

# Invitation to Comment

## **Call for comments on the Request for Information–Post-implementation Review: IFRS 15 *Revenue from Contracts with Customers***

**Deadline for completion of this Invitation to Comment:**

**Close of business, Thursday 5 October 2023**

**Please submit to:**

**[UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)**

### **Introduction**

The objective of this Invitation to Comment is to obtain input from stakeholders on the UKEB's draft comment letter on the IASB's [Request for Information – Post-implementation Review: IFRS 15 \*Revenue from Contracts with Customers\*](#).

### **Who should respond to this Invitation to Comment?**

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS Accounting Standards.

### **How to respond to this Invitation to Comment**

Please download this document, answer any questions on which you would like to provide views, and return it to [UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk) by close of business on Thursday 5 October 2023.

**Brief responses to individual questions are welcome, as well as comprehensive responses to all questions.**

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## **Privacy and other policies**

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)<sup>1</sup>.

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

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<sup>1</sup> These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

## Questions

### Request for Information – Post-implementation Review: **IFRS** **15 Revenue from Contracts with Customers**

The UKEB’s draft comment letter includes five questions, as detailed below. In addition, the UKEB has three further questions:

1. Do stakeholders have examples where the ongoing application of the standard can require significant judgement and, as a result, outcomes may not be consistent, i.e. diversity in practice continues to exist?

Response:

Yes – for UK water utility companies significant judgment can be required in relation to revenues associated with activities required to develop (and maintain) a connection to the water/wastewater network. These judgements centre on who the contract is with (i.e. who is the customer?) and therefore to whom the performance obligations are owed. This has resulted in diversity in practice across the water sector, and consequently impacts the determination of when a performance obligation has been satisfied and thus the timing of when these revenues are recognised (i.e. at a single point in time or over time). The effect of these timing differences when quantifying the revenue to be recognised in a given period can be significant as the deferral period for those companies that recognise revenue over time can be several decades. This can therefore result in differences in presentation within the income statement and statement of financial position depending on the judgement made.

For example, in a water company that makes a judgment that the performance obligations relating to these activities are satisfied over time, the revenue recognised in the Income Statement in a given year could be c3% of annual revenue, with a deferral period of 60 years based on the period of time services are expected to be delivered through the connection. It would take around 60 years before the Income Statement impact of this revenue stream would equal the revenue recognised for the same revenue stream in a company that judges the performance obligation to be satisfied immediately at the point the connection is made. The company taking the deferral approach would build up a deferral balance on the balance sheet equivalent to around 80% of annual revenue at this point, while the company taking an immediate recognition approach would not present any deferral amount on its balance sheet.

2. Do stakeholders have examples where the ongoing application of the standard gives rise to significant costs?

Response:

3. Do stakeholders have examples in which the requirements for identifying performance obligations in a contract are unclear?

Response:

We consider that the drafting of paragraph A8 in the UKEB’s draft comment letter would benefit from adding “There were also challenges around those activities that do not involve a clear transfer of goods and services”.

Connecting a customer to a network is considered by some within the water sector to be a standalone performance obligation involving the transfer of services to a property developer as a distinct end customer, which is discharged at the point in time the connection is made. Preparers taking this view would consider that the connection activities represent a transfer of services that has a value to the developer as it increases the price at which they could sell the development.

Others take a different view of the customer to whom the performance obligations are owed, seeing it as the developer and subsequent occupants of the development on the basis that the connection itself (absent subsequent occupation and provision of goods and services through the connection) does not have any standalone value. This broader view of the customer results in the performance obligations being seen as the initial establishment of the connection and maintenance of that connection into the future so that goods and services can be provided through it, and therefore the performance obligation would be considered to be satisfied over a period of time to represent the subsequent usage of the connection by the occupant of the development. This usage period is generally a significant period of time and therefore the performance obligation would not be satisfied, and revenue would not be recognised, in full for a much longer period of time than the former view above.

IFRS 15 assumes that the customer with whom the entity has a contract should be clearly identifiable. While in most cases the customer will be self-evident, this is not always the case. For example, within the UK water sector contracts can be established by law and regulation rather than through a written agreement between two parties. Depending on judgements taken in identifying the customer(s), the performance obligations and therefore timing of revenue recognition can be very different. The deferral period for those taking a broader view of the customer can be several decades, for example, resulting in a very different presentation to those who recognise all of the revenue associated with these activities at a point in time.

While practice has settled within the water sector in this regard, diversity of practice remains in terms of the judgements taken. This results in diverse practice around the timing of revenue recognition for this kind of activity.

4. Do stakeholders have examples in which the requirements for constraining estimates of variable consideration are unclear?

Response:

5. Do stakeholders have examples in which the requirements for identifying a principal or agent are unclear?

Response:

6. Do you have any suggestions to improve the IFRS 15 requirements on significant issues impacting the UK?

Response:

7. The IASB's Request for Information<sup>2</sup> has the following questions:

- o Question 1 - Overall assessment of IFRS 15
  - a) In your view, has IFRS 15 achieved its objective? Why or why not?
  - 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?

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<sup>2</sup> See IASB's [Request for Information](#): Post-implementation Review of IFRS 15—*Revenue from Contracts with Customers*

- 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?
  - b) Do you have any suggestions for resolving the matters you have identified?
- 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?
  - b) Do you have any suggestions for resolving the matters you have identified?
- 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?
  - b) Do you have any suggestions for resolving the matters you have identified?
- 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?
  - b) Do you have any suggestions for resolving the matters you have identified?
- Question 6 – Licensing
  - a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences?- If not, why not?
  - b) Do you have any suggestions for resolving the matters you have identified?
- 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?
  - b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?
  - 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?

- Question 8 - Transition requirements
  - a) Did the transition requirements work as the IASB intended? Why or why not?
- 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?
  - b) Do you have any suggestions for resolving the matters you have identified?
- 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?
- 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 your views, responding to the above 11 RFI questions and, if possible, provide examples.

Response:

With regards to question 4 above, the diversity in practice noted within the UK water sector suggests that significant judgement can be required in determining whether revenue should be recognised over time or at a point in time. While the criteria included in IFRS 15 is clear, judgements around the nature of the customer(s) and performance obligation(s) can result in differences in the timing of revenue recognition for the same kind of activity.

For those in the UK water sector recognising revenue associated with connection activities over time, we recommend that the UKEB's comment letter provides more nuance in this regard. We suggest that in paragraph A13(b) the drafting be altered to say "services offered by water utility companies to property developers, for example, those associated with new connections to the water and wastewater network", and that the wording around the deferral period be reconsidered.

Saying that deferral of the recognition of revenue on connections over the useful economic life of the related assets brings to mind IFRIC 18 and the transfer of assets from customers (which IFRS 15 has now replaced), and the treatment of property, plant and equipment in accordance with IAS 16, whereas the deferral is based on the period of time over which performance obligations are expected to be satisfied opposite the occupants of developments that are connected to the network. Judgement is required in determining this period of time, and this can be linked to the life of the property, but this is not necessarily the "useful economic life of

the related asset”, which has connotations with the accounting lives of assets belonging to the entity.

### **Any Other Comments**

The UKEB welcomes any other feedback on its draft comment letter or on the IASB’s Request for Information.

8. Are there any other comments you would like to make on the IASB’s Post Implementation Review of IFRS 15 *Revenue from Contracts with Customers*?

Response:

**Thank you for completing this Invitation to Comment**

**Please submit this document**

**by close of business on Thursday 5 October 2023 to:**

**[UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)**