

Draft Project Initiation Plan: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

Project Type	Influencing—Post-implementation Review
Project Scope	Moderate

Purpose

- A1. This paper sets out the plan to influence the IASB in relation to the Post-implementation Review (PIR) of IFRS 15 *Revenue from Contracts with Customers*. The associated IASB Request for Information (Rfi) is expected to be published in late June 2023.

Background

- A2. In May 2014 the IASB issued IFRS 15. The standard was effective for annual periods commencing on or after 1 January 2018. In April 2016 the IASB issued clarifications to IFRS 15 which became effective at the same time as the rest of the standard.
- A3. IFRS 15 replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.
- A4. IFRS 15 is largely converged with Topic 606 *Revenue from Contracts with Customers* issued at the same time by the US Financial Accounting Standards Board (FASB), except for some minor differences¹. The aim was to improve comparability in the ‘top line’ of the financial statements of companies globally.

¹ See Appendix A, pages 14-23 of [Paper AP6A](#) March 2023 IASB staff summary of the differences between IFRS 15 and Topic 606.

- A5. After IFRS 15 became effective, the IFRS Interpretation Committee discussed a number of application questions relating to IFRS 15 and published nine [agenda decisions](#) on the following matters:
- a) principal versus agent considerations in software distribution industry (May 2022);
 - b) accounting for training costs (March 2020);
 - c) compensation for delays or cancellations in airline industry (September 2019);
 - d) borrowing costs (March 2019) and costs to fulfil a construction contract (June 2019);
 - e) accounting for upfront listing fees (January 2019); and
 - f) real estate revenue accounting (three agenda decisions—March 2018).
- A6. The objective of the PIR is to consider the standard's core principle and the five-step revenue recognition model, including the benefits to users of financial statements and the costs for preparers.
- A7. In May 2023 the IASB approved the publication of the RfI for this project and expects to issue the RfI in late June 2023, with an expected comment deadline in late October 2023 (i.e. 120-day comment period).

IASB forthcoming Request for Information

- A8. Tentative decisions from the IASB March 2023² meeting suggest the RfI will include the following topics:
- a) IFRS 15 as a whole and convergence with the US Financial Accounting Standards Board's Topic 606, specifically:
 - i. whether IFRS 15 meets its overall objective;
 - ii. the clarity and suitability of the core principle of the standard and the five-step revenue recognition model for making revenue accounting decisions;
 - iii. suggestions for specific narrow-scope improvements for the IASB to consider that could improve the understandability of IFRS 15 without causing substantial cost and disruption to entities already applying

² The IASB March 2023 Agenda Papers and Meeting summary can be accessed here: <https://www.ifrs.org/news-and-events/calendar/2023/march/international-accounting-standards-board/>

- the standard;
- iv. feedback from the implementation of IFRS 15 for the IASB to consider in improving the understandability and accessibility of future standards;
 - v. the ongoing costs and benefits of applying the requirements in IFRS 15; and
 - vi. the importance of retaining convergence between IFRS 15 and the Financial Accounting Standards Board's Topic 606.
- b) The five steps of revenue recognition and related areas:
- i. Fact patterns in relation to which:
 - guidance on identifying performance obligations in a contract is applied inconsistently, leads to outcomes that do not reflect the underlying economic substance or leads to significant ongoing costs;
 - guidance on determining the timing of revenue recognition is unclear or may be applied inconsistently—particularly with respect to the criteria for recognising revenue over time;
 - guidance on determining whether an entity is a principal or an agent is unclear or may be applied inconsistently; and
 - guidance on accounting for licensing is unclear or may be applied inconsistently.
 - ii. Evidence of diversity in practice in determining the transaction price in a contract, specifically in relation to consideration payable to customers.
 - iii. Disclosure requirements, including the costs of meeting those requirements and the benefits of the resulting information to users of financial statements.
 - iv. Transition requirements:
 - whether the option to use the modified retrospective method and the practical transition reliefs offered by IFRS 15 were used by preparers of financial statements; and
 - whether they achieved an appropriate balance between reducing the cost and burden for preparers of financial statements and providing useful information to users of financial statements.

- v. Interaction with other IFRS Accounting Standards, specifically about the application of IFRS 15 alongside other IFRS Accounting Standards, focusing on:
- IFRS 3 *Business Combinations*;
 - IFRS 9 *Financial Instruments*; and
 - IFRS 16 *Leases*.

Initial research and stakeholder feedback

- A9. Our initial desk-based research indicates that the effect of applying IFRS 15 varies across sectors i.e. some sectors experienced significantly greater changes in recognition and measurement of revenue than others.
- A10. In anticipation of the IASB publishing the RfI later in June 2023, we have also commenced consultations with stakeholders, including members of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG), the Investor Advisory Group (IAG) and the Preparer Advisory Group (PAG) on this project³.
- A11. The feedback from these groups suggests that, overall, the requirements of IFRS 15 are working well, do not contain “fatal flaws” and represent an improvement on the previous revenue recognition requirements.
- A12. These groups identified some topics within the IFRS 15 requirements that nonetheless are causing concern (listed below), and where action following the PIR would be welcome. We will explore these topics further during outreach and ask stakeholders for suggestions on how the IASB could further improve the standard i.e. narrow-scope amendments or additional guidance. We plan to ask stakeholders for fact patterns in relation to the problem areas where the guidance is unclear or may be applied inconsistently.
- A13. It is possible that not all the issues identified in the RfI are of significant concern to UK stakeholders, which is likely to impact the areas of focus in the UKEB’s Comment Letter to the IASB.

³ We also contacted members of the Academic Advisory Group (AAG) by email to request any academic papers (published or working papers) that examine the implementation and application of IFRS 15, using data from UK companies.

- A14. The topics identified from initial desk-based research and discussion with UKEB Advisory Groups are:
- a) identifying the performance obligations in a contract;
 - b) determining the transaction price;
 - c) principal versus agent considerations;
 - d) licensing;
 - e) the application of IFRS 15 alongside IFRS 16 *Leases*;
 - f) the usefulness and cost of some of the disclosure requirements from a preparer perspective; and
 - g) inconsistencies in the presentation of information.
- A15. Further priority issues may emerge during the stakeholder consultation process for the project.

Identifying the performance obligations in a contract and recognising revenue

- A16. For some sectors, preparers find identifying performance obligations in a contract challenging because it involves significant judgement.

Determining the transaction price

- A17. There are a number of application matters related to determining the transaction price, in particular variable consideration. Some stakeholders have expressed concerns about applying the guidance on constraining estimates of variable consideration.

Principal versus agent considerations⁴

- A18. Auditors and preparers have raised concerns on the challenges related to accounting for contracts involving principal-agent considerations.
- A19. Some of the specific concerns raised by preparers include the significance and complexity of judgements involved on this topic. However, whilst there are challenges in this area, the initial assessment appears to be that there are no fatal flaws with the standard.

⁴ Paragraphs B34A-B38 of IFRS 15 provides the framework and requirements for principal versus agent considerations.

- A20. We note the IFRS Interpretation Committee's discussions in the Agenda Decision: [Principal versus Agent: Software Reseller \(IFRS 15 Revenue from Contracts with Customers\)](#) (May 2022) indicated that in the fact pattern the reseller would apply judgement in making its overall assessment of whether it is a principal or agent.

Licensing⁵

- A21. We are aware that some preparers find applying the guidance on licensing in IFRS 15 challenging. They consider that more guidance or illustrative examples on this topic would be useful, for example out-licensing⁶, license renewals or software as a service (SaaS). During the outreach phase of the project the project team will aim to gather more specific feedback from stakeholders on the circumstances in which entities face challenges in applying the IFRS 15 guidance for licensing and whether it merits improvement.

The application of IFRS 15 alongside IFRS 16 Leases

- A22. There appear to be some concerns amongst preparers on the interaction between IFRS 15 and IFRS 16, in particular the complexity on separating performance obligations and sale and leaseback transactions.

Disclosure requirements

- A23. As noted above, IFRS 15 was intended to provide more useful information through improved disclosure requirements.
- A24. We plan to seek further direction from users on disclosures, in particular on the use of some of the existing disclosures where preparers have indicated the cost of providing the information is onerous and where they perceive no clear benefits for users.
- A25. We plan to ask users whether they are still requesting any additional disclosures i.e. those not currently required by IFRS 15.

Inconsistencies in presentation of information

- A26. The project team intend to gather feedback from users on whether they have any concerns about inconsistencies in presenting information in the financial statements. For example, some companies present negative consideration⁷ as

⁵ Paragraphs B52-B62 of IFRS 15 provides the framework and requirements for licensing.

⁶ When a company (the licensor) grants another organisation (the licensee) the rights to use a developed product, technology or intellectual property for further development, production or marketing, and typically receives royalties, upfront fees or milestone payments from the licensee.

⁷ Negative consideration is when incentives payable to a customer exceed the amount of consideration expected to be received from the customer.

'negative revenue' whilst others present it as an expense and there appears to be inconsistency in the treatment of consideration payable to customers.

Project plan rationale

A27. The following considerations have shaped the project plan.

The threshold for change is high

A28. The IASB Due Process Handbook notes that there is no presumption that a PIR will lead to any changes to a standard⁸. The IASB website explains that, should the IASB decide to take action, only high priority matters would be actioned as soon as possible. Lower priority actions could be added to the research pipeline or considered in the next agenda consultation.

Stakeholder feedback to date suggests that the IFRS 15 requirements are broadly working well

A29. Feedback provided by the UKEB Advisory Groups to date indicates that IFRS 15 requirements do not contain any fatal flaws and are, broadly, working as intended. That feedback suggests that limited improvement is required in a small number of specific areas.

Implications for the project plan

A30. As noted in paragraph A28 above, the IASB's threshold for amending the standard as a result of this PIR is high and stakeholders are broadly satisfied that IFRS 15 requirements are working as intended. Further, the PIR is not intended to reopen debates previously considered or to identify and resolve every application question.

A31. Consequently, the work will focus on specific requirements of the standard where stakeholders have indicated that additional guidance would be helpful and that we consider the IASB could address effectively and efficiently.

A32. The project plan set out below is dependent on availability of Secretariat resource and Board time, and interaction with other live UKEB projects. If these factors lead to a material variation in the plan, a revised PIP would be submitted to the Board.

⁸ [IASB Due Process Handbook \(August 2020\)](#) paragraph 6.58.

Setting up an ad-hoc advisory group is not necessary

- A33. Given the scope and nature of the project, it is not considered necessary to set up a separate, ad-hoc advisory group as the existing UKEB Advisory Groups are well placed to provide feedback on this project.

Outreach

UK Stakeholders

- A34. In addition to the publication of the Draft Comment Letter (DCL) for general consultation, we propose to undertake a number of specific outreach activities as follows:
- a) Preparer roundtable(s) targeting those who are involved in the sectors most impacted by IFRS 15, in particular, aerospace and defence, construction, services, asset managers, life sciences, media & entertainment, real estate, software, telecommunications and retail.
 - b) Discussions with investors and other users focusing on sectors most impacted by IFRS 15.
- A35. We plan to promote the DCL via the UKEB Advisory Groups and via the usual media channels (LinkedIn, News Alerts).
- A36. We propose to supplement this outreach with desk-based research, including review of the FRC's analysis of IFRS 15 implementation contained in the Corporate Reporting Annual and Thematic reviews.

International Stakeholders

- A37. We plan to reach out to the EFRAG project team to understand the feedback from their stakeholders and identify any overlap with issues we are hearing from UK stakeholders. We may speak to other national standard setters should we become aware of areas of potential overlap.

Project milestones

A38. A proportionate approach is proposed, incorporating the mandatory milestones listed in paragraph 5.3 of the UKEB's Due Process Handbook (Handbook)⁹. The table below provides a brief description of the work we have done and what we intend to do as part of this project.

Milestone/activity	Brief description	Status
Influencing		
Technical project added to UKEB technical work plan (mandatory) [Handbook 4.30(b)iv]	Added to UKEB technical work plan.	Completed.
Board education session (optional) [Handbook 4.10]	The Board had an education session covering an overview of the requirements of IFRS 15, topics the forthcoming RfI will likely include and problem areas identified by desk-based research and initial outreach with stakeholders.	Completed at April 2023 private Board meeting.
Desk-based research (optional) [Handbook 5.9]	As part of preparatory work carried out the Secretariat is reviewing: <ul style="list-style-type: none"> • The IASB's work on the RfI (staff papers, draft RfI); • Accounting manuals and press releases for guidance and illustrative examples; • IFRS Interpretations Committee Agenda Decisions relating to IFRS 15; and • FRC thematic reviews of IFRS 15 disclosures undertaken in 2018, 2019, and 2020. 	In progress.

⁹ [UKEB Due Process Handbook \(December 2022\)](#)

Milestone/activity	Brief description	Status
<p>Outreach activities (mandatory) [Handbook 5.11]</p>	<p>We have already received feedback on IFRS 15 from the UKEB:</p> <ol style="list-style-type: none"> 1. Accounting Firms and Institutes Advisory Group (AFIAG) – 3 November 2022 2. Preparer Advisory Group (PAG) – 28 March 2023 	<p>Completed.</p>
	<p>We will consult the following UKEB Advisory Groups at upcoming meetings:</p> <ol style="list-style-type: none"> 1. Preparer Advisory Group (12 June 2023) 2. Investor Advisory Group (13 June 2023) 3. Rate-regulated Activities Technical Advisory Group (23 June 2023). <p>Once the RfI is published, we will ask for feedback from the Accounting Firms and Institutes Advisory Group (AFIAG) by email.</p> <p>In addition, we plan to:</p> <ul style="list-style-type: none"> - Hold discussions with the FRC to understand any issues from an enforcement perspective. - Update the project page on the UKEB website which will include a request for stakeholders to contact the project team if they have feedback. We will draw attention to this with UKEB News Alerts and LinkedIn posts. - Hold roundtable(s) with preparers. - Hold one-to-one interviews with users and preparers. 	<p>In progress.</p>
<p>Project Initiation Plan (mandatory) [Handbook 5.4 to 5.8]</p>	<p>This paper.</p>	<p>–</p>

Milestone/activity	Brief description	Status
<p>DCL published for comment (generally mandatory) [Handbook 5.13 to 5.17]</p>	<p>The Secretariat intends to present a DCL for comment and approval at the 13 July 2023 Board meeting. The DCL is expected to be published on Tuesday 18 July for 62 days' public consultation ending on Monday 18 September.</p>	<p>To be completed</p>
<p>Board meeting to agree Final Comment Letter (FCL)</p>	<p>The Secretariat intends to present a FCL for comment and approval at the October 2023 Board meeting.</p>	<p>To be completed</p>
<p>UKEB submission of FCL before IASB comment period ends (mandatory). [Handbook paragraph 5.18]</p>	<p>The IASB comment period is expected to end in late October 2023. Following UKEB discussion and approval, the FCL will be finalised and submitted to the IASB in time for the late October expected deadline. To consider further once the Rfl is published and the actual deadline is known.</p>	<p>To be completed</p>
<p>Project Closure Feedback statement and due process compliance statement for influencing stage of project (mandatory) [Handbook paragraphs 5.19 and 5.23]</p>	<p>The FCL will be presented at the UKEB 19 October 2023 meeting, the Secretariat will also present a draft Feedback Statement (FS) and draft Due Process Compliance Statement (DPCS) at that meeting (with final DPCS presented at the 16 November 2023 meeting for noting.). Following Board approval these will be published on the project webpage on the UKEB website¹⁰.</p>	<p>To be completed</p>

¹⁰ UKEB Due Process Hand Book notes in relation to the mandatory Feedback Statement paragraph 5.22 'A feedback statement is published on the UKEB website, usually at the same time as the final comment letter is submitted to the IASB and in relation to the mandatory Due process compliance statement in paragraph 5.24 that 'The (draft) due process compliance statement is initially presented to the Board along with the final comment letter and feedback statement for approval.'

Resources allocated

- A39. On the basis of this project plan, we consider that a project team consisting of one Project Director and one Project Manager, with technical support and oversight from a Senior Project Director, should ensure the project milestones are achievable.

Project timelines

- A40. We expect the RfI to be published in late June 2023 and the IASB comment deadline to be late October 2023.
- A41. The primary outreach for this project so far has been the UKEB advisory group meetings in November 2022, March 2023 and June 2023.
- A42. In July 2023, work will focus on considering the published RfI and whether any further feedback should be sought from other relevant stakeholder groups.
- A43. The expected project timelines shown below are based on the recommended approach i.e. presentation of the DCL at the UKEB meeting on 13 July and FCL at the UKEB meeting on 19 October 2023.

Timeline

Expected Dates	Milestone
3 November 2022	Outreach—UKEB Accounting Firms and Institutes Advisory Group (AFIAG)
27 April 2023	Board: education session
12 June 2023	Outreach—UKEB Preparer Advisory Group (PAG)
13 June 2023	Outreach—UKEB Investor Advisory Group (IAG)
22 June 2023	UKEB meeting—consideration of PIP
23 June 2023	Outreach—UKEB Rate-regulated Activities Technical Advisory Group
29 June 2023 (estimate)	IASB publishes Request for Information
June—July 2023	Further outreach as described in project milestones table in paragraph A38.
13 July 2023	UKEB meeting—consideration and approval of DCL
18 July—18 September 2023	External outreach on DCL (comment period 62 days)
19 October 2023	UKEB meeting: <ul style="list-style-type: none"> • consideration and approval of FCL • consideration and approval of FS • consideration and approval of DPCS
27 October 2023 (estimate)	UKEB FCL submitted to IASB
16 November 2023	UKEB meeting—Noting of completed DPCS