

IFRS Developments

IASB issues Request for Information for the Post-implementation Review of IFRS 15

What you need to know

- ▶ The IASB has issued a Request for Information as part of the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
- ▶ The IASB is seeking feedback on application of the standard
- ▶ The Request for Information is open for public comment until 27 October 2023

Highlights

On 29 June 2023, the International Accounting Standards Board (the IASB or the Board) issued a Request for Information as part of the Post-implementation Review (PIR) of IFRS 15 *Revenue from Contracts with Customers*, which had an effective date of 1 January 2018.

A PIR is part of the IASB's due process to assess the effect of the requirements of a standard on users and preparers of financial statements and is undertaken some time after the standard has become effective. With the Request for Information, the IASB is seeking feedback on applying IFRS 15.

This is an important PIR; revenue is, arguably, one of the most important indicators of an entity's performance. IFRS 15 provides accounting requirements that apply to all revenue arising from contracts with customers to provide goods or services (with few scope exclusions), as well as certain cost requirements. It also provides 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. IFRS 15, therefore, affects all entities and all industries and this PIR provides an opportunity for the Board to hear from all stakeholders about its impact.

The Request for Information is open for public comment until 27 October 2023.

Background

When the IASB and FASB jointly developed IFRS 15 and its US GAAP counterpart, ASC 606, *Revenue from Contracts with Customers*, their goal was to develop a new revenue standard that¹:

- ▶ Removed inconsistencies and weaknesses in the legacy revenue recognition literature
- ▶ Provided a more robust framework for addressing revenue recognition issues
- ▶ Improved the comparability of revenue recognition practices across and within industries, jurisdictions and capital markets
- ▶ Reduced the complexity of applying revenue recognition requirements by reducing the volume of the relevant standards and interpretations
- ▶ Provided more useful information to users through expanded disclosure requirements

Transition to IFRS 15 in 2018 was often a significant undertaking for entities, even if the transition impact was not significant. Ongoing application can also be challenging, with many estimates and judgement needed. While entities are now more familiar with its requirements, the application of IFRS 15 continues to be challenging for them when business practices and models evolve (e.g., increasing the use of online retail and platform services, changing to 'greener' practices, etc.) and the operating environments change.

In the second half of 2022, the IASB began the PIR of IFRS 15 and in March 2023, the Board discussed feedback from stakeholders and reviewed academic literature and tentatively agreed on the topics to include. Publication of the Request for Information marks the end of phase 1 of the PIR.

Topics covered in the Request for Information

A PIR is not intended to resolve every issue that stakeholders raise. However, it can help the Board in identifying and prioritising issues to address in IFRS 15 or in future standard-setting projects. To help guide stakeholders, the Request for Information targets a range of key topics, including:

- ▶ What views stakeholders have on IFRS 15 as a whole, such as: whether it meets its overall objective; whether the core principles of the standard and its five-step model are clear and suitable; whether stakeholders have feedback about the understandability and accessibility of the standard that could be relevant for improving IFRS 15 or implementation of future standards; and how stakeholders perceive the ongoing costs and benefits of applying IFRS 15
- ▶ Whether stakeholders believe it is important to retain convergence between IFRS 15 and ASC 606
- ▶ Whether stakeholders are familiar with fact patterns where the guidance on any of the following is being applied inconsistently, is unclear or insufficient: identifying performance obligations (step 2), including whether there are fact patterns for which the guidance could lead to outcomes that do not reflect the economic substance; determining the timing of revenue recognition, particularly over-time (step 5); determining whether an entity is a principal or an agent; and licensing
- ▶ If there is evidence of diversity in practice in determining the transaction price in a contract, particularly when applying the guidance on consideration payable to a customer (e.g., issues related to negative revenue)
- ▶ The disclosure requirements of the standard, including the ongoing costs of meeting the requirements, the usefulness of information provided, and whether significant variation in the quality of disclosures has been observed

¹ IFRS 15 (2016).IN5.

- ▶ The interaction between IFRS 15 and other IFRS Accounting Standards, particularly IFRS 3 *Business Combinations*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*

Most topics will allow respondents to reflect on current issues and provide feedback that will benefit future application of IFRS 15. However, the Request for Information also asks stakeholders to also consider the transition requirements, in particular, whether the modified retrospective method and certain transition reliefs were applied and whether they struck the right balance between providing relief to preparers and useful information to users. Some of these reliefs were not commonly used prior to IFRS 15. Therefore, feedback will be helpful to the Board when considering transition provisions as part of future projects.

The Request for Information also includes a “catch-all” question where stakeholders can provide comments on areas beyond the topics listed by the IASB.

Key topics not included in the Request for Information

While the Board has included a ‘catch-all’ question, it specifically chose not to include certain topics (or not to include them as separate questions) because, for example, they have already been covered by the PIR of other standards or they are not expected to lead to material effects on entities’ financial statements as they are related to narrow issues. These include:

- ▶ Identifying the contract(s) with a customer (step 1), mainly in relation to contract modifications as the Board believes these can be addressed when considering issues related to identifying performance obligations (step 2)
- ▶ Sales of corporate wrappers, specifically, whether to apply IFRS 15 or IFRS 10 *Consolidated Financial Statements*. However, the Request for Information notes that this is because it was not identified as a priority in the Third Agenda Consultation process, and it is an issue that cuts across different standards and that resolving it would require significant resources

Stakeholders might have experience with, or observations from, using IFRS 15 that may suggest additional issues should be raised with the Board. However, due to the wide range of issues already listed in the Request for Information, we would encourage stakeholders to focus on the key issues they have encountered in the application of IFRS 15 in their responses to the IASB.

Next steps

Comments are due to the IASB by 27 October 2023. Based on the comments received, the IASB will summarise the findings and decide on what steps, if any, to take as a result of the process.

How we see it

This PIR provides an opportunity for stakeholders to provide feedback to the IASB on the impact of applying IFRS 15, and highlight any areas where the guidance is considered to be unclear, insufficient, or missing. Stakeholders are encouraged to submit comments to the IASB, focusing on the key aspects of the standard.

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ED None

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