UK Endorsement Board

Dr Andreas Barckow
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26 October 2023

Dear Dr Barckow

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

1. The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

2. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.[1] In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.[2]

3. We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB)'s Request for Information–Post-implementation Review: IFRS 15 *Revenue from Contracts with Customers* (RFI). In developing this letter, we have consulted with stakeholders in the UK, including preparers, accounting firms and institutes, and users of accounts.

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[1] UKEB calculation based on LSEG and Eikon data, May 2023. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

[2] UKEB estimate based on FAME, Company Watch and other proprietary data.

4. Based upon the work undertaken we conclude the following:

   a) IFRS 15 is generally working as intended, there are no fatal flaws, and the standard is viewed by stakeholders as an improvement on the requirements in previous revenue standards.

   b) Overall users highlighted a notable improvement in the usefulness of company disclosure about revenue subsequent to the implementation of IFRS 15.

   c) 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, although the implementation of the standard was costly for companies in some industries, such as telecommunications and aerospace. In addition, the ongoing costs of applying IFRS 15 in those industries continue to be significant (see Appendix A paragraph A4).

   d) Overall, stakeholders supported the IASB working with FASB to ensure that IFRS 15 and Topic 606 remain substantially converged (see Appendix A paragraphs A27–A30).

5. Based on our conclusions above, there are no high priority matters for the IASB to address. However, there are a small number of areas, set out below, where we suggest that the standard could be improved to reduce diversity in application if the IASB decides to pursue other amendments as a result of feedback received.

   a) In relation to the determination of the transaction price, we recommend that the IASB clarifies in what circumstances:

      i. consideration payable to a customer (that does not relate to a distinct good or service) should be netted against revenue; and

      ii. net negative revenue should be reclassified and presented as an expense.

      This would reduce any potential for diversity in practice (see Appendix A paragraphs A8–A9).

   b) In the context of principal versus agent considerations, we recommend that the IASB:

      i. expands the indicators of control (IFRS 15 paragraph B37) to cover indicators that are more relevant to services and intangibles; and

      ii. elevates paragraph B385H from the Basis for Conclusions to the standard, to highlight the importance of the primary assessment of transfer of control and that the indicators of control are secondary in the assessment.

This would minimise the risk that the control framework for principal versus agent considerations is inappropriately applied and ensure greater consistency in practice (see Appendix A paragraphs A12–A16); and

c) We recommend that the IASB and the FASB continue to work together to ensure that IFRS 15 and Topic 606 remain substantially converged (see Appendix A paragraphs A27–A30).

6. For detailed responses to the questions in the IASB's RFI, please see Appendix A.

7. If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

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Chair
UK Endorsement Board

Appendix A Questions on Request for Information: Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*

Appendix A: Questions on Request for Information: Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*

Overall assessment of IFRS 15

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.

Core principle of IFRS 15 and the five-step revenue recognition model

A1. Our outreach[3] indicates that IFRS 15 is generally working as intended, there are no fatal flaws, and the standard is viewed by stakeholders as an improvement on the previous revenue requirements. Our outreach also indicates that 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.

Understandability and accessibility of IFRS 15

A2. We received mixed feedback from stakeholders on improving the understandability and accessibility of IFRS 15. Some preparers, such as those in the software and telecommunications industries, face ongoing challenges in applying the standard due to rapidly changing technology and the complexity of judgements required. These preparers support improvements to the understandability of IFRS 15 e.g. by providing illustrative examples using complex scenarios. However, other stakeholders consider that the requirements and structure of the standard are well understood in practice.

Ongoing costs and benefits

A3. Some sectors incurred significant one-off costs on the implementation of IFRS 15. The main one-off costs on implementation identified by stakeholders were IT systems (re-design or modifications), processes (e.g. internal controls, reviewing contracts), hiring extra staff and training of personnel.

A4. Mixed views were received from stakeholders regarding ongoing costs. In some industries (e.g. telecommunications and aerospace) the ongoing costs of applying IFRS 15 continue to be significant. This depends on several factors, such as the volume and/or complexity of contracts, evolution of business models (e.g. introduction of new products, innovation in sales strategies), the extent of manual input (e.g. logging contracts and manual period end adjustments) and the extent of additional internal controls.

A5. Our desk-based research[4] and outreach with stakeholders identified a number of benefits of IFRS 15:

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3 Outreach activities included engaging with our UKEB Advisory Groups, a preparer roundtable and one-to-one interviews with preparers, users and accounting firms.

4 The Secretariat's desk-based research included reviewing: the IASB's work on the PIR of IFRS 15 (staff papers, RFI); accounting manuals and press releases for guidance and illustrative examples; IFRIC Agenda Decisions; UK FRC thematic reviews of IFRS 15 disclosures.

a) the five-step revenue recognition model provides a robust basis for analysing complex contracts;

b) more guidance than under the previous revenue requirements is helpful in making judgements relating to revenue recognition;

c) more useful information for users facilitates better and more meaningful comparability of information between entities;

d) greater collaboration between the finance team and operations team;

e) improved internal controls; and

f) better understanding of the substance and nature of business by auditors and users of accounts.

A6. On balance, we believe that whilst ongoing costs of applying IFRS 15, in some sectors, may be greater than initially assessed, those costs do not outweigh the benefits of the resulting information, as indicated above.

Identifying performance obligations in a contract

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?**

A7. Our outreach activities indicated that some preparers experienced challenges in identifying performance obligations for certain contracts, specifically identifying a 'distinct' good or service (or a bundle of services). There were also challenges around those activities that do not involve a clear transfer of goods and services, even though they might be necessary for fulfilling a contract, but are not considered performance obligations, such as setting up a manufacturing process (e.g. aerospace) or connecting a customer to a network (e.g. water, telecoms). However, whilst some preparers said the challenges experienced during the implementation phase have largely been overcome and practice has settled, it is possible that there may be new challenges when assessing performance obligations in new types of contracts.

Determining the transaction price

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 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?**

Consideration payable to a customer and negative revenue

A8. Whilst IFRS 15 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, stakeholders noted that the standard does not specify whether such amounts should be presented as part of revenue or reclassified and presented as an expense. The September 2019 IFRIC agenda decision[5] did not address this question, nor did the TRG for Revenue Recognition in 2015[6]. We understand that there may be diversity in accounting practice in this area.

A9. We recommend that the IASB clarifies the circumstances in which:

a) an amount paid to a customer, or a customer's customer in a multi-party transaction, (that does not relate to a distinct good or service) should be

5 The IFRIC agenda decision Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers)— September 2019 did not address this presentation of negative revenue, in particular, whether any compensation payment beyond the ticket price should be recognised as an expense or as negative revenue.

6 Consideration Payable to a Customer was discussed at the January 2015 (Topic 10), March 2015 (Topic 3), and July 2015 (Topic 1) TRG Meetings.

presented as part of revenue and when it should be reclassified and presented as an expense; and

b) net negative revenue can be reclassified and presented as an expense.

Determining when to recognise revenue

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. 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?**

A10. Whilst our outreach did not specifically identify fact patterns in which the requirements in IFRS 15 may not be clear or sufficient in determining when to recognise revenue, some stakeholders indicated that the application of the concept of control (i.e. when control passes) is one of the questions preparers raise most often in relation to the application of the standard.

Criteria for recognising revenue over time or at a point in time

A11. Our outreach indicated that significant judgement is required to identify whether control passes to the customer over time or at a point in time, which is critical to the timing of revenue recognition. We are not aware of any widespread diversity in practice, but some stakeholders identified different treatment of the following contracts:

a) software licences, for example, 'term-based' licences, i.e. where a licence is valid for a fixed term (say 3 years, 5 years, etc.). The licensee pays a fixed fee, either up front or annually and customer support is included as part of that fee. Some entities bifurcate the licence value and the ongoing support, whilst others spread the entire price over the term of the licence;

b) services offered by water utility companies to property developers, for example, new connections to the water and wastewater networks. Some water companies defer the recognition of revenue on these connections based on the period of time over which performance obligations are expected to be satisfied with regard to the occupants of developments that are connected to the network, whereas other entities recognise such revenue upfront i.e. upon completion of the connection; and

c) long term, developmental contracts for complex assets – products that are developed to a customer's specification, manufactured, and possibly installed/integrated into the customer's product. To recognise revenue over time, the entity must meet one of the three criteria set out in paragraph 35 of IFRS 15. Even if the entity has an enforceable right to payment, it can be challenging to determine whether the created asset has no apparent alternative use, whilst recognising that if an asset requires significant rework at significant cost for it to be suitable for another customer or another purpose, it will likely have no alternative use. This judgement leads some companies to determine that the created asset may have an alternative use and therefore does not meet the criteria to account for revenue over time, so they recognise revenue at a point in time, whilst other entities, with seemingly similar contracts, are recognising revenue over time.

Principal versus agent considerations

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.
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?**

A12. Our desk-based research and outreach with stakeholders clearly identified principal versus agent considerations as an area of IFRS 15 that can be challenging and require significant judgement.

A13. In our outreach some stakeholders expressed concern that the three indicators of control, set out in paragraph B37 of IFRS 15, are inadequate because they do not include indicators that are relevant to services and intangibles. These indicators are intended to help an entity determine whether it obtains control of a specified good or service and is therefore the principal in the transaction.

A14. We recommend that the IASB expand the indicators of control used in assessing if an entity is a principal (IFRS 15 paragraph B37) to cover indicators that are more relevant to services and intangibles. Adding such indicators would minimise the risk of the control framework for principal versus agent considerations being inappropriately applied and would lead to more consistency in accounting practice. Such indicators could include:

a) the company changes the product or performs part of the service; or

b) the company has discretion in supplier selection.

A15. In addition to the indicators of control being insufficient, some stakeholders also noted that the indicators are secondary in assessing the transfer of control and that these do not override the primary assessment of the transfer of control, as clarified in BC385H which highlights that "*the indicators in paragraph B37 were included to support an entity's assessment of whether it controls a specified good or service before transfer in scenarios for which that assessment might be difficult. The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios*".

A16. Consistent with this feedback, we therefore suggest that this guidance in BC385H be elevated from the Basis for Conclusions to the Standard.

Licensing

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[7]. 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?**

[7] Spotlight 6 in the Request for Information outlines suggestions from stakeholders on how the requirements for accounting for licensing arrangements could be clarified based on initial feedback heard by the IASB. These are not reproduced here.

A17. Overall, some stakeholders indicated that, whilst complex, the guidance on licensing in IFRS 15 is useful, and the guidance on the 'right to use' and 'right to access' is clear and sufficient. It was also noted that the standard is helpful when a business with complex licensing arrangements is acquired.

A18. Our attention has been drawn to some fact patterns which potentially could lead to different accounting practices in specific circumstances, and we would be happy to share these with the staff if that would be helpful. In general, however, we are not aware of any significant diversity in practice.

Disclosure requirements

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?**

A19. Consistent with the IASB's statement in the RFI that *'some users of financial statements, regulators and accounting firms said they saw some improvement in the usefulness of information entities disclosed about revenue after IFRS 15 was implemented'*, our outreach indicates that generally the IFRS 15 disclosure requirements have led to better quality disclosures that are useful to users.

A20. Users of financial statements indicated that:

a) the disaggregation of revenue into appropriate categories (also required for interim financial statements) provides very useful information for their analysis, particularly for long-term contracts;

b) contract balance disclosures are useful to reconcile revenue with cashflow;

c) IFRS 15 helped identify companies with poor revenue accounting practices and there has been an improvement in revenue recognition since the implementation of the standard.

A21. Stakeholders agree that the principle-based disclosure guidance on the disaggregation of revenue[8] results in useful entity-specific information.

Transition requirements

Question 8—Transition requirements
a) Did the transition requirements work as the IASB intended? Why or why not? Please explain: i. whether entities applied the modified transition method or the practical expedients and why; and ii. whether the transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

A22. The modified retrospective method and the practical expedients were commonly applied on the transition to IFRS 15 in the UK and provided a welcome relief to those preparers who would otherwise have found the full retrospective method impracticable.

A23. Overall, users indicated that whilst a full retrospective method would be preferred, they did not have significant concerns with companies using the modified retrospective method. Analysts found the transition disclosures useful and, in a number of instances, companies provided further explanations to assist them in their analysis.

A24. Our outreach indicated that 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.

8 IFRS 15 paragraph 114.

Applying IFRS 15 with other 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? 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[9]. **b) Do you have any suggestions for resolving the matters you have identified?**

A25. We have not been made aware of any significant issues relating to the interaction between IFRS 15 and the requirements of other IFRS, in particular IFRS 9 *Financial Instruments* and IFRS 16 *Leases*.

A26. We also did not identify any concerns about the interaction between IFRS 15 and IFRS 3 *Business Combinations*, and, specifically, with the requirement to measure revenue contracts acquired in a business combination at fair value on acquisition, in line with other assets acquired and liabilities assumed. Such fair value adjustments to acquiree assets and liabilities show that the entity has acquired the balances through an acquisition, as opposed to growth that has occurred organically. Consistent with the IASB's post-implementation review of IFRS 3[10] and the subsequent Discussion Paper in 2020[11], no new information was highlighted that would suggest that the IASB need reopen this question, despite the recent amendment to US GAAP[12] requiring contract assets acquired and contract liabilities assumed in a business combination to be accounted for on acquisition at transaction price using the US GAAP equivalent revenue standard.

9 Spotlights 9.1–9.3 in the Request for Information outline the initial feedback heard by the IASB on the interaction between IFRS 15 and other IFRS Accounting Standards, in particular, IFRS 3 *Business Combinations*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*. These are not reproduced here.

10 The IASB's Report and Feedback Statement on the Post-implementation review of IFRS 3 *Business Combinations* was published on 17 June 2015.

11 In March 2020 the IASB issued Discussion paper *Business Combinations— Disclosures, Goodwill and Impairment*.

12 In October 2021, FASB issued the Accounting Standards Update (ASU) No. 2021-08 – *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendment creates an exception to the general recognition and measurement principles of Topic 805 *Business Combinations* and requires an acquirer of a business to recognise and measure an acquiree's contract assets and contract liabilities in a business combination on acquisition in accordance with Topic 606 – *Revenue from Contracts with Customers*.

Convergence with Topic 606

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?

A27. The requirements in both standards remain substantially converged[13] although there have been a small number of amendments that potentially can affect comparability.

A28. During our outreach, preparers from UK groups with listings in the US supported retaining the current level of convergence between IFRS 15 and Topic 606. Further convergence should occur only if the result provides better information to users of the financial statements.

A29. Users who assess US companies and companies reporting under IFRS are in favour of retaining the existing level of convergence between IFRS and US GAAP, as it ensures better comparability of revenue recognition between US companies and companies in other jurisdictions.

A30. We recommend that the IASB and the FASB continue to work together to ensure that there are no significant differences between the two standards.

Other matters

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.

A31. We have not identified any further matters in the UK that we think the IASB should examine.

13 The IASB March 2023 staff paper 6A summarises in Appendix A the current differences between IFRS 15 and Topic 606.