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International Accounting Standards Board
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18 October 2023

Dear Board members,

Invitation to comment – Request for Information: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Request for Information: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*.

We support the Board in its efforts to address the implementation issues that have arisen in applying the requirements of IFRS 15. We believe that providing clear guidance will help to reduce diversity in practice.

We believe that, compared to legacy IFRS, the core principle and guidance in IFRS 15 and the related post-implementation guidance have generally improved consistency in financial reporting for transactions within its scope and in providing a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property, plant or equipment. However, as noted below, it is a complex standard that frequently requires the use of experts and can be difficult for entities to apply.

Since IFRS 15 is a complex standard, there continue to be application issues for which additional guidance would be helpful. While we raise a number of comments in our response, we would in particular draw the Board's attention to our comments related to:

- Consideration payable to a customer and negative revenue (Question 3)
- Principal versus agent considerations (Question 5)
- Licensing (Question 6)
- The interaction with other standards, in particular IFRS 3 *Business Combinations*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases* (Question 9).

Furthermore, we believe that revenue recognition requirements under both IFRS and US GAAP need to remain converged. This is important for capital markets and users of financial statements.

Key responses to specific questions in the request for information are included in Appendix A. Additional comments and suggested resolutions on the standard are included in Appendix B.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address or on +31 88 407 1030.

Yours faithfully

Ernst & Young Global Limited

Appendix A – Responses to specific questions in the request for information

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. These questions aim to help the IASB understand respondents' overall views and experiences relating to IFRS 15. Sections 2–9 seek more detailed information on specific requirements

(a) We generally agree that IFRS 15 is an improvement on legacy IFRS and the core principle of IFRS 15 and the five-step model are helpful in making revenue accounting decisions. However, it is a complex standard that frequently requires the use of experts and can be difficult for entities to apply. As a result, there continue to be application issues and aspects of the standard's requirements that are not clear and for which additional guidance would be helpful. These are discussed in more detail in the responses to the questions below.

(b) IFRS 15 is applicable to all entities and all jurisdictions. Therefore, it needs to be easily understood and translated. However, even where simple terminology was used in its development, it represented new concepts (e.g., performance obligations, licences of intellectual property) on transition that required detailed guidance. The 65 illustrative examples in the standard are helpful. However, since the standard was issued almost 10 years ago, new business models have emerged that have raised questions about the application of the standard's principles, and additional examples are needed. We include these in Appendix A and Appendix B.

We also think flow charts could be helpful to assist entities in navigating the principles and application guidance, especially for fact patterns that might otherwise seem not to be addressed in the standard (e.g., barter transactions). We include some considerations and suggested resolutions in Appendix B.

We believe similar considerations are important for other projects in the future.

(c) There are many benefits of applying IFRS 15 for stakeholders. These include that the standard encourages a better control system and a more robust approach to entities' revenue accounting. The use of principles in IFRS 15 and its extensive application guidance ensures guidance is available to deal with many of the revenue contracts entities have. Furthermore, IFRS 15 encourages a consistent approach to analysing and accounting for transactions.

There are also many costs for stakeholders. IFRS 15 is still a very complex standard for preparers and auditors to apply, and experts are needed more often than under legacy IFRS, not least because entities need to use judgement to apply its requirements and make many estimates. In many instances, more education is needed for users and/or regulators because IFRS 15 provides a common framework and preparers apply judgement to different fact patterns, which means that seemingly similar (but not the same) facts can result in different accounting outcomes.

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?

We believe IFRS 15 does provide helpful guidance that can assist entities in identifying performance obligations. However, this is a complex assessment requiring significant judgement, and we continue to observe some diversity in practice, as noted below and in Appendix B.

We continue to observe diversity in practice when entities apply judgement to distinguish an actual promise from activities that do not transfer a good or service to the customer, (e.g., assessing arrangements that include marketing incentives or offers, prototypes or designs, tools, pre-delivery services, distribution licences, etc., whether for one customer or several). We believe that incorporating some of the additional guidance from the IFRS Interpretations Committee's (IFRS IC) January 2019 Agenda Decision on the assessment of promised goods or services would be helpful.

We observed diversity in determining whether a promised good or service is distinct in the context of the contract (e.g., in the context of licensing arrangements). For example, a contract that provides a right to use licence of intellectual property (recognised at a point in time) as well as services. In such a contract, it can be challenging to determine what is distinct in the context of the contract. This is particularly a challenge in the software/technology industry, where entities sell software licences together with cloud services that provide some enhancement to the software (e.g., cloud storage or remote access). Such issues are often discussed, or pre-cleared, with the regulators because of the significant judgement involved.

To address this issue, we believe one or more examples focused on such fact patterns could be helpful to assist entities in making this assessment. Furthermore, we think additional guidance on the concept of a 'significant service of integrating goods or services with other goods or services promised in a contract' would be helpful.

Comments and suggested resolutions on other matters with regard to identifying performance obligations are included in Appendix B.

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?**

We believe IFRS 15 provides helpful guidance for entities to determine the transaction price. Aspects of the transaction price can be more challenging to determine, for example, consideration payable to a customer and significant financing components, as discussed below. Additional comments and suggested resolutions on variable consideration, consideration payable to a customer and non-cash consideration are included in Appendix B.

Consideration payable to a customer

We believe the guidance on consideration payable to a customer is an improvement on legacy IFRS. However, we continue to observe diversity in practice. We encourage the Board to undertake narrow-scope standard-setting in the following areas:

Negative Revenue

Many entities provide incentives to customers and might also provide incentives down the distribution chain (or outside the distribution chain, see Appendix B), either in cash or in substance by providing discounts on behalf of their customers. In such situations, entities might provide incentives that exceed the revenue that they will earn in order to incentivise customers or end-consumers to transact in the future.

Beyond stating that consideration payable to a customer is a reduction of revenue, IFRS 15 does not provide explicit guidance on how to account for negative revenue (i.e., where the reduction of revenue exceeds the amount of revenue recognised). Specifically, it is unclear whether (and, if so, when) any negative revenue can/should be reclassified to expenses. This is a significant issue for some entities (e.g., agents, airlines, platform companies) and is becoming increasingly common. There is diversity in practice, with some entities presenting negative revenue and some reclassifying it, and the basis upon which entities reclassify can vary.

We believe this could be a candidate for a narrow-scope amendment clarifying whether, and when, reclassification is permitted. We appreciate that to address this topic, guidance would also be needed to address application questions, such as:

- When determining whether negative revenue exists, whether to consider all (or some) transactions with current customers, past customers, anticipated customers, down or outside the distribution chain, etc., with all (or some) entities within the seller's consolidated group
- When determining the amount to reclassify (if any), whether to do so on a transaction-by-transaction, contract-by-contract, or cumulative basis, and, if cumulative, whether that should include all (or some) past and/or anticipated contracts

We note that there is legacy US GAAP that entities applying ASC 606 often utilise in practice and would encourage the IASB to consider that practice in addressing this issue.

Equity-based consideration payable to a customer

We note that the US Financial Accounting Standards Board's (FASB) Accounting Standards Codification® Topic (ASC) 606, Revenue from Contracts with Customers, was amended to scope-in equity-based consideration payable to a customer and provide guidance on the measurement. We are aware of similar fact patterns outside of the US and believe narrow-scope standard setting would be helpful to address such transactions.

Significant financing components
Further guidance is needed to address situations where there is a change in the timing of satisfaction of an entity's performance obligations, which often occurs in long-term contracts. Specifically, it is not clear whether an entity should hold the interest rate constant (and revise the allocated consideration between interest and the transaction price) or revise the interest rate. We would encourage the Board to undertake narrow-scope standard setting.

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?

We believe IFRS 15 provides helpful guidance for determining when to recognise revenue. Although the current guidance on determining whether control is transferred over time or at a point in time is useful, aspects such as assessing whether an entity has a right to payment for performance completed to date, repurchase agreements and bill and hold arrangements continue to prove challenging. We have provided comments and suggested resolutions on these topics in Appendix B.

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?

We believe IFRS 15 provides helpful guidance that can assist entities in assessing whether an entity is a principal or an agent. However, this is a complex assessment requiring significant judgement, and this is an area in which experts are often required. There are a number of application matters that have been, or continue to be, a challenge for preparers and auditors, including:

- Not properly identifying the specified good or service in practice
- Jumping to the indicators without considering the overall control assessment
- How to weigh the indicators to arrive at a conclusion as to whether an entity controls a good or service before transfer to a customer

We believe continued education is needed to help improve consistency in application. Educational material or flow charts that outline the manner in which the application guidance is intended to apply could be helpful.

Identifying the specified good or service is also causing diversity in practice – if the wrong good or service is assessed, the wrong conclusion can result. In particular, when a contract has various components combined to provide something to the end-consumer, entities often misunderstand what they should identify as the specified good or service. This can occur when they see themselves as pulling together all those component parts. For example, the IFRS IC discussion recently on software resellers was an example of where the entities were assuming they provided the customer with something more than the software, even though the specified good or service should have been the software alone. Another example is where an entity partners with, or subcontracts to, others to provide goods or services, particularly related to services provided in an electronic environment (e.g., internet advertising, payment processing). We recommend clarifying the interaction with the requirements for identifying performance obligations, including:

- Identifying whether there is a promised good or service
- The requirements for distinct in the context of the contract and how that interacts with the requirements for identifying specified goods or services

Economic risk and lack of contractual relationships between all parties providing a specified good or service to a customer in emerging business models in certain industries are areas where applying the principal-versus-agent considerations application guidance is very difficult and can result in inconsistent conclusions. For example, in the FinTech industry, entities use technology platforms to engage in financial transactions, for which they need to consider the application guidance. Due to the volume of parties involved and the lack of contractual relationships among all of those parties, entities struggle with understanding what roles individual parties play in the transactions when providing a specified good or service (e.g., credit card payment processing) to a customer. As an additional example, in the healthcare industry, a significant amount of economic risk may be involved in an arrangement. One entity (e.g., a primary physician healthcare practice) could absorb the full economic risk in a transaction with multiple parties (e.g., hospitals, specialist physicians) who provide various services or goods to a customer (e.g., a patient). Entities often question whether that economic risk could be evidence that they have control in that transaction as a principal, even if the entity absorbing the economic risk (e.g., the primary physician healthcare practice) does not have contractual relationships with other parties (e.g., hospitals, specialist physicians).

While Example 46A in IFRS 15 works well with service transactions, it does not solve all of the problems related to principal versus agent assessments, particularly when there are more than two parties involved in providing the specified service to the customer. We recommend:

- Updating the example (or adding a new one) to address digital or electronic types of transactions with multiple parties in those transactions.
- Adding additional descriptions, or an additional illustrative example, about economic risk and how that impacts control.

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?

We believe IFRS 15 provides helpful guidance for recognising revenue from the licensing of intellectual property. Licensing of intellectual property often relates to emerging business models. As a result, we observe complex scenarios that require significant judgement, as noted below and in Appendix B.

We have observed diversity in determining whether something is distinct in the context of the contract. This is discussed above in 'Question 2-Identifying performance obligations in a contract'.

While IFRS 15 addresses licence renewals, customer options, and modifications, it does not explicitly address how the guidance should be applied in combination when there is, for example:

- A licence renewal together with other changes, such as adding additional goods or services.
- An option to revoke licensing rights, which could be the result of a modification or was included in the contract at inception. For example, a contract for an on-premise software licence might include an option that allows the customer to migrate the on-premise software to a software as a service (SaaS) or hybrid cloud computing arrangement (i.e., the on-premise licence is revoked).

This continues to be an area of significant judgement. We would encourage the Board to undertake narrow-scope standard setting to provide application guidance. We note that the Emerging Issues Task Force (EITF) of the FASB considered these issues under US GAAP in 2019, [1] and the topic is now part of the FASB's Post-Implementation Review of ASC 606.

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?

We believe IFRS 15's disclosure requirements are more comprehensive than under legacy IFRS and improve the information available to users. However, they also increase the volume of disclosures that entities are required to include in their interim and annual financial statements.

Given the complexity of the requirements in IFRS 15, it is likely that the policies that apply to revenues and costs within the scope of the standard will require entities to provide more detailed disclosures compared with legacy IFRS given the increased judgement and estimates required. While we do see good disclosures, providing more helpful information than under legacy requirements (e.g., disaggregation of revenue, remaining performance obligation disclosures, etc.), we have observed that some entities apply the disclosure requirements like a checklist and have difficulty utilising the disclosure principles to provide meaningful information to financial statement users.

Revenue is a key metric for entities. It is, therefore, important that disclosures are robust and not boilerplate. However, they also need to be tailored, and entities should avoid disclosure overload so as not to obscure any information. We believe it would be helpful to provide educational material on the application of the disclosure requirements in different scenarios. We have included additional comments and suggested resolutions on disclosure requirements in Appendix B.

[1] EITF Issue No. 19-B, *Revenue Recognition—Contract Modifications of Licenses of Intellectual Property*.

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 retrospective 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.

Many industries found the transition to IFRS 15 challenging. The challenges included the extent of effort required (especially compared to the financial statement impact of adopting the standard) and, for some, the cost to analyse contracts and/or change systems. Some industries had significant quantitative impacts on transition or on their ongoing revenue recognition, but many entities had little or no impact on equity on transition. Transition effects on financial statements were not only limited to a quantitative impact (if any), but also increased disclosure.

Some industries found transition to IFRS 15 more challenging because they have more complicated types of revenue contracts and use more judgements and estimates. The examples of the characteristics of these industries included those with more significant impact on equity at the date of transition, longer revenue-related disclosures, more identified revenue-related significant judgements and estimations, or more disaggregated revenue streams.

In our experience, the practical expedients and modified retrospective approach provided in IFRS 15 were appreciated by preparers. We would encourage the use of such measures in future projects to assist with transition.

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?

The interaction between IFRS 15 and other standards and interpretations can be challenging. Below we have provided responses in relation to IFRS 3, IFRS 9, IFRS 10 and IFRS 16. Additional comments and suggested resolutions are included in Appendix B for several of these standards, as well as for IFRIC 12 *Service Concession Arrangements* and the application of IFRS 15.7.

IFRS 3 *Business Combinations*

We believe the requirements of IFRS 3 generally do not interact well with the requirements of IFRS 15. We have observed that accounting for the acquisition of revenue contracts in a business combination can be challenging in many cases, both regarding initial recognition and measurement at the acquisition date and post-acquisition accounting, such as adjustments for favourable or unfavourable terms, presentation after the acquisition and measurement period adjustments.

We strongly encourage the Board to undertake narrow-scope standard-setting consistent with the US GAAP amendment, Accounting Standards Update (ASU) 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This would provide a practical approach that ensures consistency in measuring performance of a contract before and after a business combination. It would also help to maintain convergence with US GAAP for both IFRS 3 and IFRS 15.

IFRS 9 *Financial Instruments*

We believe there is need for improvement on the interaction between IFRS 15 and IFRS 9. In particular, we have observed challenges in practice due to the circularity of the scope exclusions in both IFRS 15 and IFRS 9 and the interaction between the standards relating to assets and liabilities that might fall within the scope of both standards.

The interaction between IFRS 15 and IFRS 9 regarding gift cards, for example, is not clear when the customer is granted a choice between spending the gift cards with the entity issuing them or another party. While both standards require an entity to recognise a liability, IFRS 15 permits recognition of revenue for breakage before expiry, while IFRS 9 does not. The difference in accounting treatment is more pronounced if a gift card has no expiration date. Similar considerations would also be relevant for some loyalty point programmes.

We believe a narrow-scope amendment is needed to clarify, when a liability (such as a gift card) obliges an entity to both stand-ready to perform and stand-ready to pay cash, whether:

- One standard takes precedence

Or

- An entity should bifurcate the liability between the standards (e.g., based on expected usage).

Identifying whether the entity has implicitly offered a price concession (i.e., variable consideration) or whether the entity has chosen to accept the risk of default by the customer of the contractually agreed-upon consideration (i.e., impairment losses under IFRS 9) often requires significant judgement. This is not only applicable at contract inception, but also subsequently when, for example, it might also not be clear whether a modification has occurred (whether explicit or implied by customary business practice) or a change in price was already contemplated in the contract. We continue to believe further application guidance on this topic would be helpful.

IFRS 15.108 has an expectation about a difference in measurement when an entity moves to IFRS 9. Since this paragraph was written before IFRS 9 was finalised, IFRS 15.108 does not acknowledge the two measurement methods used for initial recognition of receivables based upon whether there is a significant financing component. This is particularly relevant for long-term construction contracts and service concession arrangements. We believe a narrow-scope amendment to IFRS 15.108 that acknowledges the initial measurement requirements for receivables in IFRS 9 would be helpful.

The interaction between IFRS 15 and IFRS 9 for assets and liabilities arising from a revenue contract (e.g., refund liabilities, deferred consideration payable to a customer) can also present challenges. In Appendix B, we have outlined a number of areas in which narrow-scope standard setting would assist in addressing this.

IFRS 16 *Leases*

We believe IFRS standards provide guidance for clarifying the interactions between IFRS 16 and IFRS 15. However, we observed diversity in practice in several areas, including when a contract consists of lease components and non-lease components or falls, or may fall, within the scope of both standards such as in sale and leaseback transactions and distinguishing between a lease and a sale.

Lease and non-lease components
In certain circumstances, it is not clear how an entity applies both IFRS 15 and IFRS 16 when a contract contains both a lease and non-lease component. In particular, the assessment of contract duration under the two standards differs and this can affect both the promised goods or services and transaction price included under IFRS 15 as well as the allocation of the consideration between the lease and non-lease components.

To address this, we propose adding an illustrative example in which part of the contract is accounted for using IFRS 16 (applying the lease term guidance to the lease component) and IFRS 15 (applying the contract duration requirements to the non-lease component) to highlight methods for determining and allocating consideration and then recognise income when these terms differ. For example, when a contract includes variable payments associated with both the lease and non-lease components, and the requirements in IFRS 15 and IFRS 16 have differing approaches for how to allocate consideration and recognise income in accordance with the respective standards.

Sale and leaseback transactions
More guidance on sale and leaseback transactions is also needed, for example, to clarify:

- Whether the unit of account should be the same as the lease transaction under IFRS 16 in determining whether there is a sale transaction under IFRS 15. An example where the unit of account may differ could include the sale of an entire building and the lease back of one or more (but not all) functionally independent floors of the building)
- Whether a lessee's renewal options (e.g., fixed price, fair value at the date of exercise) in a sale and leaseback transaction that would permit the seller-lessee to extend the lease for substantially all of the remaining economic life of the underlying asset preclude sale accounting under IFRS 15
- Whether the determination of transfer of control of the underlying asset under IFRS 15 can be subsequently reassessed. For example, when a sale and leaseback transaction grants a repurchase option to the lessee, the control of the underlying asset is not transferred to the lessor. However, if and when the option expires unexercised some have questioned whether the IFRS 15 criteria should be reassessed at that time

We believe the IASB should consider issuing clarifications as part of the post-implementation reviews of either IFRS 15 or IFRS 16.

Distinguishing a lease from sale or purchase of an asset
The IASB decided not to provide guidance in IFRS 16 to distinguish a lease from a sale or purchase of an asset. However, the distinction between a sale under IFRS 15 and a lease under IFRS 16 is difficult in practice. For example, an entity may physically install energy efficiency equipment (such as lighting and plumbing fixtures) onto a customer's premise but not transfer the title to such equipment. In such circumstances, it may not be clear if the transfer of the equipment has, in substance been sold, versus leased, to the customer. We, therefore, encourage the IASB to consider this issue as part of the IFRS 15 or IFRS 16 post-implementation reviews since these issues relate to the application of guidance in IFRS 15 when applying IFRS 16.

IFRS 10 *Consolidated Financial Statements*

We note that the IASB has identified sales of corporate wrappers, and specifically whether to apply IFRS 15 or IFRS 10 to such transactions, as a low priority item. In our view, however, this issue has a high priority and needs to be addressed. While we recognise that this is an issue that cuts across several different standards, we believe the IASB should address it as there is currently diversity in how entities account for such transactions.

We believe the following could be of help in addressing this issue:

- Under US GAAP, the sale of a corporate wrapper to a customer generally will be in the scope of ASC 606 while the sale of a corporate wrapper to a counterparty that is not a customer might be in the scope of ASC 610-20, *Other Income – Gains and Losses from Derecognition of Nonfinancial Assets*, which applies to the recognition of gains or losses on transfers of non-financial assets and in-substance non-financial assets, including transfers of these assets when included in a consolidated subsidiary, that are not businesses, to counterparties that are not customers.
- During the June 2020 meeting, the IASB discussed a possible narrow-scope amendment that would have required an entity to apply IFRS 15, instead of IFRS 10, to sales of subsidiaries in certain instances, and some Board members thought there was merit in a narrow-scope amendment.

IFRS 17 *Insurance Contracts*

Even though IFRS 17 *Insurance Contracts* is currently being implemented, and additional issues may arise as practice evolves, to date we have noted questions regarding the extent of the scope exclusion for warranties in IFRS 17.7(a). While IFRS 17.BC90 clarifies that warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer meet the definition of insurance contracts and IFRS 17 limits the type of warranties that are in the scope of IFRS 15, the application guidance on warranties in IFRS 15.B28-B33 does not address this interaction. Specifically, discussions have shown that there might be different interpretations about: how broadly to interpret the terms 'manufacturer, dealer or retailer' used in the scope exclusion; which factors are relevant when considering whether a warranty is provided 'in connection with' a good or service; and whether the scope exclusion applies to entities that are an agent for the sale of a good or service, but principal for the warranty. The model in IFRS 15 provides useful information for users of financial statements. Therefore, we would encourage the Board to clarify that the scope exclusion should be applied broadly, rather than narrowly, consistent with the objective of the exclusion.

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?

We believe that IFRS preparers have benefitted from the experience of those that apply ASC 606, both in understanding and applying the requirements.

We believe that having consistent requirements for a comprehensive and robust framework for the recognition, measurement and disclosure of revenue is helpful for capital markets and users of financial statements. Some aspects on which we believe convergence is important have been included in response to Questions 3, 6 and 9, as well as in Appendix B. Other examples include licence renewals, the shipping and handling practical expedient, and the practical expedient for disclosure of the transaction price related to remaining performance obligations. Furthermore, in addressing issues raised in this response to the request for information, we believe it is important to remain converged with US GAAP.

We believe both the IASB and FASB should take steps to ensure that convergence is maintained. We are aware that the staff of both Boards discuss convergence matters. However, we believe these discussions should be elevated to the Board level and discussed on a periodic basis.

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.

We include further comments and suggested resolutions in Appendix B.

Appendix B – Additional comments on the standard

In addition to our responses to specific questions in Appendix A, aspects of the standard that we believe would benefit from further guidance are set out below:

Issue	Recommended approach to address
Question 2 – Identitying performance obligations (Step 2)	
Whether an entity considers economic compulsion in determining its performance obligations (e.g., selling specialised goods or services to a customer that are not readily available in the market).	Illustrative example or educational material.
How an entity considers the interaction with a contract duration, which can restrict what is included in the contract.	Illustrative example in which delivery of goods and services is contemplated beyond the enforceable period.
Question 3 – Determining the transaction price (Step 3)	
We have observed diversity in practice with regard to estimates of variable consideration involving significant measurement uncertainty. For example, estimates where the factors causing the estimation uncertainty are not in the control of the Company and/or their customer or estimates requiring forecasts several years into the future, such as: ▶ Trailing commissions in the asset management sector (i.e., fees calculated as a percentage of the value of investments in a fund) ▶ Long-term contracts with variable payments based on throughput in the (midstream) Oil & Gas sector ▶ Long-term SaaS contracts with variable payment terms In such circumstances, both the estimation can be challenging, but also the application of the constraint, and, as a result, entities tend to constrain to zero.	Illustrative examples on the application of the constraint in situations where factors driving estimation uncertainty are not within the control of the entity or where the estimation uncertainty extends over several years, or educational material.

Issue	Recommended approach to address
We have observed diversity in distinguishing consideration payable to a customer from entities' marketing activities. This is, in part, because there is no explicit guidance regarding how an entity would determine whether it has a contractual (or implied) obligation to its customer to provide incentives to the end-consumer on the customer's behalf. In a speech on 6 December 2021, Jonathan Wiggins (Senior Associate Chief Accountant, US SEC Office of the Chief Accountant) noted that when determining whether incentive payments need to be recorded as a reduction of revenue, it is important to consider whether the entity has a contractual or an implied obligation to provide incentives to the end-consumer on the seller's behalf. The SEC staff member noted that this includes assessing whether an entity is, in substance, providing a price concession to the seller. For example, a company would consider whether "the seller would have a valid expectation that the company would provide incentives to the end user".	Illustrative example or narrow-scope amendment.
Barter transactions have been observed more often in recent years. These require significant judgement, including determining the nature of the promises and whether collaborations are involved for example. While it is clear the standard applies to non-cash consideration, barter transactions are not explicitly addressed in the standard.	Additional guidance (e.g., a flow chart and/or an illustrative example) to clarify the application of the requirements in IFRS 15 (including identifying performance obligations, determining when the performance obligation is satisfied) to such transactions.
Question 4 - Recognising revenue when (or as) control transfers (Step 5)	
Assessing the over-time criteria (especially IFRS 15.35(c) and right to payment) continues to be challenging. The IFRS IC's discussions on this topic were informative to an entity's initial assessment. However, this is not limited to an entity's initial assessment; it also includes whether subsequent reassessment is needed if laws, regulations or precedent changes over time.	Illustrative example or educational material assist entities in determining whether an entity has (and continues to have) a right to payment.

Issue	Recommended approach to address
The judgement required to determine the single method of measuring progress for performance obligations satisfied over time can be challenging. For example: ▶ When an entity applies an input method based on costs incurred and incurs costs disproportionate to the satisfaction of performance obligations, such as land. ▶ Applying a measure of progress using an input method based on costs incurred which are subject to volatility caused by factors such as foreign exchange rates, commodity prices and others.	Illustrative examples
Assessing the point in time at which control of shipped goods transfers to the customer, in particular, the interrelationship with identifying performance obligations requires significant judgement and can lead to diverse outcomes in practice. This can be particularly challenging when the entity needs to determine whether it is the principal or agent in relation to shipping the goods.	Educational material
In the context of determining when control transfers to a customer, the application of the guidance on repurchase agreements continues to be challenging, especially for fungible items (e.g., cryptos, commodities, etc.), those priced at fair value, and conditional repurchase agreements.	Illustrative examples
The fact that bill and hold arrangements need to meet the criteria in IFRS 15.B81 as well as IFRS 15.38 is not always well understood. In addition, it can be particularly challenging to apply the bill and hold requirements if the nature of the good is homogenous and storage of the good in a separate place would cause loss of quantity or quality. In such a situation, some believe the requirement in IFRS 15.B81(b) might not represent the economic substance.	Illustrative examples or educational material

Issue	Recommended approach to address
Question 6 – Licensing	
One of the factors to assess to determine whether an entity provides a right to access its intellectual property is whether the entity undertakes activities that significantly affect the intellectual property to which the customer has rights. Assessing whether a stand-alone functionality is significant can be challenging, especially for entities in the software, media & entertainment and pharmaceutical industries. Assessing whether there is one or more performance obligations can be difficult for arrangements involving licences of core intellectual property (e.g., a game, base software, a formula) where the licensor will further develop aspects (e.g., characters, functionality, branding, adaptations) that do not simply update or add to the core intellectual property, for example.	Illustrative examples or educational material
Question 7 - Disclosure requirements	
We have observed some diversity in how entities understand the interaction between the requirements for revenue in IFRS 8 *Segment Reporting*, and specifically in IFRS 8.32 to "report the revenues from external customers for each product and service, or each group of similar products and services," and IFRS 8.33 to disclose revenues from external customers by geographical area, and the disaggregation requirements in IFRS 15. Although the disclosure objectives in IFRS 15 and IFRS 8 differ, these requirements may be perceived as partially overlapping, and a clarification of their interaction would be helpful.	Narrow-scope amendment or illustrative example

Issue	Recommended approach to address
Question 9 - Interaction with other standards: IFRS 9	
IFRS 15 does not currently explicitly state that a refund liability is a broader notion than one that arises from a right of return (e.g., those related to warranties involving a cashback option when a faulty product cannot be repaired or replaced on a timely basis). However, IFRS 15, Example 40 does illustrate recognition of a refund liability in other circumstances. Despite this, some believe it is not clear whether IFRS 15 or IFRS 9 applies to refund liabilities other than those arising from rights of return.	Narrow-scope amendment to add the definition of a refund liability to Appendix A of IFRS 15 to acknowledge it is broader than just those arising from rights of return.
While IFRS 15, Example 40 indicates it is possible to recognise a receivable and a contract liability before performing, we observe diversity in practice in its application.	Amending this example to provide further guidance on determining when it is appropriate to gross up receivables and contract liabilities prior to performance.
IFRS 15.107 states "An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9". This is clearly appropriate when the risk to consideration is payable in cash. However, some contract assets and receivables represent (conditional) rights to non-cash consideration. In addition, IFRS 15.108 states that an entity applies IFRS 9 to receivables. However, unconditional rights to receive non-cash consideration do not meet the definition of a financial asset.	Narrow-scope amendment to clarify which standard, applies to an unconditional right to receive non-cash consideration, including which impairment requirements should be applied.
IFRS 15 often requires recognition of consideration payable to customer after a payment is made. As a result, an entity might present deferred consideration payable to a customer as an asset at a reporting date. While the standard contemplates such an asset, there is no guidance about which impairment requirements apply. Some question whether IFRS 9 should be applied, consistent with the requirements for contract assets in IFRS 15.108.	Narrow-scope amendment to clarify which impairment requirements apply to deferred consideration payable to a customer.

<table>
<tr><th>Issue</th><th>Recommended approach to address</th></tr>
<tr><td colspan="2">Question 9 – Interaction with other standards: IFRIC 12</td></tr>
<tr><td>IFRIC 12 Service Concession Arrangements requires the operator to account for construction or upgrade services, and operation services, in accordance with IFRS 15. When IFRS 15 was issued, few consequential amendments were made to IFRIC 12. Therefore, the interaction between IFRS 15 and IFRIC 12 can be challenging. This includes:
▶ Determining the discount rate to be used when a service concession contains a significant financing component, including whether the use of the rate implicit in the contract is consistent with the objective of IFRS 15.64
▶ Allocating consideration between performance obligations if the cash flows might not reflect the stand-alone prices of underlying services</td><td>Narrow-scope amendment to clarify the interaction between IFRS 15 and IFRIC 12, particularly in relation to determining the discount rate to be used when a service concession contains a significant financing component.</td></tr>
<tr><td colspan="2">Question 9 – Interaction with other standards: application of IFRS 15.7</td></tr>
<tr><td>The requirements in IFRS 15.7 are only applicable to contracts that are partially within the scope of IFRS 15 and partially within the scope of any of the other standards or interpretations that are listed in IFRS 15.5. That is, the scope of IFRS 15.7 is narrow and not applicable to all contracts that might be partially within the scope of IFRS 15. For example, an IFRS 15 contract with a customer might also include the disposal of property, plant and equipment (within the scope of IAS 16 Property, Plant and Equipment) or an intangible asset (within the scope of IAS 38 Intangible Assets). Another example might be an IFRS 15 contract with a customer that includes a government grant that falls within the scope of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.</td><td>Narrow-scope amendment, particularly to address contracts that are within the scope of IFRS 15 and standards that look to IFRS 15 for guidance in relation to disposals (i.e., IAS 16, IAS 38 and IAS 40 Investment Property).</td></tr>
</table>

Issue	Recommended approach to address
Question 11 – Other matters: collaborations	
Collaborations are common in the pharmaceutical, biotechnology, oil and gas, and health care industries, but their use is increasing in other industries, for instance, to enter new markets. While collaborations involving joint control are addressed in IFRS 11 *Joint Arrangements*, other collaboration arrangements are not addressed in IFRS accounting standards. IFRS 15.6 is clear that IFRS 15 excludes from its scope transactions in which the parties are acting as collaboration partners. However, depending on the facts and circumstances, these arrangements might also contain a vendor-customer relationship component. Such contracts could still be within the scope of IFRS 15, at least partially, if the collaborator or partner meets the definition of a customer for some, or all, aspects of the arrangement. We have observed diversity in understanding regarding how to analyse such arrangements to consider what might be within the scope of IFRS 11 or IFRS 15 and what might be a collaboration outside the scope of both standards.	Flow chart or educational material explaining the process to follow and factors to consider