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Dear Pauline

Response to Invitation to Comment on the Request for Information - Post-implementation Review: IFRS 15 Revenue from Contracts with Customers

We welcome the opportunity to respond to the UK Endorsement Board's (UKEB) invitation to comment on the Request for Information - Post-implementation Review: IFRS 15 Revenue from Contracts with Customers that was published by the IASB in June 2023.

KPMG LLP is part of a global network of firms. Views on IFRSs are developed globally by KPMG International Standards Group. The KPMG network of firms' response to this Request for Information has not yet been finalised and will be provided publicly to the IASB in due course. In advance of the finalisation of global network views, the comments in this letter are the preliminary views of KPMG LLP in the UK only.

We welcome the Board's post implementation review on IFRS 15 Revenue. Overall, we believe IFRS 15 is working well and does not require significant amendment. IFRS 15's core principles provide a suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

We believe the Request for Information has appropriately identified the most common application issues. We highlight below a small number of areas that warrant careful consideration:

Amounts payable to a customer's customer outside the direct value chain

The guidance on consideration payable to a customer can be difficult to apply – and there is observable diversity in practice – in cases when multiple parties are involved in providing goods or services to an end customer and/or the end customer receives significant incentives. The question is whether these incentives should be netted against revenue or presented as expenses. The diversity primarily arises due to a lack of clarity in the requirements with respect to payments made to a customer's customer outside the direct distribution chain. This issue is relevant to a wide range of businesses including

food delivery platforms, ride hail platforms, online ticket sellers and discount websites. These business models have become much more prevalent since the requirements on determining the transaction price in IFRS 15 were developed. We recommend that the Board clarifies what are the circumstances, if any, in which an amount paid to a customer's customer (that does not relate to a distinct good or service) is not treated as consideration payable to customer and netted against revenue.

Negative revenue

Prima facie, IFRS 15 envisages that revenue from a contract with a customer can be negative. The guidance on the transaction price states, without limitation, that consideration payable to a customer (that is not for a distinct good or service) is deducted from the transaction price and therefore revenue can be negative. However, IFRS 15 does not specify whether such amounts should be presented as part of revenue or reclassified and presented as an expense. In September 2019, as part of its agenda decision on Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers) the IFRS Interpretation Committee specifically declined to address this question. We recommend the Board clarify in what, if any, circumstances net negative revenue can be reclassified and presented as an expense.

Principal versus agent considerations

Assessing whether an entity is acting as principal or agent in a transaction is one of the most challenging areas of IFRS 15. The judgemental nature of this area can lead to apparently similar transactions being treated differently due to very small differences in facts and circumstances. The assessments can be particularly challenging when the control principle is not clearly met, and the principal/agent indicators are mixed.

The challenges faced by entities in making this assessment were acknowledged in the very first TRG meeting and were key to the clarifications to IFRS 15 published in April 2016. More recently, the IFRS Interpretations Committee emphasised the judgemental nature of the assessment and its dependence on the detailed facts and circumstances of individual transactions in its discussion of IT resellers in the April 2022 agenda decision Principal versus Agent: Software Reseller.

The application of the requirements is challenging across a wide range of business models including online sellers, service businesses and developing areas such as online platform businesses and crypto trading platforms. However, most companies have now reached conclusions under the existing requirements.

Carefully consideration is required on whether the Board should re-open the guidance in IFRS 15 to seek to address these challenges. However, in the absence of a clear fix to the existing model, or a credible alternative model, we are concerned about the costs to stakeholders of amending the guidance and the risk of unintended consequences. On balance, we recommend that the Board retain the current guidance.

In some cases, an entity may be considered agent for some of the good/services it sells and principal for others due to differing terms and conditions of the arrangements. This situation sometimes arises where an entity operates in multiple jurisdictions and local



laws lead to slightly different terms and conditions in the contracts in its otherwise identical business model. In these situations, it may be helpful to users if entities were required to disclose separately revenue from contracts with customers recognised on a net basis and that recognised on a gross basis.

IFRS 15's interaction with other standards

We also welcome the Board's request for information regarding IFRS 15's interaction with other standards as this is an area where the guidance can be unclear and conflicting requirements exist. Questions arise in the interactions between IFRS 15 and the following standards IFRS 3 Business Combinations, IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 16 Leases and IFRIC 12 Service Concession Arrangements. We believe clarification of which standard takes precedence or small amendments could reduce diversity and provide more consistent information to users.

Convergence with Topic 606 Revenue from Contracts with Customers

We support maintaining the current level of convergence between IFRS 15 and Topic 606 to the extent possible. It is beneficial to users for the two standards to remain converged to the extent possible to allow for comparisons between entities applying the two sets of requirements

Yours sincerely

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