International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

20 October 2023

International Accounting Standards Board
Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

Our Ref: 2023/O/C1/IASB/PM/1003

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

Dear International Accounting Standards Board (IASB or the Board) Members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Request for Information: *Post-implementation Review of IFRS 15 Revenue from Contracts with Customers*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations

Members consider post-implementation reviews integral to due process and appreciate the opportunity to provide our feedback on the requirements in IFRS 15 *Revenue from Contracts with Customers* (IFRS 15).

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Overall, we believe the requirements in IFRS 15 are working as the Board intended and provide financial statement users with relevant and useful information about an entity's revenue from contracts with customers. We believe the requirements have improved comparability across industries, entities within those industries, jurisdictions, and capital markets. Additionally, we believe the expanded disclosure requirements provide more useful information to financial statement users.

However, we have identified areas in the standard where targeted amendments, additional illustrative examples or educational materials could be provided to increase understandability and consistency in the application of IFRS 15. Specifically, in addition to areas highlighted in our responses regarding the transaction price, applying IFRS 15 with other accounting standards and convergence with Topic 606, we recommend the Board provide targeted amendments, additional illustrative examples or educational materials to clarify application of the principal versus agent considerations in certain types of arrangements and to clarify how an entity identifies its customer in those arrangements. We also recommend the Board provide targeted amendments to the disaggregated revenue disclosure requirements, for example, to describe factors to consider when determining when economic factors impact the nature, amount, timing and uncertainty of revenue and cash flows. These topics are further highlighted in our responses to the questions below.

Responses to the Board's Questions

Question 1—Overall assessment of IFRS 15

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

(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:
   (i) in developing future Standards; or
   (ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?

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

Question 1 Response:

We believe IFRS 15 has achieved its objective of establishing the principles for reporting decision-useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We also believe the five-step model provides an understandable and logical framework for recognising revenue, which we believe is a significant improvement over the limited revenue recognition requirements in the previous IFRS Accounting Standards. In addition, we believe IFRS 15 has improved the degree of decision-useful information provided to users of financial statements.

However, we have noted diversity in the application of the requirements of IFRS 15 in certain circumstances, which we discuss in our responses to Questions 3, 4, 5, 7, 9 and 11 below.

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?

Question 2 Response:

We believe IFRS 15 generally provides a clear and sufficient basis to identify performance obligations in a 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?

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

Question 3 Response:

We believe IFRS 15 generally provides a clear and sufficient basis to determine the transaction price of a contract. While we have observed some diversity in application, we believe such diversity is substantially related to shortcomings in implementing the guidance—for example, due to a lack of knowledge regarding application of the guidance on variable consideration—rather than issues with the standard itself.

Question 4—Determining when to recognise revenue

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

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

Question 4 Response:

Most members believe IFRS 15 provides a clear and sufficient basis to determine when to recognise revenue. However, some members have observed certain challenges in applying the guidance or concerns regarding the financial reporting outcomes in certain fact patterns. In these cases, some members have observed fact patterns where they believe the financial reporting outcomes may not align with what they believe investors view as the economic substance of the arrangement. For example, an entity that sells assets with no alternative use to the entity and concludes, based on a detailed review of legal precedent, that in certain circumstances it may not have an enforceable right to payment for performance completed to date would recognize revenue at a point in time, despite the fact that investors may view the arrangement as generating revenue over time given the entity's history of having an enforceable right to payment in all but extreme circumstances, and therefore investors may request financial information that reflects revenue recognition over time. As another example, an entity may seek to manage earnings through increasing the quantity of goods manufactured in a certain period in fact patterns where there is a short production timeline and the criteria in IFRS 15.35(c) are met, despite the fact that the customer may not have any insight into the level or timing of manufacturing prior to delivery and may not recognize the good as its asset until delivered.

Given the significant judgment required, diversity in practice and potential for managing earnings, these members believe the IASB should consider providing targeted amendments, additional illustrative examples, or educational materials to assist entities in determining when to recognize revenue and the appropriate method for measuring progress towards the completion of performance obligations.

Question 5—Principal versus agent considerations

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?
(b) Do you have any suggestions for resolving the matters you have identified?

Question 5 Response:

We believe IFRS 15 provides a clear and sufficient basis to determine whether an entity is a principal or an agent in the majority of fact patterns where another party is involved in providing goods or services to a customer. However, in certain types of business models and transactions, particularly those that involve the transfer of control of services, we believe application of the guidance in IFRS 15 involves significant judgment for an issuer to conclude whether an entity is a principal or an agent. For example, we have observed significant challenges in applying the principal versus agent guidance consistently in the following scenarios:

- *Highly structured or regulated transactions.* Certain types of transactions, including those involving payment processing, managed healthcare, physician services, real estate transactions and digital assets, often involve highly structured arrangements where there may be legal or other restrictions on the ability of an entity to perform certain actions, often resulting in multiple entities being involved in the ultimate performance of a service. The legal rights and obligations and contractual terms may, in some circumstances, be viewed as inconsistent with the substance of the arrangement and actual practice, including regarding which entity is primarily responsible for fulfillment of the good or service. For example, an arrangement may include a single specified service to be provided to a customer, but the regulatory structure or other restrictions may dictate that multiple parties are each responsible to the end user for their respective performance in providing that service.

- *Contractual Arrangements/Anonymizing Agent.* In some transactions where another party is involved, the intermediary may appear to be acting as an agent to facilitate the transaction, but the supplier and the end customer have not entered into a written contract with each other and may not have the ability to identify the other party. For example, the supplier's and end customer's respective contracts with the intermediary may acknowledge the role of the other party (i.e., either the supplier or the end customer), but the intermediary may serve as an anonymizing agent in the arrangement.

- *Collaborative Arrangements.* Certain transactions that are not a joint arrangement as defined in IFRS 11 may involve multiple entities each constructing a significant portion of a single asset for a customer in exchange for a specific proportion of the consideration paid by the customer. Some members have observed difficulty in analysing these fact patterns, where both constructing parties exercise significant control over their respective parts of the arrangement. Refer also to our response to Question 9—Applying IFRS 15 with other IFRS Accounting Standards.

- *Consignment Arrangements*. Some members have observed diversity in application in accounting for certain consignment arrangements, which often exhibit indicators of control held by multiple parties. For example, the party that supplies consigned inventory to a retailer is typically exposed to all inventory risk both before and after transfer of control to the end customer (e.g., if the customer and retailer each have a right of return), while the retailer typically has discretion to establish pricing (this discretion might be full discretion or limited within an agreed-upon range), may consider itself to be primarily responsible for fulfillment and may obtain flash title to the inventory at the point of sale.

We have also observed diversity in application regarding an agent's identification of its customer. For example, an agent providing platform services may have difficulty determining whether its customer is the supplier, end consumer or both. This assessment can be significant to the resulting financial reporting, for example, when determining the transaction price in light of incentives offered to one or both parties.

Similarly, we have noted that in arrangements where another party is involved in providing goods or services to a customer, some stakeholders have encountered challenges in identifying the supplier's customer. In this regard, we note that the principal versus agent considerations assist in determining whether an intermediary obtains control over a good or service prior to transfer of control to the end customer, and the statement in BC385E that "[i]f the entity transfers a good or provides a service to an intermediary that is a principal in providing that good or service to an end customer (whether individually or as part of a distinct bundle of goods or services), the entity's customer is the intermediary." We believe stakeholders could benefit from an illustrative example or educational materials that expand upon this statement in the Basis for Conclusions to illustrate how a supplier of a good or service would apply the principal versus agent considerations to determine whether the intermediary is a principal, and therefore the supplier's customer.

We note that IFRS 15 provides illustrative examples to assist in applying the principal versus agent analysis that we believe have been useful in practice. However, we strongly encourage the IASB to consider providing targeted amendments, additional illustrative examples or educational materials to clarify the application of the guidance to scenarios such as those provided above. We note that when reaching conclusions to make clarifying amendments to IFRS 15 in 2016, the IASB considered whether its actions would be disruptive to the implementation process and expected questions about the application of the standard would be resolved as those involved with the financial reporting process gain a better understanding of the requirements of IFRS 15.[1] Now that the implementation process has concluded, we encourage the IASB to revisit IFRS Interpretations Committee Agenda Decisions and TRG discussions to identify potential sources of topics to address in targeted amendments, illustrative examples or educational materials.

[1] Refer to paragraph BC27D of IFRS 15.

Question 6—Licensing

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

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

Question 6 Response:

We believe IFRS 15 generally provides a clear and sufficient basis for accounting for contracts involving licences.

Question 7—Disclosure requirements

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

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

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

Question 7 Response:

We believe the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements and are a significant improvement compared to previous IFRS revenue-related disclosure requirements.

However, we have observed a lack of consistency in the type and granularity of information disclosed by different entities, which we believe impairs comparability and the overall quality of information provided to investors. For example, we have noted challenges in the application and enforcement of the disclosure objective in IFRS 15 and disaggregated revenue disclosure requirements in paragraph 114, largely related to the application guidance in paragraphs B87-B89 not addressing what to consider when determining when economic factors impact the nature, amount, timing and uncertainty of revenue and cash flows. We have also observed this lack of consistency across entities' disclosures regarding the nature of performance obligations, when control of goods or services is transferred or how an entity decides whether to recognise revenue over time or at a point in time.

We suggest the IASB consider providing more prescriptive disclosure requirements—for example, requiring the use of specific categories in disaggregating revenue, subject to materiality considerations—and illustrative examples and/or other guidance (e.g., educational materials) to clarify how the disclosure objectives of IFRS 15 are intended to be applied, including providing additional guidance that may include examples of the types of economic factors to consider to help alleviate this inconsistency. Furthermore, we encourage the IASB to consider its Guidance for Developing and Drafting Disclosure Requirements in IFRS Accounting Standards.[2]

Question 8—Transition requirements

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

Question 8 Response:

We note that a significant percentage of issuers applied the modified retrospective method in IFRS 15. In general, we believe there are significant benefits and reduced costs to investors of requiring changes in accounting policies to be applied retrospectively, but we acknowledge that the modified retrospective method may significantly reduce costs to preparers from initial application of a new standard in certain circumstances. We encourage the IASB to continue to carefully assess costs and benefits to both investors and preparers, including the costs to investors related to the lack of comparative information arising from

[2] See *Guidance for Developing and Drafting Disclosure Requirements in IFRS Accounting Standards*, https://www.ifrs.org/content/dam/ifrs/groups/iasb/guidance-for-developing-and-drafting-disclosure-requirements-in-ifrs-accounting-standards.pdf

the modified retrospective method, when determining transitional provisions for new IFRS Accounting Standards.

Question 9—Applying IFRS 15 with other IFRS Accounting Standards

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

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

Question 9 Response:

Some members have observed certain circumstances where it is not clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards.

Some members have observed challenges in determining when a transaction is in the scope of IFRS 11 *Joint Arrangements* or IFRS 15. For example, an arrangement may include terms under which the counterparty to a contract meets the definition of a customer (i.e., the counterparty has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration), but may also include terms that involve the sharing of risks and benefits.

Additionally, some members have observed challenges determining when a transaction is in the scope of IFRS 9 *Financial Instruments* or IFRS 15. For example, in situations where an entity receives less than the contractual amount of consideration due, it can be difficult to determine whether the entity has offered a price concession or suffered a credit impairment loss. These members have noted a propensity of issuers to account for these situations as an impairment loss (rather than a reduction in the transaction price), even in circumstances where no issues are noted regarding the credit worthiness of the customer.

We also note that the Board has previously considered issues related to the use of "corporate wrappers," including observed challenges and identified diversity in practice in determining whether to apply IFRS 15 or IFRS 10 *Consolidated Financial Statements* when an entity, as a part of its ordinary activities, enters into a contract with a customer to sell an asset by selling its equity interest in a separate entity holding that asset rather than by selling the asset itself outside of an entity. We recommend the Board continue to carefully consider the priority of addressing this and other known issues related to "corporate wrappers."

We suggest the IASB consider providing illustrative examples or educational materials to further clarify the interaction of other IFRS standards with IFRS 15.

Question 10—Convergence with Topic 606

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

Question 10 Response:

We believe it is important to retain, at a minimum, the current level of convergence between IFRS 15 and Topic 606. We also encourage both the IASB and the U.S. Financial Accounting Standards Board (FASB) to work closely together to increase convergence between the standards to the extent practical. For example, there may be opportunities to increase convergence through incorporating into IFRS 15 some of the clarifications provided by the FASB in Topic 606 as outlined in Appendix A of IASB Staff Agenda Paper 6A (March 2023) – *Post Implementation Review of IFRS 15: Background*.

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?

Question 11 Response:

We encourage the IASB to examine the following matters as part of the post-implementation review of IFRS 15.

Identification of Customer
As noted in our response in Question 5, we have noted diversity in the identification of the entity's customer where another party is involved in providing goods or services to an end customer. We encourage the IASB to consider either clarifying that all counterparties in an arrangement facilitated by an agent should be considered the agent's customers, or developing criteria for determining whether a party should be considered a customer for the purpose of applying the consideration payable to a customer guidance.

Consideration Payable to a Customer

In addition to the challenges related to identification of the customer discussed above, we have observed the following challenges in applying the IFRS 15 guidance related to consideration payable to a customer:

- The limited, non-authoritative TRG discussion in this area[3] focuses on whether there is a contractual agreement with a customer to provide consideration to the customer's customer. We believe that discussion does not adequately address the substance of all such arrangements or address all relevant considerations under IFRS 15. For example, in certain circumstances, we note that a payment to a customer's customer may result in a conclusion that the entity is providing a price concession to its customer, or that there is an implied promise to provide consideration to a customer's customer.

- We have observed an increase in the number of instances where an entity offers significant incentives to drive increased sales, resulting in questions regarding the appropriate classification of "negative revenue."

Allocation of Transaction Price

We have observed instances where significant judgement was required to estimate standalone selling prices in the allocation of the transaction price to performance obligations.

[3] TRG Paper No. 37 *Consideration to a Customer* states, "A payment to a customer's customer would be considered a payment to a customer if the entity has a contractual agreement with its customer to provide consideration to that customer's customer."

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We suggest the IASB consider providing illustrative examples or educational materials to address these matters related to consideration payable and the allocation of transaction price.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

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