost-benefit balance, EFRAG is seeking users' views on the concerns and suggestions raised.

Transition and convergence (Questions 8 and 10): EFRAG's view is that the Standard's transition methods achieved an appropriate balance between minimising transition costs for preparers of financial statements whenever it was appropriate to apply the modified retrospective method while providing useful information to users of financial statements when entities applied retrospective methods.

EFRAG's constituents have expressed the desirability of convergence with US GAAP whilst recognising and being comfortable with the inevitability of some degree of divergence.

EFRAG's detailed comments and responses to the questions in the RFI are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Vincent Papa, Juan José Gómez, Monica Franceschini or me.

Yours sincerely,

Jens Berger
Acting Chair of the EFRAG FR TEG

Appendix - EFRAG's responses to the questions raised in the RFI

Question 1 – Overall assessment of IFRS 15

Notes to constituents – RFI Summary

Background

1 *The objective of IFRS 15 Revenue from Contracts with Customers ('IFRS 15' or 'the Standard') 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:*

(a) *establishes 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.*

(b) *introduces a five-step model to support the core principle. The five steps an entity applies in recognising revenue are:*

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

(ii) *Step 2—identify the performance obligations in the contract;*

(iii) *Step 3—determine the transaction price;*

(iv) *Step 4—allocate the transaction price to the performance obligations in the contract; and*

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

2 *By providing a comprehensive and robust framework for revenue recognition, measurement and disclosure, the IASB expected to improve the consistency of revenue accounting among entities and thus improve financial reporting.*

3 *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.*

Feedback received by the IASB (Spotlight 1)

4 *Initial feedback obtained by the IASB suggests that IFRS 15 has achieved its objective and is working well, though some stakeholders still find applying aspects of the requirements challenging. Stakeholders generally see the five-step revenue recognition model as helpful—in particular, as a robust basis for analysing complex transactions.*

5 *Stakeholders observed that implementing IFRS 15 involved a significant learning process for entities. They commented that the Standard is complex and most entities took time to understand the concepts and terminology, often turning to accounting firms for advice on developing accounting policies. Therefore, a few stakeholders suggested that the Standard might be too complex to apply for smaller entities and for entities in emerging economies.*

6 *Stakeholders reported that IFRS 15 has improved the comparability of revenue information among entities within the same industry, among industries and among entities in various capital markets. They attributed some of these improvements to convergence between IASB and FASB requirements. However, some stakeholders said entities need to use significant*

judgement in applying the requirements in IFRS 15 to complex fact patterns, which might lead to inconsistent outcomes among entities.

7 *Many of IASB's stakeholders observed that although applying IFRS 15 was initially challenging, entities have now developed accounting policies. Some stakeholders cautioned the IASB against making any fundamental changes to IFRS 15 that would result in further disruption.*

8 *The cost and effort incurred on implementation varied depending on the entity's industry, contract types, previous judgements and former accounting system. Many stakeholders reported that implementing IFRS 15 was challenging and costly, but that incremental costs have decreased. Some stakeholders mentioned that implementing IFRS 15 had resulted in further benefits, including better knowledge of contracts, improved internal controls and enhanced cooperation between accounting and business functions within entities. Overall, most stakeholders expressed a view that the benefits of IFRS 15 outweigh the costs of implementing and applying the Standard.*

Question 1 – Overall assessment of IFRS 15

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

Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.

(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

(i) **in developing future Standards; or**

(ii) **in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?**

(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

If, in your view, the ongoing costs of applying IFRS 15 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain why you hold this view.

EFRAG's response

Question 1 (a) - overall suitability of IFRS 15

9 Based on the outreach to stakeholders, EFRAG considers that IFRS 15 is working well in practice but there is scope for targeted improvements such as those highlighted in our response to Questions 2, 3, 5 and 6. The five-step revenue recognition model is generally seen as a robust and principles-based approach suitable for the breadth of possible revenue from contracts with customers' transactions that are of varying complexity. Some stakeholders observed that there were aspects of IFRS 15 that were initially challenging (e.g., the estimation of transaction price including determining the estimated selling

practice) but over time, they have acclimated with many of these aspects of the requirements and market practice has matured.

Question 1 (b) - understandability

10 EFRAG's stakeholders have mostly described IFRS 15 as a well-structured and understandable Standard, and they have complimented its numerous illustrative examples. However, some preparers have also described it as a "theoretical" Standard, which required considerable efforts to translate its application to their practical situations, there was a steep learning curve initially faced, and it required the input of external experts before they came to grips with all the Standard's nuances and subtleties.

Question 1 (c) - cost-benefit

11 EFRAG obtained feedback that the implementation challenges and transition costs were significant for some industries (e.g., telecommunication, software, and construction). In many cases, ongoing incremental costs are minimal but, in some cases, these remain significant.

12 EFRAG is cognisant that stakeholders have little appetite for any significant, disruptive changes to the current revenue accounting requirements. Further to the significant costs faced by several preparers, both stakeholder feedback and an academic study have pointed to the limited[1] effect that IFRS 15 had on the amount and timing of revenue for many companies. Consequently, some stakeholders have questioned whether the costs of implementing IFRS 15 were justifiable.

13 At the same time, several preparers indicated that IFRS 15 led to enhanced contract management/documentation and improvements in interdepartmental communication. In addition, an EFRAG-supported academic survey[2] sheds some light on the realised benefits. The findings from 48 non-preparer respondents[3] to the survey including investment professionals enunciate the benefits realised from the adoption of IFRS 15 as follows:

(a) *Relevance for analytical purposes*: Respondents considered that IFRS 15 increased the ability to: estimate future cash flows (74%)[4], assess revenue margins (65%) and assess management's stewardship (64%);

(b) *Comparability of information*: Respondents also provided their views on whether the adoption of IFRS 15 had increased the comparability of financial statements. Over 60% of the respondents considered that IFRS 15 had improved the comparability with other entities using IFRS while nearly 55% of the respondents considered that IFRS 15 had improved the comparability with other entities reporting under US GAAP.

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[1] Napier, C.J., and Stadler,C., 2020, The real effects of a new accounting standard: the case of IFRS 15 Revenue from Contracts with Customers, *Accounting and Business Research*, 50 (5): 474-503. - This paper reviewed the accounting effects of STOXX Europe 50 companies found that the effects were immaterial for 48% of the companies, and percentage change of revenue was greater than 1% for only 17% of companies.

2 The academic study is led by Beatriz Garcia Osma (Universidad Carlos III de Madrid), Jacobo Gomez-Conde (Universidad Autónoma de Madrid) and Araceli Mora (Universidad de Valencia). The objective of the study was to assess the net benefits (costs) of implementing IFRS 15. The study aims to capture the perspectives of preparers and other stakeholders including users of financial statements. EFRAG will publish the report *Intended and unintended consequences of IFRS 15 adoption (I): The Users' view* from which some excerpts are included in this draft comment letter at the earliest.

[3] The 48 responses consist of: 21% auditors, 21% consultants, 21% academics, 14% investment professionals (including equity analysts, fund managers and other professional investors), 17% are other users (including any type of non-professional equity investors and lenders) and 4% are regulators and supervisors.

[4] Respondents that did not have a view on the question are not considered. The remaining respondents indicated either that there was no impact or that there was a decrease in usefulness.

Question 2 – Identifying performance obligations in a contract

Notes to constituents – RFI Summary

14 *A performance obligation is a promise in a contract with a customer to transfer to the customer either:*

(a) *a good or service (or a bundle of goods or services) that is distinct; or*

(b) *a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.*

15 The IASB's objective in developing the concept of a performance obligation was to ensure that entities appropriately identify the unit of account for the goods and services promised in a contract. The five-step revenue recognition model is an allocated transaction price model, so identifying a meaningful unit of account is fundamental to recognising revenue on a basis that faithfully depicts the entity's performance in transferring the promised goods or services to the customer.

16 In determining whether a good or a service is distinct, an entity considers if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer. The entity also considers whether its promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Feedback received by the IASB (Spotlight 2)

17 Initial feedback suggests that stakeholders sometimes find it challenging to identify goods or services promised in a contract and to determine whether those goods or services are distinct, in particular, for:

(a) *arrangements involving internally developed products or digital products;*

(b) *contract modifications;*

(c) *licensing arrangements; and*

(d) *arrangements in which an entity uses its judgement to determine whether it is acting as an agent or a principal.*

Question 2 – Identifying performance obligations in a contract

(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?

Please describe fact patterns in which the requirements:

(i) are unclear or are applied inconsistently;

(ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or

(iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 2 (a) – challenging application issues identified

18 EFRAG has 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. This issue has been raised by auditors as well as preparers from the telecommunication, construction, and software industries. It has also been raised in respect of contracts containing license components.

19 Specifically, an auditor highlighted that application challenges arise when a non-refundable upfront fee is charged to the customer (e.g., in the telecommunication, pharmaceutical and retail industries). In these situations, it is sometimes difficult to assess whether the payments relate to the transfer of a promised good or service and if so, whether these promises represent separate performance obligations. Illustratively, the situations such as those described below appear similar but often have different accounting outcomes.

(a) Entities from the telecommunication industry that charge an activation fee;

(b) Franchisors which charge a non-refundable fee to the franchisee to enter the franchise network; and

(c) Drug manufacturers that sell their products in other countries by signing an agreement with a local third party, under which that party receives an exclusive right to distribute the products in their local market. There is usually a non-refundable upfront payment for a 'licence' for a sole right to distribute the product and then variable payments based on price and quantity of products delivered.

20 On the above, we understand that, for fact-patterns (a) and (b), the upfront payment is often not considered a separate performance obligation, while for fact-pattern (c), the upfront payment is often deemed to be a separate performance obligation.

21 In addition, EFRAG considers the two IFRS Interpretations Committee ('IFRS IC') agenda decisions on whether a good or service is distinct in the context of the contract (*Revenue recognition in a real estate contract that includes the transfer of land*[5] and *Assessment of promised goods or services*[6]) to be indicative of the general challenges that preparers have faced with identifying distinct performance obligations.

Question 2 (b) – suggestions for resolving identified issues

22 Given the importance of identifying performance obligations for multiple-element arrangements including those involving licenses, and the widespread applicability of this issue across a variety of existing and emerging business models, EFRAG suggests the following:

(a) The IASB could consider updating the illustrative examples related to the identified fact patterns that preparers struggle with.

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[5] The IFRS IC issued the agenda decision (here) in March 2018. The IFRS IC assessed, among other things, the application of paragraphs 22-30 of IFRS 15 (identification of performance obligations in the contract) in a sale of land and a building to be constructed on the land. The Committee concluded that the promise to transfer the land would be separately identifiable from the promise to construct the building on that land if the entity concluded that (a) its performance in constructing the building would be the same regardless of the transfer of the land; and (b) it would be able to fulfil its promise to construct the building even if it did not also transfer the land, and would be able to fulfil its promise to transfer the land even if it did not also construct the building.

[6] The IFRS IC issued the agenda decision (here) in January 2019. In the fact pattern, a stock exchange charged the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The request asked whether the upfront fee related to activities the stock exchange undertook at or near contract inception represented a promise to transfer a service different from the listing service. The Committee concluded that the stock exchange did not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

(b) As part of its overall review of disclosures, as addressed in Question 7, the IASB could review the adequacy of the disclosure requirements on significant judgements and assumptions related to identifying performance obligations. The IASB could do so whilst determining if to add or drop disclosures in order to enhance the overall costs and benefits balance of the overall package of disclosures.

Question 3 – Determining the transaction price

Notes to constituents – RFI Summary

23 The transaction price is 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).

24 IFRS 15 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.

25 Variable consideration is estimated using either the expected value or the most likely amount method. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This assessment requires an entity to consider both the likelihood and the magnitude of the revenue reversal.

26 The promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing. As a practical expedient, an entity need not adjust the consideration if at contract inception the entity expects that the period between the entity transferring goods and services and the customer paying will be one year or less.

Feedback received by the IASB (Spotlight 3)

27 Consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment is in exchange for a distinct good or service from the customer.

Marketing incentive to end customers

28 Initial feedback received by the IASB suggests that some stakeholders are unsure how to account for incentives offered in three-way arrangements when a party acting as an agent pays a marketing incentive to end customers—for example, when a digital platform entity offers incentives to end customers who buy goods or services such as food delivery or taxi services through the platform.

29 The feedback suggests that some entities treat these incentives as payments to customers and so account for them as reductions of revenue. Other entities treat these incentives as marketing expenses.

'Negative' revenue

30 Some stakeholders were unsure how to account for consideration payable to a customer if it exceeds the amount of consideration expected to be received from the customer—for example, when an entity wishing to enter a highly competitive market offers large incentives to attract customers.

31 The feedback suggests that some entities present as 'negative' revenue the amount of consideration payable exceeding the consideration receivable. Other entities reclassify that excess as an expense. In relation to this issue, stakeholders have raised concerns such as:

(a) *how to determine the unit of account for assessing net consideration (on a contract-by-contract basis or on a portfolio basis)*

(b) *how to determine the assessment period (the current reporting period or the term of the contract)*

Question 3 – Determining the transaction price

(a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not?

Please describe fact patterns in which the requirements on how to account for incentives paid by an agent to the end customer or for negative net consideration from a contract (see Spotlight 3) are unclear or are applied inconsistently.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

32 The response to this question is split into two parts. In the first part of the response, we address the issues in determining the transaction price explicitly identified in the IASB RFI and, in the second part of the response, two issues related to the determination of transaction price not mentioned in the RFI that EFRAG considers to be a high priority are addressed.

Issues related to determining transaction price identified in the IASB RFI

Question 3 (a)- Marketing incentive to end customers and 'negative' revenue

33 EFRAG received feedback from preparers, auditors and national standard setters that there is a lack of guidance on whether incentives/penalties to customers by intermediaries should be presented as reductions of revenue or as expenses.

34 In addition, EFRAG's constituents indicated that there is a lack of guidance in instances where the consideration payable to a customer exceeds the amount of consideration expected to be received from it. For example, in a three-way arrangement, a fintech company may pay an incentive to attract end customers higher than the consideration they will receive from the supplier. This instance is highly related to the prior issue *"Marketing incentive to end customers".* An entity would only assess the recognition of 'negative' revenue once it has identified its customer.

35 However, the 'negative' revenue issue is not only circumscribed to three-party arrangements. The IFRS Interpretations Committee received a request about an airline's obligation to compensate customers for delayed or cancelled flights[7]. The Committee however did not address the question of whether the amount of compensation recognised

[7] The request asked whether the entity accounts for its obligation to compensate customers as variable consideration applying paragraphs 50-65 of IFRS 15, or applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets, separately from its performance obligation to transfer a flight service to the customer. The Committee concluded that compensation for delays or cancellations, as described in the request, is variable consideration in the contract. Accordingly, the entity applies the requirements in paragraphs 50-59 of IFRS 15 in accounting for its obligation to compensate customers for delays or cancellations. See agenda decision: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2019/ifrs-15-compensation-for-delays-or-cancellations-september-2019.pdf

as a reduction of revenue is limited to reducing the transaction price to nil. In particular, whether any compensation payment beyond the ticket price should be recognised as an expense or as negative revenue.

36 This issue was also raised in 2015 with the TRG for Revenue Recognition but it was not resolved.

37 Based on the feedback received, EFRAG considers this issue to be a high priority for addressing by the IASB as it relates to the measurement of revenue and affects the presented revenue amount.

Question 3 (b) – suggestions for resolving identified issues - marketing incentives and 'negative' revenue

38 EFRAG suggests that the IASB considers clarifying whether and under what circumstances 'negative' revenue should be presented as an expense.

Issues on determining transaction price not identified in IASB RFI

Application challenge on variable consideration

39 During the outreach, EFRAG received feedback that it can be challenging to estimate variable consideration including price concessions, rebates and returns. This feedback came from preparers, particularly in the software, construction, pharmaceutical and telecommunication industries, regulators, and national standard setters.

40 Illustratively, it was highlighted that it is difficult to estimate the variable consideration of products like gene therapies or vaccine therapies that are sold and there is a need to track the success of those products over long time periods. In addition, these estimates are often highly judgement and subject to significant debates between the preparers and auditors.

41 Furthermore, preparers highlighted that the assessment of the "high probability" threshold that the revenue will not be reversed in the future is challenging and that they involved internal and external legal/technical advisors to assess such probability. Such an assessment, especially in the construction industry, could be particularly challenging when related to some "optional/extra-works" or contract modifications in scope and/or price, usually subject to dispute between the parties (both in terms of merit and pricing). In this context, the concept of highly probable could be interpreted in different ways across entities leading to diversity in practice. Diversity in practice occurs during both initial measurement and subsequent measurement. Even though an entity might not recognise revenue initially because the 'highly likely' threshold is not clearly met, it could recognise it overtime as the uncertainty diminishes, being judgmental when this moment takes place.

42 Besides the above application challenges, EFRAG also received feedback on the appropriateness of the IFRS 15 requirements on variable consideration. Specifically, it was noted that the high probability threshold requirement conflicts with the overarching accounting principles of neutrality because it is overly prudent or conservative. Despite the standard being built towards conservatism, there were not many changes in practice compared to the previous revenue recognition requirements. For example, in the construction industry, variable consideration arrangements (i.e., penalties) are frequent and they should reduce the total price unless the likelihood of these penalties is remote. In practice, many contractors do not account for these penalties until agreed upon with the client (and this is usually done together with other modifications in scope and takes place towards the end of the construction phase).

43 Nonetheless, based on past feedback, EFRAG's understanding is that users expect prudence in the recognition of variable consideration due to its uncertainty and to avoid overstating revenue or recording potentially reversible revenue. Furthermore, EFRAG is cognisant that

the purpose of the PIR is not to reopen discussions on the appropriateness of the Standard's recognition and measurement requirements.

Application challenge on significant financing component

44 EFRAG has received feedback from auditors, regulators, and national standard setters that there is a widespread tendency of companies not to recognise a financing component even in the long-term contracts industries (e.g., construction, aerospace, and life sciences sectors) where it is common for customers to make payments in advance. Stakeholders have noted that the concept of IFRS 15.62 (c)[8] (a factor whereby a contract with a client does not include a significant financing component) is imprecise and may lead to an entity not recognising the time value of money.

45 Furthermore, ESMA published an enforcement decision[9] on a significant financing component issue. The enforcement decision was about the lack of recognition of the significant financing component in a long-term construction contract where revenue was recognised over time and the major part of the contract price was paid upon delivery. Given the length of time between when the entity transfers the promised goods and services to the customer and when the customer pays for those goods and services the issuer should have assessed the existence of a significant financing component.

46 Thus, given the backdrop of rising interest rates, EFRAG considers this issue to be of high priority as it can affect the faithful representation of performance and position of industries involving long-term contracts.

Suggestions for IASB action on variable consideration and significant financing component

47 EFRAG suggests that the IASB explores potential improvements to the existing guidance on how to apply the constraint on variable consideration, including when variable consideration is negative.

48 EFRAG recommends that the IASB clarifies the extent to which reasons other than the provision of finance could be met when applying IFRS 15. 62 (c).

EFRAG Questions to Constituents- determining the transaction price

49 Do you agree with the priority of the variable consideration and the significant component issues identified by EFRAG? Do you agree with the potential suggestions to address them? Are you aware of any other pervasive issue in the determination of the transaction price?

Question 4 – Determining when to recognise revenue

Notes to constituents – RFI Summary

50 An entity recognises revenue when (or as) goods or services are transferred to a customer—which is when the customer obtains control of that good or service.

[8] Paragraph 62 c) of IFRS 15 states that a contract with a customer would not have a significant financing component if "the difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract."

[9] https://www.esma.europa.eu/sites/default/files/library/esma32-63-1224_26th_extract_of_eecs_decisions.pdf

51 Assessing when control of a good or service is transferred is a critical step in applying IFRS 15 and it is a change from the previous requirement to consider the risks and rewards of ownership.

52 To help preparers determine whether control transfers over time or at a point in time, paragraph 35 of IFRS 15 provides the criteria for revenue recognition over time (at least one of which must be met):

(a) *the customer simultaneously receives and consumes the benefits provided by the entity's performance;*

(b) *the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or*

(c) *the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment*

53 For performance obligations satisfied over time, IFRS 15 provides guidance on selecting an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Feedback received by the IASB (Spotlight 4)

54 Feedback received by the IASB suggests that there are some challenges related to determining whether to recognise revenue over time or at a point in time. Some IASB's stakeholders said that assessments based on the criterion in paragraph 35(c) can be especially challenging, notably in relation to the enforceability of an entity's right to payment.

Question 4 – Determining when to recognise revenue

(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 4 (a) Application challenge- determining when to recognise revenue

55 During the outreach, most EFRAG stakeholders did not identify any application challenges in determining when to recognise revenue (i.e., over time or at a point in time) after assessing the pattern of transfer of control of a good or service. Nonetheless, EFRAG considers that related past issues raised to the IFRS IC[10] and the agenda decisions issued

[10] The IFRS IC issued the following agenda decisions:
- Right to payment for performance completed to date (March 2018). The agenda decision (here) addresses in the fact-pattern concerned whether the entity has an enforceable right to payment for performance completed to date as described in paragraph 35(c) of IFRS 15.

thereafter on how an entity applies the criteria included in IFRS 15.35 are indicative of the challenges that have arisen on this aspect of the requirements.

56 Furthermore, during the outreach, a regulator highlighted the difficulties faced by entities in the automotive industry, where there are original equipment manufacturers (OEMs)[11] that produce automobile parts of which a limited number are aftermarket parts that can be sold in a secondary market. EFRAG has been informed that there is diversity in practice in revenue recognition practices related to the sale of aftermarket parts. This is because OEM entities can either consider these parts

(a) as distinct goods (or a bundle of goods); or

(b) as a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. For this characterisation, each distinct good in the series that the entity promises to transfer to the customer should meet the criteria in IFRS 15.35 to be deemed a performance obligation satisfied over time. When making this determination for this noted fact-pattern, the key assessment is whether or not the aftermarket parts have an alternative use to the entity (i.e., IFRS15.35(c)).

57 On the latter point, even though the aftermarket parts have an alternative use, an entity might be practically limited from readily directing the asset for another use as it would incur significant economic losses. The outcome of this assessment may differ in practice depending on the level at which it is performed; one unit, a series (call-off order) or via a master supply agreement (MSA). Production under an MSA would not be viable if the entity had to use a secondary market for its output (as it is very limited).

58 Notwithstanding the above feedback, at this stage, EFRAG is unable to gauge how material this issue or similar issues are. Hence, EFRAG seeks constituents' views on the highlighted OEM-related fact pattern and any other fact patterns where application challenges may arise.

EFRAG Questions to Constituents- determining when to recognise revenue

59 Are you aware of any pervasive issues, including the one outlined in paragraphs 56 and 57 above, that give rise to diversity in practice in the timing of revenue recognition as a result of the IFRS 15 requirements of when to recognise revenue (i.e., over time or at a point in time) after assessing the pattern of transfer of control of a good or service? If yes, please elaborate

Question 5 – Principal versus agent considerations

Notes to constituents – RFI Summary

60 IFRS 15 requires an entity to determine whether it is a principal or an agent based on the nature of its promise in a contract and on whether it controls the goods or services before they are transferred to the customer:

- Revenue recognition in a real estate contract (March 2018). The agenda decision (here) deals with the application of paragraph 35 on the sale of a real estate unit which is part of a residential multi-unit complex.
- Revenue recognition in a real estate contract that includes the transfer of land (March 2018). The agenda decision (here) addresses in the fact-pattern concerned, among other things, whether the revenue associated with the sale of a land and the building to be constructed on the land should be recognised over time or at a point in time.

[11] OEM stands for original equipment manufacturer, which parts are made by the same company that makes the vehicle. Meanwhile, aftermarket parts are produced by a different parts company and are often designed to be compatible with as many makes and/or models as possible.

(a) *a principal controls the goods or services before they are transferred to the customer. The principal's performance obligation is to transfer those goods or services to the customer and it recognises as revenue the gross amount of the customer consideration.*

(b) *an agent does not control the goods or services before they are transferred to the customer. The agent merely facilitates the sale of goods or services between a principal and the customer. Its performance obligation is to arrange for another party to provide the goods or services to the customer. The agent recognises as revenue the fee or commission received for providing these services.*

Feedback received by the IASB (Spotlight 5)

61 *To help entities assess whether they control the goods or services before they are transferred to the customer, IFRS 15 includes a non-exhaustive list of indicators of control:*

(a) *the entity is primarily responsible for fulfilling the promise to provide the specified good or service;*

(b) *the entity has inventory risk before the specified good or service has been transferred to a customer or after the transfer of control; and*

(c) *the entity has discretion in establishing the price for the specified good or service.*

62 *The indicators may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. The indicators support the assessment of control but do not replace or override that assessment.*

63 *Initial feedback received by the IASB suggests that entities sometimes find applying the concept of control alongside the related indicators challenging. Some stakeholders suggested to the IASB that the concept of control is not well understood—especially in relation to services. The IASB also heard that some entities assess whether they are a principal or an agent based solely on the indicators and overlook the concept of control. Some stakeholders also told the IASB that entities sometimes struggle to apply the indicators if those indicators point to different conclusions or if an arrangement involves more than three parties.*

Question 5 – Principal versus agent considerations

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 5 (a) - The concept of control and related indicators

64 EFRAG has received feedback from most stakeholders and in relation to a wide range of industries on the challenges arising from the IFRS 15 requirements on principal versus agent (PA) considerations. The concerns have arisen across a variety of business models including those with multi-layers of intermediaries, fintech companies and in respect of the construction, telecommunication, software, and pharmaceutical sectors. The issue has been raised by preparers, experts from audit firms and national standard setters.

65 The challenges identified stem from the application of the transfer of control principle and the related indicators in identifying whether an entity is a principal or an agent (Spotlight 5 of the IASB's RFI). Specifically, the difficulties in applying the transfer of control indicators in IFRS15.B37 has led to diversity in practice. EFRAG stakeholders have conveyed that these indicators do not often provide evidence of an entity's prior control of goods or services before their transfer. Below is an elaboration of concerns related to the insufficiency of the three criteria:

(a) Primarily responsibility for fulfilment (IFRS 15.B37(a)): there is no link between prior control as defined in IFRS 15.B35 and the question of whether the entity or the supplier is primarily responsible towards the customer. The fact that an entity is primarily responsible for fulfilling the contract, including providing customer support, resolving customer complaints, and accepting responsibility for the quality or suitability of the product or service does not always provide evidence that it controls the good or service before is transferred to a customer.

(b) Inventory risk (IFRS 15.B37(b)): the standard refers to risk "after transfer of control to the customer (for example, if the customer has a right of return)". Having the inventory risk does not provide any evidence as to whether an entity controls the goods or services before they are transferred to the customer.

(c) Price discretion (IFRS 15.B37I): whether or not an entity has discretion in determining the selling price does not technically indicate prior control.

66 Therefore, an entity that is primarily responsible for fulfilling the promise to provide the specified good or service to the customer, has inventory risk (especially after the transfer of control to the customer) and has the discretion to establish the price will likely have to assess whether it controls the underlying goods or services before they are transferred to the customer.

67 Furthermore, EFRAG considers that the IFRS IC, May 2022 IFRS 15-related agenda decision (*Principal versus Agent: Software Reseller*) assessed the different indicators included in IFRS 15.B37 but it did not conclude whether the reseller was acting as a principal or as an agent. In addition, the agenda decision did not give enough prominence to the assessment of control as defined in IFRS 15.33 in the specific fact-pattern.

68 From the feedback gotten, EFRAG considers addressing the challenge related to applying the indicators of transfer of control a high priority that should be addressed by the IASB.

Question 5 (b) - suggestions for resolving identified issues

69 EFRAG suggests the IASB should give greater prominence to the assessment of transfer of control being the primary assessment whilst determining whether a reporting entity is a principal or agent. In addition, the May 2022 IFRS IC agenda decision seems to give more prominence to the indicators than to the assessment of control when applying IFRS 15 to the fact pattern even when the indicators do not lead to conclusive outcomes. Thus, EFRAG proposes that the IASB should elevate paragraph BC385H to the application guidance. This

way, the application guidance would convey in a clearer way that the indicators (1) do not override the assessment of control; (2) should not be viewed in isolation; (3) do not constitute a separate or additional evaluation; and (4) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.

Question 6 – Licensing

Notes to constituents – RFI Summary

70 The IFRS 15 application guidance on licensing requires an entity:

(a) *to determine whether the promise to grant a licence is distinct from other goods or services promised in a contract. The application guidance provides examples of licences that are not distinct such as a licence that forms a component of a tangible asset and is integral to the functionality of the good.*

(b) *to consider the nature of the licence to determine whether the licence transfers to a customer either at a point in time or over time.*

71 IFRS 15 provides criteria to determine whether the nature of a licence is to provide:

(a) *a right to access the entity's intellectual property (IP) as it exists throughout the licence period—in which case the licence is accounted for as a performance obligation satisfied over time; or*

(b) *a right to use the entity's IP as it exists at a point in time at which the licence is granted—in which case the licence is accounted for as a performance obligation satisfied at a point in time.*

72 Paragraph B63B provides an exception from the requirements on variable consideration 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 (i.e., they do not follow the variable consideration requirements included in paragraphs 50 to 59 of IFRS 15). Revenue for such royalties is recognised only when (or as) the later of the following events occurs:

(a) *the subsequent sale or usage occurs; and*

(b) *the performance obligations to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).*

Feedback received by the IASB (Spotlight 6)

73 Feedback received by the IASB suggests that sometimes entities find the requirements for accounting for licensing arrangements unclear or apply them inconsistently. Stakeholders asked the IASB to clarify how:

(a) *to determine whether an arrangement is a licensing arrangement if the contract refers to licensing but is in substance similar to a sale of IP or service provision.*

(b) *to identify performance obligations in arrangements that include an obligation to provide goods or services as well as a licence.*

(c) *to account for licence renewals. Stakeholders commented that some entities recognise revenue when the renewal period starts and others recognise it when the renewal is agreed.*

Question 6 – Licensing

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

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to matters described in Spotlight 6.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

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

EFRAG's response

Question 6 (a) - application challenges-accounting for licences

74 EFRAG has received feedback from several preparers from the pharmaceutical and software industries, national standard setters and auditors that accounting for licenses is challenging. There are circumstances where determining if the promise to grant a license to a customer is distinct from other promised goods or services in the contract is very complex. For example, in the case of a drug manufacturer which licenses to a customer its rights to the distribution of the drug and also promises to manufacture the drug for the customer, determining whether the right to sell the product is distinct or not and accordingly, whether the application guidance on licenses apply, requires careful analysis of the contract and the product. Whether the drug is generic and whether there is a minimum level of purchases from the licensee could be relevant aspects to consider. In other words, extensive analysis and judgment are required to ascertain whether an entity is eligible to apply the licenses' application guidance.

75 EFRAG has also learnt from an auditor that determining if the licensing of intellectual property ('IP') is the predominant transaction is sometimes highly judgemental and challenging. According to IFRS 15. B63B the "royalty constraint" applies when the royalty relates only to a licence of IP or when a licence of IP is the predominant item to which the royalty relates. For example, the licence of IP may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates.

76 EFRAG has also obtained feedback from preparers that, in the pharmaceutical industry, it is sometimes challenging to distinguish between out-licensing arrangements, which are the usual license agreements in this industry, and the pure sale of the drug (intangible). Some contracts refer to licensing but in substance, the arrangement may be a sale of IP. Some entities follow the legal form of the contract and some account for the arrangement based on its substance, leading to diversity in practice. It is common for transactions of this type to include sales-based royalties that are paid to the entity if the drug is successfully developed. In such situations, the judgment applied by entities to determine the nature of the transaction is critical. If the transaction is an out-licensing arrangement, the royalties' constraint will apply and the royalties will not normally be recognised until the sale occurs (IFRS15.B63). However, if the nature of the transaction is a sale, an entity recognises an estimate of these royalties as part of the consideration to be received in accordance with the variable consideration principles of IFRS 15 (IAS38.116).

Question 6 (b) - suggestions for resolving identified issues

77 Based on the feedback, EFRAG suggests that the IASB could provide further illustrative examples for more complex fact patterns. For example, there could be an example that enables entities to identify whether a license is the predominant promise in a more complex scenario than the one depicted in the illustrative example 60 of IFRS 15. Alternatively, additional guidance or definitions on what being the predominant item means could enable entities to better apply judgment.

78 To deal with the challenge outlined above and avoid diversity in practice, EFRAG considers that the IASB could further assess whether amendments that extend the royalty constraint to other fact patterns like the pure sale of IP could be made.

Question 7 – Disclosure requirements

Notes to constituents – RFI Summary

79 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.

80 IFRS 15 requires an entity to disclose information about:

(a) *revenue recognised from contracts with customers, including disaggregation of revenue into appropriate categories (the Standard provides examples of such categories);*

(b) *any impairment losses recognised on receivables or contract assets arising from contracts with customers;*

(c) *contract balances, including opening and closing balances of receivables, contract assets and contract liabilities, and reasons for significant changes in contract asset and contract liability balances;*

(d) *performance obligations, including when the entity typically satisfies its performance obligations and how much of the transaction price it allocates to the remaining performance obligations in a contract;*

(e) *significant judgements and changes in judgements made in applying the requirements, including judgements made in determining:*

  (i) *the timing of the satisfaction of performance obligations; and*

  (ii) *the transaction price and the amounts allocated to performance obligations;*

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

(g) *practical expedients used, if any.*

81 Initial feedback on the disclosure requirements was generally positive. Some users of financial statements, regulators and accounting firms said they saw some improvement in the usefulness of information entities disclosed about revenue after IFRS 15 was implemented.

82 Stakeholders' main 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. For example, stakeholders raised concerns about the cost of providing disclosures related to contract assets and contract liabilities and remaining performance obligations.*

(b) *entities sometimes omit the information required by IFRS 15. Some stakeholders suggested this issue might be caused by a lack of specificity in the disclosure requirements.*

83 The IASB would like evidence about how pervasive these concerns are and their causes.

Question 7 – Disclosure requirements

(a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

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

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.

(c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?

EFRAG's response

Question 7 (a) - usefulness of disclosures

84 During EFRAG's outreach, different stakeholders have put forward contrasting perspectives on the costs and benefits balance of the IFRS 15 disclosures, which were intended for the benefit of the users of financial statements.

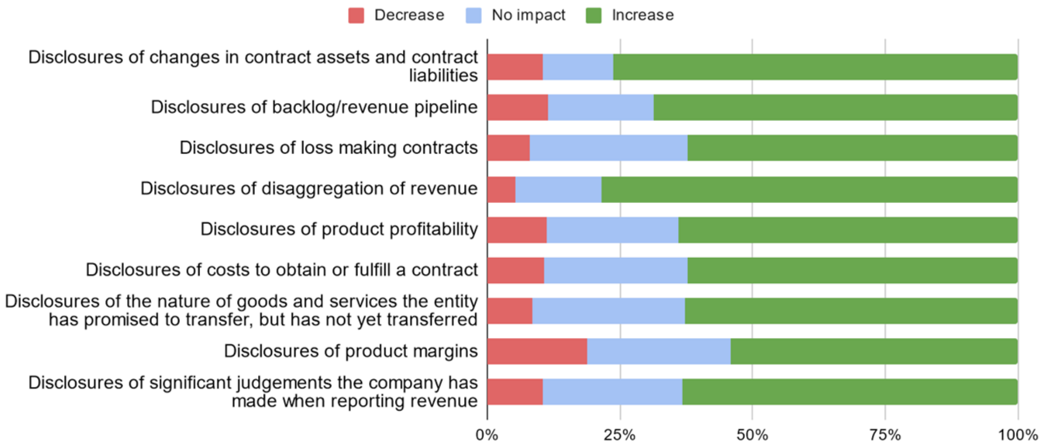
85 Feedback by the non-preparer respondents (i.e., investment professionals, auditors, academics, and other non-preparers) to the academic survey conveyed that the changes in disclosure requirements relative to the prior IFRS requirements had a positive impact on the usefulness of reported information. The majority of respondents conveyed that the required IFRS 15 disclosures increased the ability of users to:

(a) make estimates of future cash flows;

(b) assess revenue margins; and

(c) assess management's stewardship.

86 Furthermore, as depicted in the below diagram, the respondents conveyed that different disclosures were useful for the estimation of future cash flows (i.e., at least half the respondents considered all disclosures to have increased the respondents' ability to estimate future cash flows, with the most useful being the disaggregation of revenues.



87 In contrast to the findings of the academic survey to non-preparers, during EFRAG's outreach, some stakeholders including preparers, auditors, and national standard setters have questioned the usefulness of some of the disclosures. The concerns and/or suggestions for enhancements by some preparers, auditors and national standard setters are detailed below:

(a) *Reconciliation of contract assets and contract liabilities*: Preparers in the pharmaceutical industry have opined that the costs of preparing the reconciliation of the contract assets and liabilities could outweigh the benefits this disclosure provides for users. In addition, they noted that, generally, the information in this disclosure is not needed by management in running the business and, therefore, they questioned the benefit to investors. However, users have conveyed the importance of this disclosure for business models that are based on long-term contracts. For instance, due to differences in the measurement of acquirer and acquiree contract assets (see discussion on interaction with IFRS 3 under Question 9), this disclosure provides transparency on the fair value adjustments related to the acquiree's contract assets. Users can make analytical adjustments to unwind differing depictions of financial performance depending on whether a company's business is growing organically or via acquisitions.

(b) *Disaggregation of revenue*: The following concerns were raised:

(i) The disaggregation of revenue is not done at a useful level as it is too standardised and may fail to represent the entity-specific circumstances in a decision-useful manner (e.g., failure to split between direct sales vs collaboration revenue in the pharmaceutical industry);

(ii) Some disaggregation of revenue disclosure requirements[12] are better suited for entities in the scope of IFRS 8 *Operating Segments* (e.g., listed entities) rather than for small-medium entities. Hence, these requirements should be differentiated based on the type or size of the reporting entity (i.e., apply the principle of proportionality should be applied).

(c) *Remaining performance obligations*: It was observed that users seem more interested in the backlog information than the remaining performance obligations.

[12] For examples, IFRS 15.114 states "*An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.*"

(d) *Transaction price allocated to the remaining performance obligations*. To improve this disclosure, a suggestion was made that a reconciliation requirement on the transaction price allocated to the performance obligations that are unsatisfied at the beginning and at the end of the reporting period, as it would enable users to identify unusual movements (e.g., changes in the scope of consolidation or relevant foreign exchange difference). It was also suggested that an additional explanation on how to calculate the required amount could be useful (e.g., how to reconcile it from the amount of backlog provided in the management report).

88 As a result of the concerns outlined in the preceding paragraph, a question of the balance between the costs and benefits balance of the overall package of disclosures arises. And as there are contrasting views between different stakeholders on the current usefulness of specific disclosures, before developing any suggestions for the IASB, EFRAG is further seeking users' views on how each of the disclosures is specifically applied when analysing companies.

Questions 7 (b) and 7(c) - ongoing costs of disclosure and observations on variation in the quality of disclosure

89 From the outreach done so far, EFRAG has neither got any evidence on the ongoing costs of disclosures nor any observations on the variation in the quality of disclosures. Hence, EFRAG is seeking preparers' views on ongoing significant costs, and constituents' observations on the variation in disclosures over time.

EFRAG questions to constituents

90 Do users of financial statements agree with the concerns and suggestions on the individual disclosure requirements detailed in paragraph 87?

Question 8 – Transition requirements

Notes to constituents- RFI Summary

91 The IASB allowed an entity applying IFRS 15 for the first time a choice between two transition methods, namely:

(a) *applying the Standard retrospectively to each prior reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, subject to practical expedients allowed by IFRS 15 (retrospective method);*

(b) *applying the Standard retrospectively with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application (modified retrospective method). An entity using this method was required to provide additional disclosures, namely:*

(i) *the amount by which each financial statement line item is affected in the current reporting period by the initial application of IFRS 15; and*

(ii) *an explanation of the reasons for significant changes identified in (i).*

92 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.

93 The IASB introduced practical expedients and the option to use the modified retrospective method to reduce the cost and burden of transition for preparers of financial statements.

At the same time, by requiring additional disclosures, the IASB sought to ensure users of financial statements received useful information for their trend analyses.

Question 8 – Transition requirements

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

Please explain:

(i) whether entities applied the modified transition method or the practical expedients and why; and

(ii) whether the transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

EFRAG's response

Question 8 (a) - transition requirements

94 The feedback EFRAG received indicated there was diversity in the transition method applied by preparers. Some preparers, who applied the full retrospective approach, indicated that this was due to the limited number of active contracts that had to be analysed. While other preparers adopted the modified retrospective approach as it was considered less complex than the full retrospective approach. Furthermore, several preparers welcomed the practical expedients[13] provided by the Standard, mainly due to the entity resources constraints (both in terms of time and employees) and the challenges arising from the concurrent, first-time application of other IFRS standards (such as IFRS 16 and IFRS 9).

95 Users' needs for comparable information were likely met by the retrospective method. On this matter, EFRAG is aware of an academic study[14] that assessed the usefulness of the transition methods, which concluded that the full retrospective method improved analysts' forecasting accuracy.

96 Overall, EFRAG considers that, through the two allowed methods, 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.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

Notes to constituents – RFI Summary

97 The IASB would like to understand from stakeholders in what circumstances they are unsure of how to apply the requirements in IFRS 15 alongside the requirements in other IFRS Accounting Standards (please refer to Spotlight 9.1-9.3 below), how pervasive these circumstances are, what causes the ambiguity and how that ambiguity affects the usefulness of information to users of financial statements.

[13] Example of practical expedient as detailed in paragraph C5 of IFRS 15 include no need to restate completed contracts as at 1 January 2018.

[14] Ferreira, P., Jeong, J., and Landsman, W.R., 2022, The Effects of ASC 606 Retrospective Adoption on a Firm's Information Environment, Working Paper, Rice University and University of North Carolina, Chapel Hill.

Background

98 *IFRS 15 requires an entity to apply the requirements in the Standard to all contracts with customers, except:*

(a) lease contracts within the scope of IFRS 16 Leases;

(b) *contracts within the scope of IFRS 17 Insurance Contracts. However, an entity may choose to apply IFRS 15 to insurance contracts that have as their primary purpose the provision of services for a fixed fee;*

(c) *financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;*

(d) *non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.*

99 *IFRS 15 also sets out requirements for contracts that are partially within the scope of IFRS 15 and partially within the scope of the other specified IFRS Accounting Standards. If the other Standards:*

(a) specify how to separate and/or initially measure one or more parts of the contract, *then an entity should first apply the separation and/or measurement requirements in those Standards;*

(b) *do not specify how to separate and/or initially measure one or more parts of the contract, then the entity should apply IFRS 15 to separate and/or initially measure the part (or parts) of the contract.*

Feedback received by the IASB (Spotlight 9.1 – IFRS 3 Business Combinations)

100 *Initial feedback suggests that, sometimes, the difference between the measurement principles in IFRS 3 (based on fair value) and those in IFRS 15 (based on the transaction price) might create difficulties for entities when measuring contract assets and contract liabilities acquired as part of a business combination. Fair value adjustments on acquisition of contract assets and contract liabilities could affect the amount of goodwill recognised on acquisition and amounts of revenue that will be recognised from related contracts with customers in the future.*

101 *Stakeholders suggested the IASB consider resolving the difference between the requirements for measuring contract assets and contract liabilities in IFRS 15 and IFRS 3. Stakeholders noted that in October 2021 the FASB made changes to the requirements in Topic 805 Business Combinations. The changes require an acquirer to apply the FASB's Topic 606 to measure contract assets and contract liabilities acquired in a business combination.*

Feedback received by the IASB (Spotlight 9.2 – IFRS 9 Financial Instruments)

102 *Initial feedback suggests that, sometimes, stakeholders are unsure whether to apply the requirements in IFRS 15 or those in IFRS 9 in the following circumstances.*

103 *<u>Price concession versus impairment losses -</u> The IASB has learned that sometimes stakeholders are unsure whether, when an entity accepts lower consideration from a customer whose financial position has deteriorated, the entity needs to account for this reduction:*

(a) *as a contract modification in accordance with IFRS 15, with the reduction treated as a price concession that reduces revenue; or*

(b) *as impairment of receivables or contract assets in accordance with IFRS 9.*

104 *<u>Liabilities arising from IFRS 15</u> - Some stakeholders suggested that entities might be unsure of which requirements to use to account for other liabilities arising from IFRS 15, especially if those liabilities could meet the definition of a financial liability in IAS 32 Financial Instruments: Presentation. For example, if an entity sells gift cards that give the customer a right to choose a supplier—including the entity—to provide goods or services.*

Feedback received by the IASB (Spotlight 9.3 - IFRS 16 Leases)

105 *Initial feedback suggests 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*.

Feedback received by the IASB (Spotlight 9.4 - IFRS 10 Consolidated Financial Statements)

106 *Some stakeholders asked how to account for transactions in which an entity—as part of its ordinary activities—sells an asset by selling an equity interest in a single-asset entity that is a subsidiary (a so-called 'corporate wrapper'). The IASB noted that it considered the accounting for such transactions:*

(a) *in 2019 and 2020, while discussing a question submitted to the IFRS Interpretations Committee about a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a single-asset entity that is a subsidiary. The IASB considered whether to add a narrow-scope project to the work plan relating to such transactions, but decided against doing so.*

(b) *during the post-implementation review of IFRS 10, IFRS 11 and IFRS 12 Disclosure of Interests in Other Entities. The IASB assessed the corporate wrapper matter to be of low priority and said it would explore the matter further if it was identified as a priority in the next agenda consultation.*

(c) *in the Third Agenda Consultation. Only a few respondents suggested developing requirements on the sale of assets via corporate wrappers, so the IASB concluded that the matter did not meet the criteria for adding a project to the work plan.*

107 *In discussing the initial feedback on this matter in this post-implementation review, the IASB noted that accounting for sales of assets via corporate wrappers is a cross-cutting issue. Developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards—for example, IFRS 10, IFRS 16 and IAS 12 Income Taxes—and would require significant resources. Stakeholders in the Third Agenda Consultation identified other priorities for the IASB for the 2022–2026 period. Therefore, the IASB decided against including a question about accounting for the sale of assets via corporate wrappers in this Request for Information. The IASB will assess the demand for resolving this matter in the next agenda consultation and consider whether the matter meets the criteria for adding a project to the work plan.*

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

(a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?

Please describe and provide supporting evidence about fact patterns in which it is unclear how to apply IFRS 15 with the requirements of other IFRS Accounting Standards, how pervasive the fact patterns are, what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. The IASB is particularly interested in your experience with the matters described in Spotlights 9.1–9.3.

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

EFRAG's response

108 The response to this question is split into two parts. In the first part, we address the issues related to the Standard's interaction with two of the three other IFRS Standards explicitly identified in the IASB RFI that EFRAG considers to be a high priority. In the second part, the interactions with two other Standards that are a high priority for EFRAG but not mentioned in the RFI are addressed.

Interaction with other IFRS Standards identified in the RFI

Question 9 (a) - the interaction of IFRS 15 and other IFRS requirements

109 EFRAG received feedback about and considers the application challenges arising from the interaction between IFRS 15 and the following two standards to be a high priority (these two are included in Spotlights 9.1–9.3 of the RFI):

(a) IFRS 3 *Business Combinations*

(b) IFRS 16 *Leases*

110 EFRAG also received feedback on the application challenges arising from the interaction between IFRS 15 with IFRS 9 which is detailed in Spotlight 9.2 of the RFI. However, based on the feedback to the outreach, EFRAG does not consider this interaction to be a high priority.

Interaction with IFRS 3

111 EFRAG received feedback (from auditors and national standard setters) about the inconsistency in the recognition of contract assets and liabilities from revenue contracts in the context of a business combination. In particular, the accounting[15] for such assets and liabilities related to acquired revenue contracts could differ from those related to revenue contracts originated by the acquirer, even when the contracts are similar.

112 The complexities highlighted during EFRAG's outreach arise due to the application of different accounting treatments for similar contracts. For example, it was noted that, if the expected consideration subsequent to the business combination is expected to be above market price, the difference between the remaining performance obligation and the amount paid is generally recognised as an intangible asset that is amortised on a straight-line basis (below EBITDA). Otherwise, if the expected consideration is below market price, a contract liability, which will be reversed as additional revenue in the following year, is recognised.

113 Furthermore, one user indicated that fair value adjustments on acquiree contract assets/liabilities in the context of a business combination distort users' analysis of the entity's performance (i.e., financial performance is depicted differently depending on whether growth has occurred organically or via acquisition).

[15] Under IFRS, the contract assets and liabilities arising from a business combination are accounted for at their fair value in accordance with IFRS 3 Business Combinations. This accounting treatment could consequently differ from that the acquirer would use as if it had entered into the original contract at the same date and on the same terms as the acquiree (i.e., application of different accounting standards, usage of different assessments or estimates etc.). Therefore, the revenue recorded by the acquirer post-acquisition could differ from the revenue recognition of the acquiree prior to the acquisition.

114 Based on the feedback received, EFRAG considers this issue to be of high priority as it is applicable to business models with long-term contracts that are likely to have contract assets and contract liabilities.

Interaction with IFRS 16

115 EFRAG received feedback from an auditor, national standard setters and a preparers' association about the interaction between IFRS 15 and IFRS 16. The feedback points to:

(a) Difficulty in assessing whether, in a sale and leaseback transaction, the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. They noted the lack of specific or additional guidance in IFRS 16 about how to make this assessment. Instead, for determining when a performance obligation is satisfied (i.e., when the control of an asset is transferred to the customer) the parties apply the IFRS 15 (paragraphs 31-34 and 38).

(i) In some cases (e.g., a sale contract which includes a call option), it is clear that the transfer leg does not meet IFRS 15 requirements, and therefore the transaction should be accounted for as a financing transaction[16]. However, there could be circumstances where some contractual conditions (e.g., lessee's renewal option extending the lease term substantially to all remaining economic life of the underlying asset) could impact the economic substance of a lease transaction.

(ii) There could be circumstances where determining the unit of account is challenging (e.g., a sale of a four-floor building with one of them being leased back).

(b) Difficulty in assessing whether the contract (or a part of it) is either in the scope of IFRS 15 or IFRS 16 (e.g., the split of operating income due to leasing under IFRS 16 and arrangement of operating services under IFRS 15). A preparers' association from the real estate industry have conveyed that such an assessment could require judgment leading to diversity in practice across entities operating in the same industry. A similar issue was also addressed by an enforcement decision issued by the ESMA in 2020 (decision ref EECS/0120-08 – Identifying components in lease contracts[17]).

116 Based on the overall feedback received, EFRAG considers that this issue is of high priority.

Question 9 (b) – suggestions for resolving identified issues of interaction with IFRS 3 and IFRS 16.

117 *Interaction with IFRS 3*: EFRAG suggests that the IASB explores adding a narrow-scope project aligning the accounting for the acquirer and acquiree contract assets and contract

[16] In a financing transaction the seller-lessee does not derecognise the asset and recognises a financial liability under IFRS 9 for any amount received from the buyer-lessor; the buyer-lessor recognises a financial asset under IFRS 9 for amounts transferred to or receivable from the seller-lessee.

[17] esma32-63-845_24th_extract_from_the_eecss_database_of_enforcement.pdf (europa.eu) – page 17-18. The issuer is a commercial real estate company whose core business covers the management and development of properties. Gross revenue comprises rental income and operating costs charged to tenants. The lessor and the tenant can specify the operating costs of the building as a whole (e.g. chimney sweeper, elevator service) and of the specific rental unit (e.g. warm water supply, gas and electricity for the specific unit) that will be charged to the tenant. The enforcer discussion included the issuer's accounting treatment for the operating costs of the building (e.g., elevator service) and for the service to arrange for the operating services of the rental unit (e.g., gas) and whether these services are or not separate non-lease components.

liabilities. Such an approach would also result in converged requirements with US GAAP[18] on this matter.

118 *Interaction with IFRS 16*: EFRAG recommends that the IASB provides clarifying guidance and/or illustrative examples to help address the sale and leaseback transaction application challenges identified in paragraph 116(a).

Interaction with other IFRS Standards not identified as challenging in the RFI

119 In the sections below, EFRAG also highlights the interaction with the following standards that were not part of the RFI:

(a) IFRS 10 *Consolidated financial statements*

(b) IFRS 11 *Joint Arrangements*

Interaction with IFRS 10

120 EFRAG received feedback about the challenges arising from the interaction between IFRS 15 and IFRS 10 in case of a sale of a single asset (that could be part of its ordinary activities) through a corporate wrapper.

121 Constituents (i.e., mainly auditors and national standard setters) have highlighted that applying different standards to similar transactions with only differing legal forms will result in the inconsistent accounting treatment[19] of transactions with the same commercial substance. And this affects the timing of recognition, measurement, presentation and disclosure of these transactions.

122 Of note, previous IFRS IC discussions concluded that IFRS 15 scopes out contracts with customers that fall within the scope of IFRS 9 or IFRS 10 and, as such, the entity shall account for the transaction under IFRS 10. However, EFRAG stakeholders have noted that diversity in practice is still in place, especially in the real estate industry.

123 Therefore, EFRAG considers that clarifications on the applicable treatment under IFRS 15 or IFRS 10 (or other standards) would promote more consistency, also with regards to the net or gross presentation of the sale of subsidiaries which are single asset entities through selling their equity interest and with regards to the timing of revenue recognition.

Interaction with IFRS 11

124 EFRAG received feedback that it could be difficult to determine whether a collaborative arrangement[20] contract (or only a part of it) falls under the scope exception of IFRS 15. As specified in paragraph 5 of IFRS15, the Standard is not applicable for some contracts, and it is only applicable to a contract if the counterparty to the contract is a customer. As stated

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[18] EFRAG also notes that, in October 2021, the FASB issued the Accounting Standards Update (ASU) No. 2021-08 – *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendment clarified that an acquirer of a business shall recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606 – *Revenue from Contracts with Customers*. It aligns the accounting for the acquiree contracts to the accounting for revenue contracts originated by the acquirer and will provide more comparable information to investors and other financial statement users seeking to better understand the financial impact of these acquisitions.

[19] Under IFRS Standards, the sale of a subsidiary that only contains an asset (e.g., inventory) to a customer is accounted for in accordance with IFRS 10. Applying the deconsolidation rules under IFRS 10 for the disposal of a subsidiary where the underlying does not constitute a business when compared to the disposal of the same underlying assets without a corporate wrapper following other relevant standards (e.g., IFRS 15 or IFRS 16) might lead to different accounting.

[20] Collaborative arrangements are frequent in the pharmaceutical, automotive, oil, gas & mining and telecommunication industries and are mainly related to the development of an asset (e.g., a new technology) and these can also be related to providing goods or services as part of an entity's ordinary activities.

in paragraph 6 of IFRS 15, there could be circumstances where the counterparty to the contract would not be a customer. For example, if, rather than to obtain the output of the entity's ordinary activities the counterparty has contracted with the reporting entity to participate in an activity or process as part of a risk-sharing arrangement.

125 However, constituents including preparers from different sectors (pharmaceutical, software, telecommunication) and audit firm experts have pointed to the limitations of IFRS 15.6 in identifying whether a collaborative arrangement contract is within the scope of IFRS 15. However, it has not been elaborated under what specific circumstances, the challenges with determining whether collaborative arrangements are in scope arise.

EFRAG suggestion for resolving identified issues for interaction with IFRS 10 and IFRS 11

126 *IFRS 10*: EFRAG acknowledges that the accounting for sales of assets via corporate wrappers is a cross-cutting issue and, therefore, developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards. We are also cognisant that the IASB has considered that this topic should be raised in a forthcoming agenda consultation. EFRAG also acknowledges that in the IASB *Project report and feedback statement*[21] related to the PIR of IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, the IASB assessed this matter to be of low priority and decided no further action was required. The IASB concluded that this matter could be explored if identified as a priority in the next agenda consultation.

127 However, considering this as being an area where convergence with US GAAP could be attained, EFRAG would recommend that the IASB explores possible solutions, such as 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 improving both consistency across entities and convergence to US GAAP[22].

128 *IFRS 11*: EFRAG outreach has not substantiated under what specific circumstances or fact patterns the challenges with determining whether collaborative arrangements are in scope arise. EFRAG also acknowledges the cross-cutting nature of collaborative arrangements. Nonetheless, based on the assessment that this issue is of a high priority to affected EU stakeholders given the importance and prevalence of these arrangements, EFRAG recommends the IASB should clarify which collaborative arrangements are considered to be outside of the scope of IFRS 15 (i.e., which arrangements meet the requirements included in IFRS 15.5(d)).

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[21] Appendix C of the IASB feedback statement states "*The IASB was concerned it might not be able to successfully resolve this matter within the scope of IFRS 10, particularly as the matter extends beyond the scope of this Post-implementation Review. For example, the matter might also affect IFRS 15 Revenue from Contracts with Customers or IFRS 16 Leases. The structure of 'corporate wrappers' also depends on jurisdictional laws and/or regulations. Therefore, identifying matters to be addressed by the IASB could require substantial resources for both the IASB and its stakeholders. If identified as a priority in the next agenda consultation, the IASB could either:*

(a) research whether it is appropriate and, if so, whether it is possible to develop a principle for transactions that involve 'corporate wrappers'; or

(b) focus only on particular transactions that involve 'corporate wrappers'."

[22] Of note, the deconsolidation guidance under US GAAP (*Topic 810 – Consolidation)* provides for an exception for those transactions that are in substance addressed by *Topic 606 – Revenue from Contracts with Customers*.

Question to Constituents

129 Should the IASB address the interaction between IFRS 15 and IFRS 10 as detailed in paragraphs 120-123 and 126-127? In your experience, is this matter pervasive? If yes, please explain.

130 Should the IASB address the interaction between IFRS 15 and IFRS 11 as detailed in paragraphs 124-125 and 128? In your experience, is this matter pervasive? If yes, please explain.

Question 10 – Convergence with US GAAP Topic 606

Notes to constituents – RFI Summary

131 IFRS 15 was developed jointly with the FASB. In May 2014 the IASB issued IFRS 15 and the FASB issued Topic 606. When issued, the requirements in IFRS 15 and Topic 606 were substantially converged, except for some minor differences.

132 In 2014 and 2015 the IASB and FASB's joint Transition Resource Group—formed to support implementation of IFRS 15 and Topic 606—discussed potential implementation issues submitted by stakeholders. As a result of these discussions, the IASB and the FASB amended their respective standards in 2016.18 The FASB's amendments to Topic 606 were more extensive than the IASB's amendments to IFRS 15, which resulted in further differences between IFRS 15 and Topic 606.

133 *In deciding whether to take action on its post-implementation review findings, the IASB will need to consider how any actions will affect convergence between IFRS 15 and Topic 606. As part of this consideration, the IASB is seeking respondents' views on how important retaining the current level of convergence between IFRS 15 and Topic 606 is.*

Question 10 – Convergence with US GAAP Topic 606

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

EFRAG's response

Question 10 (a) - convergence with US GAAP

134 EFRAG stakeholders' feedback on the convergence between IFRS 15 and US GAAP has been generally positive with an acknowledgement that it improved the comparability across entities globally. Furthermore, in the academic study sponsored by EFRAG, nearly 55% of the non-preparer respondents (i.e., investment professionals, auditors, and academics) considered that IFRS 15 had improved the comparability with other entities reporting under US GAAP.

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

Question 11 – Other matters

Notes to constituents – RFI Summary

136 *The IASB is asking to share any information that would be helpful to them in assessing whether:*

(a) *there are fundamental questions (fatal flaws) about the clarity and suitability of the core objective or principles in IFRS 15;*

(b) *the benefits to users of financial statements of the information arising from applying IFRS 15 requirements are significantly lower than expected; and*

(c) *the costs of applying IFRS 15 requirements and auditing and enforcing their application are significantly greater than expected.*

Question 11 – Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.

EFRAG's response

Question 11 (a) - Other matters

137 In the preceding sections, we have addressed the matters that EFRAG considers of high priority that were not included in the RFI (e.g., variable consideration, significant financing components; and the interaction between IFRS 15 and IFRS 10 and IFRS 11).

138 EFRAG's outreach identified other issues[23] (i.e., contract modification, estimating transaction price, other aspects of principal-agent considerations besides the transfer of control, cost recognition, and other aspects of interaction with IFRS 9)- raised by EU stakeholders but these are not addressed above as they are not considered by EFRAG to be of a high priority (i.e., there was neither an indication of how widespread the issue was nor was the root cause of the concern within the IFRS requirements clear).

[23] For further details please refer to the May 2023 EFRAG FRB meeting issues paper.