

FEEDBACK STATEMENT

IASB Post-implementation Review
IFRS 15 Revenue from Contracts with Customers

October 2023

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS 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.

Contents

	Page
Purpose of this feedback statement	4
The IASB's Post-implementation Review	5
UKEB outreach approach	6
UKEB and stakeholder views	7-17

Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* and explains how the UKEB's Final Comment Letter addressed those views.



The IASB's Post-implementation Review

In June 2023, the IASB published its Request for Information on the Post-implementation Review (PIR) of IFRS 15.

The PIR assesses whether the standard is meeting its objectives, can be applied consistently, provides useful information to users, and implementation costs are as expected. The IASB's possible actions following the PIR are to:

- a. produce educational materials;
- b. conduct follow-up research work for possible standard setting; or
- c. take no action.

The IASB's Request for Information identified nine areas of the requirements in IFRS 15 on which it was seeking feedback. The UKEB comment letter was responsive to UK stakeholder feedback and focused only on those areas where UK stakeholders expressed particular concerns.



UKEB outreach approach

The UKEB's outreach activities took place between June and October 2023 and were conducted to assist the UKEB in developing its Comment Letter.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

Due to the project timeline most outreach activities were performed in the early stages of the project and the stakeholder views reflected in the draft comment letter (DCL).

Outreach activities included:

- meetings with preparers, users, accounting firms and regulators, including discussions with the UKEB Advisory Groups and UKEB Rate-regulated Activities Technical Advisory Group;
- a roundtable event with preparers; and
- public consultation on the UKEB's DCL.

Four written responses to the UKEB's Invitation to Comment on its DCL were received, one of which was confidential. These are all included in the stakeholder outreach statistics shown in the table.

All comments and views were considered in reaching the UKEB final views on the questions raised.

Stakeholder type	Stakeholders	Organisations represented
Preparers	17	11
Auditors & Accounting firms	8	5
Regulators/ Standard setters	5	3
Users	3	2
Academics	-	-
Professional bodies / committees*	1	8
TOTALS	34	29

*Those committees have multiple members, representing a variety of stakeholder types.

Note: UKEB Advisory Groups are not included in the above table, although one-to-one meetings with, or written responses from, members are included.

I. IFRS 15's overall assessment

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders noted that the Standard is generally working as intended and does not contain any “fatal flaws”. The IFRS 15 requirements are an improvement on the previous revenue requirements.</p>	<p>Noted the Standard is working as intended, does not contain any “fatal flaws” and the core principles result in useful information about an entity’s revenue from contract with customers.</p> <p>The standard is viewed by stakeholders as an improvement on the requirements in previous revenue standards.</p>	<p>Consistent with initial views.</p>	<p>Consistent with draft position. Cover letter reworded to emphasise there are no fatal flaws in the standard and therefore no high priority matters for the IASB to address. However, there are a small number of areas where we suggest that the standard could be improved to reduce potential diversity in application, if the IASB plans to make amendments resulting from other feedback received in the Request for Information.</p>
<p>Views were mixed on improving the understandability and accessibility of the Standard. Whilst some stakeholders said the IASB should provide <i>‘education materials and flowcharts explaining the links between the requirements’</i> (as suggested in the RFI), others were of the view that, given the standard has been applied for a number of years, the usefulness of such education materials would be limited at this stage of the process.</p>	<p>Noted mixed views on improving the understandability and accessibility of the Standard and did not recommend education materials.</p>	<p>Views were mixed: some stakeholders thought education materials and more illustrative examples might be helpful to improve understanding of specific areas of the standard, but most agreed with the UKEB draft position not to recommend further education materials.</p>	<p>Consistent with draft position.</p>

I. IFRS 15's overall assessment (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Views were mixed regarding the ongoing costs and benefits of applying the requirements in IFRS 15. Whilst we understand the ongoing costs of applying IFRS 15 in the telecommunications industry are significantly greater than expected for the benefits of the resulting information to users, ongoing costs are not significant for most companies given their relatively simpler business models.</p>	<p>Noted that stakeholders expressed the view that in some industries (e.g. telecommunications and aerospace) the ongoing costs of applying IFRS 15 continue to be significant.</p> <p>Highlighted a number of benefits for companies resulting from the implementation of IFRS 15 e.g. improved internal controls.</p>	<p>Consistent with initial outreach views were mixed.</p> <p>Some stakeholders noted significant ongoing costs are associated with large volumes of contracts or complex contracts and emerging business models.</p> <p>Other stakeholders noted that, whilst implementation was a costly exercise, the ongoing cost is not significant.</p>	<p>Consistent with the draft position but added text to clarify that views were mixed.</p>

2. Identifying performance obligations in a contract

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders noted that identifying performance obligations in a contract is an area of the Standard that involves significant judgement, in particular applying the concept of 'distinct' to determine whether a separate performance obligation exists.</p> <p>Overall, most stakeholders thought the guidance in the Standard is sufficient and the challenges raised result from the need to apply judgement to complex contracts.</p>	<p>Noted that overall IFRS 15 provides a clear and sufficient basis to identify performance obligations.</p> <p>Observed a number of challenges associated with identifying performance obligations for certain contracts, specifically identifying a 'distinct' good or service (or a bundle of services).</p>	<p>Consistent with initial views.</p>	<p>Updated draft position to clarify ongoing application challenges may occur when assessing "new types of contracts".</p>

3. Determining the transaction price

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Most stakeholders noted that IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract.</p>	<p>Noted that overall IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract. Noted that little feedback was received on this topic.</p>		<p>Updated draft position – see below</p>
<p>Little feedback on ‘consideration payable to a customer’.</p>	<p>Noted our outreach did not identify any specific concerns in relation to ‘consideration payable to a customer’</p>	<p>Further stakeholder feedback observed that the guidance on ‘consideration payable to a customer’ can be difficult to apply and recommend the IASB clarify the guidance to reduce diversity in practice. Particular examples provided were: (i) whether an amount payable to a customer, or to a customer’s customer in a multi-party transaction, (e.g. incentive payment) should be presented as part of revenue or should be reclassified and presented as an expense and (ii) whether the presentation of net ‘negative’ revenue should be part of revenue or expense.</p>	<p>Updated the draft position, suggesting clarification to the guidance on ‘consideration payable to a customer’ and presentation of ‘negative’ revenue, given the potential diversity in practice in this area.</p>

4. Determining when to recognise revenue

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders explained that it was challenging to make an initial assessment of whether revenue should be recognised over time or at a point in time, in particular in the software development and utility industries and for long term, developmental contracts or complex contracts.	Noted that significant judgement is required to identify whether control passes to the customer over time or at a point in time.	Consistent with initial views.	Enhanced the draft position to clarify one of the fact patterns.

5. Principal versus agent considerations

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders indicated that this area of the standard is inherently challenging and judgemental to apply in practice.</p> <p>Stakeholders noted the lack of indicators for identifying a principal relating to intangibles, such as media content, with ‘inventory risk’ being less relevant in intangible and service-based industries.</p>	<p>Noted that stakeholders clearly identified principal versus agent considerations as an area of IFRS 15 that is challenging and requires significant judgement.</p> <p>Recommended the IASB considers expanding the indicators of control in assessing if an entity is a principal, to cover indicators that are more relevant to services and intangibles.</p>	<p>Stakeholders suggested a certain paragraph in the Basis for Conclusions, on the Standard relating to the primacy of the assessment of the transfer of control principle, be incorporated in the Standard.</p> <p>Other stakeholders agreed with UKEB recommendation to expand the indicators of control.</p> <p>Some stakeholders noted that the current guidance should remain unchanged, raising concern on cost of changes for stakeholders and the risk of unintended consequences.</p>	<p>Clarified that the concerns noted in the draft positions around the indicators of control was the inadequacy of indicators relating to services and intangibles.</p> <p>Builds upon the draft position to expand the indicators.</p> <p>The final letter:</p> <ul style="list-style-type: none"> • provides two examples of possible additional indicators; • requests a certain paragraph in the Basis for Conclusions, on the primacy of the assessment of the transfer of control principle, be incorporated in the Standard.
<p>Some stakeholders were concerned that any changes to the requirements relating to principal versus agent consideration might result in companies reassessing their previous judgements.</p>			
<p>Some stakeholders indicated challenges in multi-party transactions (such as the gaming industry) in applying the requirements on principal versus agent considerations when ‘identifying the customer’.</p>	<p>‘Identifying the customer’ related to an application issue that was not included in the draft comment letter given that other stakeholders in our outreach did not comment on this issue.</p>	<p>One stakeholder noted challenges in multi-party transactions in the pharmaceuticals industry when ‘identifying the customer’ for some arrangements.</p>	<p>Consistent with draft position.</p>

6. Licensing

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders indicated that, whilst complex, overall 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.</p>	<p>Noted the Standard provides a clear and sufficient basis for accounting for contracts involving licences.</p> <p>Our outreach has not identified any fact patterns in which the requirements are unclear.</p>	<p>We observed a few application challenges, by the pharmaceutical sector, on transition to the Standard in applying the requirements for licensing. The challenges were in relation to the criteria to determine whether the nature of a licence is to provide a 'right to access' or a 'right to use' the entity's intellectual property.</p> <p>It was also noted that IFRS 15 has led to different accounting for economically the same transactions - sales-based royalties versus legal asset divestment.</p> <p>Other feedback suggested a lack of guidance on licence renewals and that minor amendments to the Standard may reduce some diversity in practice.</p>	<p>Consistent with the draft position, but we added that our attention has been drawn to some fact patterns which potentially could lead to different accounting practices, however in general we are not aware of any diversity in practice.</p> <p>Therefore, no amendments are proposed on licence renewals.</p>

7. Disclosure requirements

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Generally, stakeholders noted improvement in the usefulness of information disclosed about revenue under IFRS 15.	Noted that some stakeholders observed some improvement in the usefulness of information entities disclose about revenue after IFRS 15 was implemented.	Consistent with initial views	Consistent with draft position
Some stakeholders noted that some disclosures can be onerous to apply (e.g. the contract asset and contract liabilities reconciliation, and remaining performance obligations) and questioned the relevance of these disclosures to users.	This topic was not included in the draft comment letter given the usefulness of these disclosures for users.	Consistent with initial views	Consistent with draft position

8. Transition requirements

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders supported the choice in transition methods allowed under the Standard.</p> <p>Most preparers indicated they used the modified retrospective method, and that the practical expedients reduced the cost and burden of transition to IFRS 15.</p> <p>Some preparers indicated the full retrospective method was used given the availability of data.</p> <p>Users said a full retrospective method is always preferable for their analysis, but they did not express any concern with the modified retrospective method.</p>	<p>Noted that the modified retrospective method and practical expedients were commonly applied on the transition to IFRS 15.</p> <p>Noted that whilst users would prefer a full retrospective method, they did not have significant concerns with companies using the modified retrospective method.</p> <p>The transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers and providing useful information for users of financial statements.</p>	<p>Limited feedback on transition.</p>	<p>Consistent with draft position.</p>

9. Applying IFRS 15 with other IFRS Accounting Standards

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Limited feedback on interaction with other standards</p>	<p>Noted no significant issues on applying the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards.</p>	<p>Overall, stakeholders agreed with the UKEB draft position, but we note:</p>	<p>Consistent with draft position</p>
		<p>IFRS 3 <i>Business Combinations</i> Views were mixed: Some stakeholders supported convergence with recent changes to US GAAP to recognise, at the date of acquisition, contract assets acquired and contract liabilities assumed, based on the transaction price in IFRS 15, rather than fair value as required by IFRS 3. Other stakeholders questioned the conceptual basis for a different accounting treatment for revenue contracts when compared to the fair value requirements for other assets and liabilities in an acquisition.</p>	<p>Consistent with draft position However, we specifically note that our outreach did not identify any concerns in the UK with the current requirement to measure revenue contracts acquired at fair value on acquisition, despite the recent amendment to US GAAP requiring revenue contracts acquired in a business combination to be accounted for on acquisition at transaction price using the US GAAP equivalent revenue standard</p>
		<p>IFRS 10 <i>Consolidated Financial Statements</i> One stakeholder said there is diversity in practice as to whether IFRS 15 or IFRS 10 should be applied to account for a transaction in which an entity, as part of its ordinary activities, sells an asset by selling its equity interest in a single asset entity that is a subsidiary (the so-called “corporate wrapper” matter).</p>	<p>Consistent with draft position. [Whilst not noted in our response, the corporate wrapper matter was considered by the IASB when developing the PIR of IFRS 15. The IASB decided to assess the demand for resolving this matter in the next agenda consultation.]</p>
		<p>IFRS 16 <i>Leases</i> Stakeholders raised a few issues: assessing whether an arrangement consisting of different performance obligations results in a lease; assessing whether control has passed in relation to sale and leaseback transactions; assessing the unit of account when there are renewal options.</p>	<p>Consistent with draft position. [Whilst not noted in our response, these matters appear to relate to application issues for IFRS 16 and could be considered in the upcoming PIR of IFRS 16.]</p>

10. Convergence with Topic 606

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Some stakeholders commented on the importance of convergence with Topic 606 e.g. improved comparability of revenue recognition across entities, industries, jurisdictions and capital markets.</p> <p>A few stakeholders thought the IASB should consider amending IFRS 15 to converge with US GAAP only if the amendment would significantly improve consistency of application and the usefulness of the resulting information.</p>	<p>Recommended that the IASB and the FASB continue to work together to ensure that there are no significant differences between the two standards.</p>	<p>Stakeholders further emphasised the importance of convergence and supported the IASB working with FASB to ensure that IFRS 15 and Topic 606 remain substantially converged.</p>	<p>Consistent with draft position. Added paragraph and updated cover letter to emphasise that whilst not fully converged, the revenue standards are still substantially converged, despite recent changes to US GAAP.</p>

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's project responding to the IASB's Request for Information Post-implementation Review IFRS 15 *Revenue from Contracts with Customers* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

Contact Us

UK Endorsement Board

6th Floor | 10 South Colonnade |
London | E14 4PU | United Kingdom

contact@endorsement-board.uk

Web: www.endorsement-board.uk