

From:	Working Group Leader of Revenues, Expenses, and others
Subject:	Post-implementation review of IFRS 15 Revenue from Contracts with Customers

Questions for respondents

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

[China]

We generally believe that IFRS 15 meets its objective, and its 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.

However, under IFRS 15, some requirements are not clear enough, and some guidance is absent or unclear, and the scope of IFRS 15 is not clearly distinct from that of other IFRS Accounting Standards. Please see our detailed responses to questions 2-11.

[Hong Kong]

We considered that IFRS 15 is an improvement on legacy IFRS and has achieved its objectives. The core principle of IFRS 15 and the five-step model are helpful in making revenue accounting decisions. However, there are certain aspects of the requirements that remain unclear, and additional guidance would be helpful in enhancing consistent application of the requirements. Please refer to our responses below for areas where additional guidance is needed.

[Korea]

Most stakeholders in our jurisdiction provided positive feedback on IFRS 15. In particular, they highlighted the positive impact on enhancing the comparability of financial reports across different countries and industries through the consistent application of a revenue recognition approach. They also pointed out that greater disclosure of disaggregated information enhanced users' understandability of companies' performances.

While academic research on this topic is limited, the feedback demonstrates that the introduction of IFRS 15 deters management's opportunistic accounting choice, because entities' level of abnormal sales figure and operating cashflow has decreased and value relevance of sales figure has increased since applying IFRS 15. This, in turn, enhances usefulness of sales information.

According to the preliminary views from accounting firms, even though there were implementation issues regarding certain transactions, they noted that IFRS 15 works well in practice as the IASB intended. They also mentioned that the five-step revenue recognition model is well-structured and does not possess any fatal flaws.

However, some respondents indicated that company's implementation costs increased in the early stages of applying IFRS 15. They also noted diversity in practice as IFRS 15 requires managements' judgement in various aspects*.

() There are implementation issues which require significant judgement by management. These issues include identifying performance obligations within a single contract, principal versus agent considerations, the nature of a license (a right to access versus a right to use),*

and the transfer of control. Also, some cases require preparers' judgement when determining the estimates of variable consideration and allocating the transaction price based on the stand-alone selling price.

Domestic research shows that prediction errors from analysts have increased since the introduction of IFRS 15. As a result, we can infer that stakeholders' understanding of IFRS 15 is relatively low in the early stage.

[Singapore]

Save for the comments under Questions 2–11, our stakeholders considered that IFRS 15 is generally working as intended in practice, and has achieved its objective. The five-step revenue recognition model and its accompanying application guidance are generally seen as a principles-based approach with requirements appropriate for most contracts with customers that can be applied to a wide range of transactions and industries; thereby, reducing the inconsistencies arising from the replaced IFRS 3 Accounting Standards which often resulted in different accounting for economically similar transactions.

In addition, our stakeholders considered that while there were initial challenges in applying the requirements in IFRS 15, and the related costs were high in particular industries, accounting practice has developed overtime and many aspects of IFRS 15 are now integrated into those entities' accounting systems and processes.

Overall, our stakeholders considered that the benefits of applying the requirements in IFRS 15 are expected to outweigh the ongoing costs. Nonetheless, our stakeholders have observed that IFRS 15 is a complex Standard that requires significant judgement and can be difficult for entities to apply. As a result, diversity in practice and/or application challenges have been observed for certain transactions (refer to Questions 2–11). To resolve the issues identified, our stakeholders suggested that the IASB could consider the use of flow charts, more application guidance and/or illustrative examples in certain areas of the requirements in IFRS 15 to promote consistent application across all entities.

[Sri Lanka]

In overall, we think that IFRS 15 achieves its goals. Its fundamental idea and the accompanying five-step revenue recognition model offer a solid and transparent foundation for revenue accounting choices that yield meaningful data regarding an entity's revenue from customer contracts.

However, it is noted that IFRS 15 is a complex standard that requires significant judgment and might be challenging for organizations to implement. Therefore, for some transactions, differences in practice and/or application issues have been noted. Thus, we propose that the IASB take into account the deliberation using additional application guidance and illustrative examples in specific areas of the standards in IFRS 15 to promote consistent application across

all entities in order to address the concerns that were observed. Please see our detailed responses to questions 2-11.

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?

[China]

For certain complex transactions, the applicable requirements under IFRS 15 are unclear. Specifically, it may be difficult to apply the guidance of “highly interdependent or highly interrelated”, “significant integration” specified in IFRS 15. For example, in software or telecommunication industry, the system integration service often includes hardware, software and related services. In practice, there are different views in whether the system integration service is a performance obligation as a whole or contains multiple performance obligations. We suggest the IASB adding guidance or illustrative examples.

The requirement of identifying performance obligations under IFRS 15 for particular transaction could not represent its economic substance and business model, and may not meet the benefit and cost trade-off, so we suggest the IASB making a further research on and solving these kinds of application matters. For example, if an entity acts as a principle, it provides transportation service to its customer after the control of the goods are transferred, and the transportation service will be identified a separate performance obligation and then revenue will be recognized after meeting other criteria. However, from an actual operating perspective, the purpose of providing transportation service is to support the sales of goods rather than earning transportation charges.

[Hong Kong]

Refer to Question 11.

[Korea]

Regarding identification of performance obligation in a contract, we noted that newly emerging businesses demonstrate significantly higher diversity in practice compared to traditional manufacturers. Most stakeholders require illustrative examples or guidelines for the following transactions:

- Gaming industry: It is difficult to determine whether the transfer of a software package that includes gaming software and an update, or a patch is a single performance obligation or separate performance obligations.
- Platform industry: For platform companies that sell goods or services provided by suppliers to end customers as agents, there are different views on who should be considered as customers (suppliers versus end customers).

[Singapore]

Our stakeholders considered that IFRS 15 generally provides a clear and sufficient basis that can assist entities in their identification of performance obligations. However, the assessment process can be complex and involves significant judgment, and our stakeholders continue to observe diversity in practice and/or application challenges in the following areas:

- (a) Distinguishing promises from activities that do not transfer a good or service: Our stakeholders noted that entities with economically similar transactions may reach 4 different conclusions on what should be identified as the specified good or service to the customer when a contract has several components that are combined, for example, arrangements that include marketing incentives or offers, prototypes, designs or tools.
- (b) Determining whether a promised good or service is distinct: Application challenges have been observed for licensing arrangements (refer to Question 6 for elaboration) and contracts where an e-commerce enabler—a company that provides customers with end-to-end solutions to operate their e-commerce business—transfers, in a single contract, to its customers a slew of services that may include supply chain management and fulfilment, customer service management and digital marketing.

Our stakeholders suggested that the IASB could consider providing more or updated guidance or illustrative examples that focused on fact patterns in these areas that could be helpful to assist entities in making their assessment, including incorporating additional guidance from the IFRS Interpretations Committee (IFRIC)'s January 2019 Agenda Decision on the assessment of promised goods or services.

[Sri Lanka]

The opinions expressed by stakeholders in the software sector state that the contracts entered are complex and that the finance teams often fail to fully understand such agreements. As a result, determining whether goods and/or services are distinct is challenging. This could be mostly seen in managed service solutions, setup activities, and projects (multiple interlink performance obligations) could all be examples of this.

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 (see Spotlight 3) 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?

[China]

For certain transactions, confusion may be caused in practice on how to apply the guidance in IFRS 15 about variable consideration and consideration payable to a customer, mainly including:

- (a) the estimation of variable consideration. Difficulties are generally faced in practice, which mainly include:
 - (i) about when to apply expected value method or the most likely amount method to estimate the transaction price, it is not clear enough in IFRS 15.
 - (ii) there is no clear guidance for the probability interval of “highly probable” in the constraining estimates of variable consideration.
 - (iii) when the expected value method is applied, it is usually difficult to judge whether the estimated results meet the requirements of constraining estimates of variable consideration.

These application matters are common in retail and consumer products, investment management entities and other entities that enter into contracts with customers involving

variable consideration, and we suggest the IASB making a further clarification and providing guidance or illustrative examples.

(b) whether the direct payment made by the entity acting as an agent to the end customer is within the scope of consideration payable to the customer. Accordingly, following questions are raised with different views, such as:

- (i) whether the end customer is the agent's customer.
- (ii) whether the agent should account for consideration payable to the customer as a reduction of the transaction price based on contracts, customer relationship, or business unit.
- (iii) if it is a negative amount after reduction, should it be presented as selling expense or "negative revenue", and this application matter becomes prevalent in online e-commerce platforms.

There are no clear requirements for these application matters and it leads to widespread controversy in practices. We suggest the IASB should conduct further research and provide guidance and examples.

[Hong Kong]

Marketing incentives to end customers

Our respondents shared the same comments as stated in spotlight 3 of the RFI that there is a lack of guidance in identifying an entity's customers when applying the requirements for consideration payable to a customer (CPC). Specifically, in three-way arrangements where an entity, acting as an agent, pays a marketing incentive to the principal's end customers, there are mixed views as to whether the reporting entity's (agent) customers include the principal's end customers outside the distribution chain, and therefore whether such marketing incentive would fall within the scope of CPC and be accounted for as a reduction of revenue.

On the one hand, the guidance in IFRS 15.70 seems to imply that CPC refers to payments to customers in the distribution chain only. On the other hand, BC255 mentions the concept of "customer's customer" and provides *an example* where an entity may sell a product to a dealer or distributor and subsequently pay a customer of that dealer or distributor. Some respondents considered that payments to customers of a distributor are only *an example* of a "customer's customer" and that the term "customer's customer" could be interpreted more broadly.

It is very common for an agent to provide incentives (e.g. coupons, cash rebates) to the principal's customers who are not purchasing the agent's goods or services (i.e. not in the distribution chain), e.g. a digital platform offers incentives to end customers who order food or taxi services through the platform. In many cases, these incentives are neither part of the contract with the principal nor a promise made explicitly or implicitly to the principal, although the principal may be aware of these incentives. It is not clear whether such incentives which are intended to increase the volume of transactions on which the agent earns its agency fee should be accounted for as CPC (i.e. reductions of revenue) or as marketing expense.

We noted that the Transition Resource Group (TRG) had made relevant discussions on this matter. In particular, TRG Agenda No. 44 paragraphs 14-15 discussed that an entity's customers include those in the distribution chain and may include a customer's customer outside the distribution chain. In light of the above, we recommend that the IASB further explore the TRG discussions to provide guidance on the factors to consider in identifying an entity's customers in relation to the requirements for CPC.

“Negative” revenue

Our respondents (most notably the banking industry) noted that there is a lack of guidance on how to account for CPC if it exceeds the amount of consideration expected to be received from the customer. For example, in the credit card business, it is common for banks to offer marketing incentives to cardholders, who are considered as customers by most banks. The amount of marketing incentives offered to the cardholders in one promotion campaign could exceed the revenue generated by the specific transactions in the campaign. Some entities present it as “negative” revenue while others reclassify that excess as an expense. Some entities also questioned whether “negative revenue” should be assessed on a customer basis instead of on a transaction basis given the business rationale for the incentives is to promote the cardholders' spending for the whole period of the credit card contract.

We noted that a similar question was previously raised in the IFRS Interpretations Committee (IC) *Agenda Decision on Compensation for Delays or Cancellations* regarding whether the amount of compensation recognized as a reduction of revenue is limited to reducing the transaction price to nil. However, the IC did not address this question. In this regard, we recommend the IASB clarify:

1. how to determine the unit of account for assessing whether there is negative revenue, for example, whether it is assessed on a transaction basis, customer basis or other basis; and
2. how should entities present the excess amount, whether as negative revenue or as an expense.

Determining amount of consideration to be recognized as a principal

Several respondents commented that it is challenging for the principal to estimate the amount being charged to end customers by an intermediary (i.e. agent) in determining the amount of consideration it recognizes. As a result, some entities have included an estimated amount in the consideration based on market observations (e.g. prices charged and discounts offered by platform operators in the market), while others have not done so due to practical difficulties, particularly in cases where discounts or rebates provided by the intermediaries are discretionary and dependent on negotiations with individual end customers, or the principal is dealing with multiple agents in different regions.

In addition, some entities consider that the intermediary acts as the agent of the end customer, and argue that the intermediary and the end customer are of “one customer group”. Consequently, they only recognize the amount received directly from the intermediary as revenue and do not estimate the amount received from end customers by the intermediary. This results in diversity in practice.

To address this issue, some respondents suggested the IASB consider:

1. providing a practical expedient for entities to exclude the amount that is not expected to be ultimately resolved (i.e. the difference between the amount to which the entity is entitled from the intermediary and the amount charged by the intermediary to the end customer) from the transaction price with reference to Topic 606¹; and
2. clarifying whether the argument of “customer group” justifies the accounting treatment.

We noted that this issue was considered by the IASB when it developed IFRS 15 (refer to BC385X-BC385Z). At that time, the IASB concluded that this issue was expected to affect a limited number of entities and contracts and so did not require any clarifications or additional guidance. Nevertheless, we noted that this issue is increasingly prevalent among the advertising and gaming industries where the advertising agencies or platform operators (i.e. the intermediaries) choose not to disclose to the principal how much they have received from end customers for commercial reasons. Therefore, the principal could only recognize the amount it expects to receive from the intermediary because it is difficult to estimate the amount paid by the end customers. In view of the practical challenges, we recommend the IASB consider our respondents’ suggestions as mentioned above to address this issue.

Non-cash consideration

Several respondents commented that non-cash considerations (including in some cases consideration payable to a customer), such as shares and warrants, are pervasive nowadays but there is a lack of guidance on the following areas:

Measurement date of non-cash consideration

Entities currently adopt different approaches regarding the measurement date of non-cash consideration. They measure it either at contract inception, when the non-cash consideration is received, or when the related performance obligation is satisfied. The timing difference between these dates may have a significant impact on the measurement of non-cash consideration.

We noted from BC254E that the IASB had considered this issue when it developed IFRS 15. The IASB acknowledged that IFRS 15 does not contain any specific requirements about the measurement date for non-cash consideration for revenue transactions. However, the IASB did not address this issue at that time considering that any practical effect of different measurement dates would arise in only limited circumstances.

Nevertheless, as noted from our outreach activities, non-cash considerations have become increasingly common after IFRS 15 became effective and their impact could be significant, particularly in light of the current volatile economic landscape. We consider that the

¹ [BC38\(c\) of Accounting Standards Update No.2016-08](#) states that when the uncertainty in the transaction price is not expected to be ultimately resolved, the difference between the amount to which the entity is entitled from the intermediary and the amount charged by the intermediary to the end customer is not variable consideration and, therefore, is not part of the entity’s transaction price.

requirement of Topic 606, which requires entities to measure non-cash consideration at contract inception, is consistent with the requirements in IFRS 15 for determining the significant financing component in the transaction price (IFRS 15.64) and for allocating the transaction price to performance obligations based on stand-alone selling prices (IFRS 15.76), and is less complex to apply in practice. Therefore, we recommend the IASB provide guidance on this matter with reference to Topic 606 which would also enhance convergence therewith.

Subsequent changes in measurement of non-cash consideration

There is diversity in practice in the accounting for subsequent changes in measurement of non-cash consideration, specifically whether it should be accounted for as variable consideration under IFRS 15, or under other applicable IFRS Accounting Standards, such as IFRS 9 *Financial Instruments*.

IFRS 15.68 states that the variable consideration requirements in IFRS 15.56-58 are applied if the fair value of the non-cash consideration varies for reasons other than only the form of the consideration. It is well understood that changes in the fair value of non-cash consideration that are due to the form of the consideration are not subject to the constraint on variable consideration. Non-cash consideration that is variable for reasons other than the form of the consideration is included in the transaction price and is subject to the constraint on variable consideration. However, it is not clear whether the variable consideration requirements apply in circumstances where the change relates to both the form of consideration and other reasons.

We noted that the TRG (TRG Agenda No.25 Topic 4 paragraphs 25-28) had discussed this issue and Topic 606 specifies that the constraint on variable consideration applies only to variability in the fair value of the non-cash consideration that arises after contract inception for reasons other than the form of the consideration.

We acknowledge that determining how to allocate fair value changes between those due to the form of the consideration and changes for other reasons could be challenging in practice. In this regard, we recommend the IASB provide guidance on how to account for the change relates to both the form of consideration and other reasons, with reference to the TRG discussions and Topic 606, and expand its existing Example 31 on non-cash consideration in IFRS 15 to illustrate the relevant requirements.

[Korea]

In terms of ‘constraining estimates of variable consideration’, IFRS 15 only provides principles of preventing excessive revenue recognition. This results in diversity in practice regarding the application of estimation method. Stakeholders highlighted that additional guidance is necessary in relation to the term ‘to the extent that it is *highly probable* that a *significant* reversal in the amount of cumulative revenue recognized’ in paragraph 56.

Also, stakeholders suggested that there are no relevant requirements or guidance on the ‘negative net consideration’ leading to diversity in practice, and that additional guidance or examples should be provided.

- [Platform business] There are several cases where the amount of consideration payable to a customer exceeds the amount of consideration expected to be received from the customer.

(View 1) Subtract from total revenue.

(View 2) Subtract from the relevant revenue, and if no relevant revenue exists, account as an expense.

[Singapore]

Overall, our stakeholders believe that IFRS 15 provides helpful guidance for entities to determine the transaction price. However, there are particular aspects of the transaction price that can be more challenging to assess, and areas which our stakeholders observed are as follows:

Consideration payable to a customer

With respect to the issues highlighted in Spotlight 3 of the RFI, our stakeholders shared similar feedback to those received by the IASB. Diversity in practice has been observed in how entities accounted for marketing incentives to the end customer, whether as 5 reductions of revenue or marketing expenses, and for negative net consideration, how to account for the ‘negative’ revenue or should it be reclassified as an expense.

There are also application challenges observed for contracts with customers, for example, in the fintech industry, where share-based payments are issued as sales incentives to customers (share-based sales incentives) on top of the consideration receivable from customers in exchange for goods or services provided. While the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) 2018-07 and 2019-08 that contained specific provisions to address such transactions, there is no explicit guidance in IFRS Accounting Standards to address share-based sales incentives.

Barter transactions are observed to be more common in recent years. While paragraph 5(d) of IFRS 15 scopes out non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers, other types of barter transactions are not explicitly addressed by IFRS 15. Significant judgement would often be required to determine the transaction price and other areas such as nature of promises and involvement of collaborations. Determining whether the entity will obtain control of the promised goods or services transferred or any non-cash consideration, and the fair value of any non-cash consideration, which is required in order to recognise revenue in the barter transaction, can be challenging.

Variable consideration

IFRS 15 constrains the amount of revenue that can be recognised from variable consideration to the amount that is highly probable of not being reversed. Our stakeholders feedbacked that they observed diversity in practice and/or application challenges in assessing the criteria “highly probable of not being reversed”, particularly where the variable consideration is subject to uncertainties arising from factors that are not within the control of the entity and/or its customer. Examples include:

- (a) Trailing commissions in the asset management sector where fees are calculated as a percentage of the value of investments in a fund.
- (b) Long-term contracts with variable payments, for example, based on throughput, resulting in estimation uncertainty that extends over several years. Such contracts are common in the (i) midstream sector of the oil and gas industry which covers transportation, storage and trading of crude oil, natural gas and refined products, and (ii) SaaS (Software as a Service, a cloud-based delivery model) contract.

Significant financing component

IFRS 15 states that if there is a significant financing component included in the consideration, that would need to be adjusted for implicit financing. Our stakeholders provided feedback that they faced the following application challenges:

- (a) Long-term contracts where non-cash consideration is received upfront from the customer: It is not clear in such circumstances, whether a significant financing component exists, how to determine the significant financing component, and at which point to base the measurement of the non-cash consideration. BC254B to BC254E of the Basis for Conclusions of IFRS 15 discussed the IASB’s rationale not to prescribe the measurement date for non-cash consideration for revenue transactions. Accordingly, it is open to interpretation that the measurement date could be either (i) at contract inception, (ii) when the non-cash consideration is received, or (iii) at the earlier of when the non-cash consideration is received and when the related performance obligation is satisfied. In contrast, US GAAP prescribes the measurement date to be (i).

If a significant financing component is deemed to exist in such contracts, it is not clear whether the discount rate for the significant financing component should follow paragraph 64 of IFRS 15, i.e. the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception, or should be based on a rate that reflects the features of the non-cash consideration.

- (b) Change in timing of delivery of goods or services: Often observed in long-term contracts when there is a change in timing of delivery, IFRS 15 is unclear in situations in which expectations change after contract inception, for example, if the change was at the discretion of the customer or due to circumstances that were not foreseen at contract inception. Under such circumstances, it is unclear whether the discount rate for

the significant financing component should be revised, or remain constant with revision to the allocated consideration between interest and transaction price.

Even though our stakeholders considered that the basis to determine the transaction price in a contract in IFRS 15 is generally an improvement from the previous IFRS Accounting Standards, the diversity in practice arising from the lack of explicit guidance on the fact patterns in the above observations prompted our stakeholders to suggest that the IASB could consider providing more application guidance and/or illustrative examples, or undertake narrow scope amendment projects to address the above observations.

[Sri Lanka]

Overall, stakeholders believe that IFRS 15 provides helpful guidance for entities to determine the transaction price. However, there are particular aspects of the transaction price that can be more challenging to assess:

- IFRS 15 was not necessarily clear on how to account for consideration payable to a customer when it exceeds the amount of consideration expected to be received from the customer (Negative Revenue) and led to have diversity in practice across the industry. Thus, we suggest providing additional guidance for this regard.
- There is a difficulty experienced in the software industry to determine stand-alone selling prices when bespoke contracts with multiple deliveries that have tier-level pricing.

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 (see Spotlight 4). 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?

[China]

For determining when to recognize revenue, the following requirements are unclear and inadequate or their resulting accounting information is not comparable. We suggest the IASB should conduct further research and provide guidance and examples:

- (a) there is confusion in practice about how to apply the paragraph 35(b) of IFRS 15, namely whether the customer can control the output generated from the design activities, which are carried out by the entity on its own site.
- (b) the judgment when applying the paragraph 35(c) of IFRS 15 often involves legal practice and legal precedents. Due to different laws and regulations in different jurisdictions, it might lead to different conclusions in the judgment of similar transactions, thus affect the comparability of revenue in certain business.
- (c) for the performance obligation which is satisfied over time, paragraph 41 of IFRS 15 requires entities to apply appropriate method to measure progress. However, guidance on “appropriate method” is limited and there are different understandings in practice, which might lead to different methods applied for measuring the progress for similar transactions, thereby reduce the comparability of financial information.

The above application matters are common in engineering and construction, automobile and spare parts manufacturing, equipment manufacturing, software, design, consulting and other industries.

[Hong Kong]

We considered that there is a lack of guidance in determining the timing of revenue recognition for an agent when the end customer has an unconditional right to return the goods or services facilitated by the agent. If the end customer exercises the right of return, the agent would not be entitled to any commission. It is not clear whether the agent can apply IFRS 15.B21 to treat the contingent commission as variable consideration or it should recognize the commission revenue only when the right of return expires. Accordingly, we recommend the IASB provide clarification on the timing of revenue recognition by an agent when the end customer has a right of return.

[Korea]

Stakeholders suggested that additional guidance or illustrative examples are necessary in some cases.

- When entities apply input methods in accordance with IFRS 15 paragraph B19(b), the terms ‘the cost of the transferred good is *significant*’ and ‘the entity procures the good from a third party and is not *significantly* involved’ are unclear. Stakeholders request additional guidance on the meaning of ‘significance’ within the paragraph.
- Companies are facing difficulties in determining when control of raw materials is transferred in relation to external processing contracts.

The ordering companies are not exposed to the ‘risks and benefits’ of the raw materials after selling them to the external processors. External processors have a discretion to dispose the raw materials and are responsible for management (incl. obsolescence) of them. However, they do not have the ability to make other products from the raw materials and there is no market for those materials. In this case, there

are different views on whether control of the raw materials is transferred to the external processors when they are sold.

[Singapore]

Our stakeholders considered that IFRS 15 generally provides a clear and sufficient basis to determine when to recognise revenue, and that the IFRIC's agenda decisions on assessing whether performance obligations are satisfied over time are informative for assessment at the contract inception date.

However, determining whether control is transferred over time or at a point in time is inherently judgemental, and our stakeholders have identified the following aspects of revenue recognition where there are application challenges and/or diversity in practice:

- (a) Application challenges have been observed in selecting a single measure of progress that appropriately depicts progress towards complete satisfaction of a performance obligation. This is particularly when an entity uses an input method based on costs incurred and the costs (such as land costs) are either disproportionate to the satisfaction of performance obligations, or subject to volatility caused by external factors (such as foreign exchange rates or commodity prices).
- (b) There is diversity in practice noted in revenue recognition over time or point in time in the hospitality industry, specifically on revenue from providing accommodation. Some entities took the view that such revenue should be recognised over time as it meets the criterion in paragraph 35(a) of IFRS 15, where the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. Conversely, other entities recognised such revenue at a point in time based on room occupancy.
- (c) Assessing the point in time at which control of shipped goods transfers to the customer requires significant judgement and can lead to diverse outcomes in practice. Additionally, the interrelationship with identifying performance obligations—shipping transactions may include elements which may be deemed to be provision of additional services—requires additional judgement to identify the separate distinct services for each identified performance obligations. This issue can be further compounded when there are more than two parties involved in the transaction and the entity needs to determine whether it is the principal or agent in relation to shipping the goods.
- (d) The assessment of when control transfers to a customer when there is a right to repurchase remains challenging despite the application guidance being available. ⁸ This is particularly so for fungible items such as crypto assets and commodities, which are priced at fair value, and conditional repurchase agreements. Significant judgement is required in determining whether a customer has obtained control in the initial transaction as the obligation or right to purchase an asset needs to exist at contract

inception. Any subsequent decision to repurchase the asset does not affect the customer's ability to control the asset upon initial transfer.

- (e) There is diversity in practice observed for the recognition of revenue from longterm contracts with customers that involve fixed consideration but with variable quantity of goods to be transferred. For example, a carbon offset project with a project life of 20 years that consists of a fixed consideration with varying number of carbon credits generated annually. It is unclear in the Standard whether revenue should be recognised on a straight-line basis over the contract term (using Illustrative Example 18 of IFRS 15), or in a manner consistent to customer loyalty programmes (Illustrative example 52 of IFRS 15) whereby revenue recognised to date is based on the proportion of actual number of goods transferred to date over the total expected number of goods that will be transferred as at that date.

To address these matters, our stakeholders suggested that the IASB could consider adding application guidance and/or illustrative examples with fact patterns similar to the observations above.

[Sri Lanka]

Overall, we believe that IFRS 15 provides a clear and sufficient basis to determine when to recognise revenue and the standard clearly sets out the circumstances in when revenue should be recognised over time or at a point in time.

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 (see Spotlight 5).

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?

[China]

Principal versus agent considerations in IFRS 15 generally could guide practices, but the following requirements are unclear and inadequate:

- (a) although IFRS 15 provides more specific guidance on this matter than the previous revenue requirements, discrepancy still exists in judgments on certain transactions. For example, when an entity in the business of processing receives raw materials from a customer, the entity delivers in advance to the customer agreed amount of homogeneous finished products which are produced with the entities' own homogeneous raw materials, and after that the entity receives raw materials from the customer. There are different views in practice whether the entity is a principal in selling goods, or only recognizes revenue upon the processing service fee. Other examples like transactions through online e-commerce platforms, internet advertising marketing services, consumer goods and retail, trading, etc., and it is still difficult to judge. We suggest the IASB providing more guidance and examples for the sectors above.
- (b) paragraph BC385Z of the Basis for Conclusions on IFRS 15, requires that when an entity that is a principal is unaware of the amount charged by an intermediary that is an agent to the end customer, the entity would generally be expected to apply judgment and determine the consideration to which it is entitled using all relevant facts and circumstances available to it. This requirement is not very feasible in practice. However, the guidance seems more expedient under US GAAP (paragraph BC38 of ASC 606), i.e. the amount charged by the intermediary to the end customer is not variable consideration and, therefore, is not part of the entity's transaction price, thus the entity should recognize revenue upon the amount charges to the intermediary. This application matter is common in transactions in the telecommunications, airlines, online gaming industry, etc. that involve intermediaries such as distributors, and arises after the implementation of IFRS 15. We suggest the IASB making a narrow scope amendment to IFRS 15 referring to US GAAP.
- (c) under specific situations, principal versus agent considerations in IFRS 15 could not guide an entity' accounting treatments. A few stakeholders suggest the IASB make a further research on 'The entity has discretion in supplier selection' to decide whether it could be as an indicator to determine principal versus agent referring to previous US GAAP (ASC 605-45-45), and provide guidance and example.

[Hong Kong]

Our respondents noted that entities often assess whether they are a principal or an agent based solely on the indicators in IFRS 15.B37 and overlook the concept of control. They also commented that it is judgmental and challenging in applying IFRS 15.B34A in assessing whether an entity controls the specified good or service before that good or service is transferred to the customer in the following cases:

1. transactions involving intangibles or non-physical items in which the entity does not have physical possession of the goods, e.g. online games, mobile applications and digital e-books are sold to end customers through online retailers.
2. "flash title" contracts, e.g. the reporting entity contracts with a supplier to provide goods or services through the reporting entity's sales channels to its customers; or where the legal

title/ownership of the goods vests in a trading company for a very short time (such as a few hours or a day) before the goods are transferred to the end customers; and

3. provision of services, e.g. online car hailing platform where the entity does not bear any front-end inventory risk (i.e. no commitment to buy, no advance payment or no prepaid deposit before a customer places an order).

We agree that transactions involving intangibles or non-physical items, as well as provision of services, are widespread. We also acknowledge that the indicators in IFRS 15.B37 are more applicable to physical goods. Considering that the assessment of principal versus agent has been a long-standing issue, and that new forms of operation, such as digital platforms, have introduced additional challenges, we strongly recommend the IASB:

1. incorporate the key messages in BC385H into the body of the Standard to emphasize that the indicators in IFRS 15.B37 were included to support an entity's assessment of whether it controls a specified good or service before transfer but they should not override the assessment of control.
2. add other indicators in IFRS 15.B37 to help entities perform the assessment. These indicators include the discretion of an entity in supplier selection or the involvement of the entity in the determination of product or service specifications. We consider that these indicators are helpful in explaining further the existing indicator of "primarily responsible for fulfilling the promise" in IFRS 15.B37(a). For transactions involving non-physical goods or services, the commitment of an entity to pay for certain services or non-refundable advance payments made to the suppliers may also indicate that the entity is exposed to certain risks before the specified service or good is transferred to a customer.
3. provide illustrative examples on the aforementioned fact patterns in assessing the concept of control. In particular, in relation to "flash title" contracts, IFRS 15.B35 states that an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. We suggest the IASB incorporate this guidance when it develops illustrative examples on "flash title" contracts.

[Korea]

There are various fact patterns related to principal versus agent in practice and thus cases often arise where it is difficult to make judgement solely based on the guidance on principal versus agent in the current standard.

The platform industry is a case in point. When goods are delivered directly from the supplier to the customer, it is difficult to judge whether the platform company is the principal or the agent.

Moreover, stakeholders require clarification on transactions that do not involve physical goods, and on business models with little inventory and credit risks (i.e., when publishers or e-commerce platforms sell e-books to customers).

Lastly, some stakeholders expressed differing views about who should be judged as a 'principle', when 'shipping and handling activities that occur after the transfer of control to the

customer' are accounted for as separate performance obligations (i.e., goods and service providers versus end customers).

[Singapore]

Most of our stakeholders raised concerns on the principal versus agent considerations, especially in business models such as e-commerce. Despite IFRS 15 providing a basis for principal versus agent considerations and the IFRIC's May 2022 agenda decision on whether a reseller of software licences is a principal or agent, our stakeholders shared that determining whether an entity is a principal or an agent remains challenging. The assessment is made more challenging by the deliverables of transactions shifting away from physical goods to intangibles and services globally as illustrated in (a) below.

Diversity in practice is observed mainly because different conclusions are reached depending on the weightage given to the indicators in paragraph B37 of IFRS 15, namely, (i) primary responsibility for fulfilment, (ii) inventory risk, and (iii) discretion in establishing the price. Our stakeholders shared the following examples where diversity in practice is observed:

- (a) In fintech and technology-based industries, where for each transaction, entities may use multiple technological platforms as intermediaries for the provision of services or distribution of virtual goods. Due to the volume of the various parties involved and the lack of contractual relationships among those parties, entities struggle to accurately classify whether they and their intermediaries are principals or agents in the transactions using the indicators in paragraph B37 of IFRS 15 since inventory risk, one of the indicators, is less relevant, and different conclusions can be arrived at depending on what additional indicators not listed in paragraph B37 are considered, and which indicator is prioritised to assess who has control.
- (b) Back-to-back contracts are increasingly common due to the growth of the ecommerce industry, where a selling entity can either obtain momentary possession of a good before passing it to the end customer, or instruct the supplier to ship the good directly to the end customer (i.e. does not have possession of the good at all). Although paragraph B35 of IFRS 15 states that an entity does not necessarily control a specified good if the entity obtains only momentary legal title (flash title), there is a lack of explicit guidance in this area. Consequently, entities may arrive at different conclusions for economically similar back-to-back transactions due to different weightage being assigned to the indicators in paragraph B37 of IFRS 15 when assessing whether control is transferred.
- (c) In the healthcare industry, where there are multiple parties providing goods or services that are involved in a transaction, typically all (or substantially all) the economic risk could be borne by one entity. It is unclear whether that entity is the principal in the transaction while all other parties involved are agents based on the economic risk factor.

- (d) For transactions where the local subsidiary of an overseas parent company acts as the local distribution arm of its group, there is diversity in practice observed for whether the local subsidiary, being the contracting party, should be deemed as the principal by some entities that assessed the transaction from a legal viewpoint, while others could apply the indicators in paragraph B37 of IFRS 15 and concluded that the local subsidiary was an agent of its overseas parent company and/or overseas sister companies.

Our stakeholders suggested that the IASB could consider providing more application guidance on the principal versus agent assessment. This could be achieved by 10 providing flow charts that demonstrate the thought process in considering the different indicators to reach a consistent conclusion on whether the entity is a principal or agent, or having more illustrative examples on how to apply the indicators in paragraph B37 of IFRS 15 to deal with those mixed or ambiguous outcomes.

[Sri Lanka]

Our stakeholders requested to provide additional guidance on the following area covering better explanation of the control concept and emphasising that control test needs to be considered first before any indicators.

- Incentives provided to the customer when agent is involved.
- Interchange agreements (financial institutions and card merchants)
- Loyalty programs with a third party involved.
- On-sold services in back to back arrangements.

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.

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?

[China]

IFRS 15 generally provides a clear and sufficient basis for accounting for contracts involving licenses, but it is unclear for a renewal of a license contract. Specifically, for a renewal of a license contract which is accounted as a performance obligation satisfied at a point in time, an entity shall recognize revenue at the inception of the renewal or when the agreements on the renewal is reached, which is not specified in IFRS 15. This application matter is prevalent in standardized software license and film and television license, and the resulting accounting outcome has a significant impact on financial ratios.

We notice that Financial Accounting Standards Board (FASB) made an amendment to its revenue accounting standard for license (ASC 606-10-55-58C) and clarified that for a renewal of a license contract which is accounted as a performance obligation satisfied at a point in time, an entity shall recognize revenue at the inception of the renewal. We suggest the IASB clarifying this application matter referring to US GAAP.

[Hong Kong]

Accounting for licence renewals

We noted that there is diversity in practice in the timing of revenue recognition for licence renewals. Some entities recognize revenue when the renewal period starts, while others recognize revenue when the renewal is agreed upon based on the justification that the customer already controls the license, and renewing it merely changes an attribute of the license that has already been transferred to the customer previously. So entities recognize revenue for the licence renewals when the renewal is agreed upon.

Though the issue of licence renewals are not common in Hong Kong and Mainland China, we suggest the IASB consider providing guidance on the timing of revenue recognition for licence renewals by making reference to Topic 606, which requires entities to recognize revenue no earlier than the beginning of the renewal period, to address the diversity in practice and enhance convergence with Topic 606.

Sales-based or usage-based royalty exception

We noted that IFRS 15.B63 does not specify whether the sales-or usage-based royalty exception is applicable to the principal only or to both the principal and the agent. Accordingly, we recommend the IASB clarify whether an agent can apply the sales-or usage-based royalty exception in IFRS 15.B63 in recognizing its sales-or usage-based commission, and if so, under what circumstances an agent can apply the exception.

[Korea]

It is difficult to judge whether distinct goods or services are provided in a licence agreement.

When a company transfers a licence to a customer and provides the customer with other promised goods or services (e.g., R&D services), it is difficult to judge whether the transfer of licence and other promised goods or services are a single performance obligation or separate performance obligations.

In particular, there have been many inquiries from the pharmaceutical and bio industries about what fact patterns or indicators should be considered in practice when making judgement about whether granting a licence for a medicine and transferring other promised goods or services are separate performance obligations.

- (Case 1) Company A grants Company B a licence for a certain medicine and performs a service of carrying out a phase 3 clinical trial for the medicine.
- (Case 2) Company C grants Company D a licence for a candidate material for a certain medicine and performs an additional service of developing the final medicine.
- (Case 3) Company E grants Company F an ‘exclusive sales right’ for a certain finished product and has an obligation to manufacture the medicine.

Furthermore, there are difficulties distinguishing the nature of licensing, whether they are classified as right to access or right to use. For instance, stakeholders require additional guidance on transferring IP with an update or an assistance service.

Lastly, some questioned whether or not contracts are licensing in the following cases:

- Transferring the exclusive right to sell in a particular territory including a performance obligation to supply the medicine, but not the technology related to the medicine.
- Company A transfers an exclusive right to manufacture the medicine under development to Company B. The right to sell belongs to Company A. If Company A obtains regulatory approvals, Company B will get the exclusive right to manufacture and supply the medicine.

[Singapore]

Our stakeholders generally considered that IFRS 15 provides a clear and sufficient basis for the accounting of contracts involving licences. However, as licensing of intellectual property often relates to business models with complex scenarios requiring significant judgement, diversity in practice and/or application challenges have been observed by our stakeholders in the following areas:

- (a) In arrangements that involve licences of core intellectual property such as a game, base software or a formula, where the licensor will further develop aspects of the intellectual property such as game characters, functionality, branding or adaptations that will not simply update or add on to the core intellectual property, assessment of whether there is one or more performance obligations can be challenging.

- (b) Unlike US GAAP which specifies that an entity cannot recognise revenue from the renewal of a license of intellectual property until the beginning of the renewal period, IFRS 15 does not contain a similar requirement. Some entities recognised revenue for the renewal when the renewal was agreed on the basis that the renewal was a modification of the existing contract in which the licence had already been delivered, while others recognised revenue when the renewal period started on the basis that the customer could only use and benefit from the renewal on that date. Determining the appropriate accounting treatment could be further complicated when the scope of the contract was amended during the renewal.
- (c) IFRS 15 does not explicitly address situations where there is an option to revoke the licensing rights that exist at the contract inception or due to a modification, and 11 significant judgement is often required to determine the accounting treatment. For example, a contract for an on-site software licence might include an option that allows the customer to migrate the on-site software to SaaS or hybrid cloud computing arrangement, causing the on-site licence to be revoked.

Our stakeholders suggested that the IASB could consider providing guidance or clarifying the accounting treatment to address the above areas.

[Sri Lanka]

As per our stakeholders, Licensing arrangements that include renewals and modifications are complex. Thus, it required to provide further guidance to clarify assessment of a license being distinct within the context of the contract.

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?**

[China]

The disclosure requirements in IFRS 15 generally result in entities providing useful information to users of financial statements, and helping users understand the pattern an entity recognizes revenue from contracts with customers. However, some disclosure requirements are involved significant judgment and estimate, and there exists difficulty in practice. Some disclosures become formalistic and contain few information content, and we suggest the IASB adding examples for disclosure to guide an entity conduct a better information disclosure. Topics include but are not limited to the following: principal versus agent considerations, variable consideration, and the stand-alone selling prices when allocating the transaction price to performance obligations.

[Hong Kong]

No comment.

[Korea]

In general, expanded disclosure requirements provide useful information to users of financial statements, even though preparers had gone through difficulties during the initial stage of IFRS 15 implementation. Specifically, there were issues in relation to reflecting the forward-looking information for the estimation and, for non-financial companies, collecting past transaction data.

[Singapore]

Our stakeholders generally considered that the disclosure requirements in IFRS 15 are more comprehensive than those in the previous IFRS Accounting Standards, resulting in more useful information that is provided to users of financial statements (users). However, some stakeholders felt that the disclosure requirements in IFRS 15 have resulted in some entities adopting a ‘checklist’ approach—information disclosed was based on the examples of categories listed in IFRS 15 instead of being tailored to the respective entities.

[Sri Lanka]

As per our stakeholders, the disclosures required by the standard are substantially informative and provide more transparent information about the different revenue streams generated by an entity compared to IAS 18, as well as enhance the comparability between entities. Thus, the increased disclosure requirements are regarded as reasonable and well balances. However, in the banking industry, revenue disclosure by segment can result in irrelevant information as it is not disaggregated with the right focus for users.

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 retrospective 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.

[China]

According to our outreach activities, most stakeholders choose the modified transition method when adopting IFRS 15. This method reduces costs for preparers of financial statements and meanwhile provides useful information to users of financial statements.

[Hong Kong]

No comment.

[Korea]

Although there were some difficulties at the initial application, we believe that IFRS 15 has been successfully implemented overall. We observe that many companies used the modified transition method at the initial application because the complete retrospective application was burdensome.

[Singapore]

While the transition to IFRS 15 was challenging for entities due to the costs and efforts incurred to analyse contracts and change financial reporting systems, our stakeholders generally welcomed the modified retrospective approach in IFRS 15 and found the practical expedients useful, which helped to achieve an appropriate balance between reducing costs for preparers and providing useful information to users.

Entities in some industries found transition to IFRS 15 to be more challenging because those entities have more complicated types of revenue contracts that require more judgements and estimates. Examples include those industries with more significant impact on equity at the date of transition, longer revenue-related disclosures, more revenue-related significant judgements and estimations, or more disaggregated revenue streams.

[Sri Lanka]

As per our stakeholders' experience, the transition requirements worked as intended.

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.

(b) Do you have any suggestions for resolving the matters you have identified?

[China]

It is generally clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards, but it is not clear for certain circumstances. It contains but is not limited to the following application matters, and we suggest the IASB making a further research on them and providing guidance or examples:

- (a) the distinction from the scope of IFRS 11 *Joint Arrangements*. Guidance is limited on how to distinguish whether a partner is a customer defined in IFRS 15 or both parties jointly participate in an activity, and it causes some confusion in practice. This application matter is common in business such as cooperation between pharmaceutical entities and R&D entities to develop drugs, and film production entities and film distribution and exhibition entities to co-produce films. It is a matter that already existed under previous revenue standard.
- (b) the distinction from the scope of IFRS 9 *Financial Instruments* and IFRS 2 *Share-based Payment*. For example, there are different views in practice when the transaction price involves forward pricing, participation in the customer's profit sharing plan, convertible bonds, free grant of shares, etc. This matter is common in bulk commodity trading, retail and consumer products entities, etc., and arises after the implementation of IFRS 15.
- (c) the distinction from the scope of IFRS 10 *Consolidated Financial Statements*. There are different views in practice about whether the transaction in which an entity, as part of its ordinary activities, enters into a contract with customer to sell inventory by selling its equity interest in a single asset entity that is a subsidiary is within the scope of IFRS 10 or IFRS 15. This matter is common in real estate and utility industry, and arises after the implementation of IFRS 15.

- (d) the relationship between the term “ordinary activities” used in IFRS 15 and the term “main business activities” used in the project of Primary Financial Statement, which needs to be clarified.

[Hong Kong]

No comment.

[Korea]

IFRS 9 *Financial Instruments*

- Contract liabilities under IFRS 15 versus financial liabilities under IFRS 9

Difficulties arise in determining the appropriate accounting standard for entities’ obligation to customers in a transaction in which they are required to provide goods or services in exchange for consideration from customers and they have an obligation to refund the cash payment upon the customer’s request.

- Contract modifications under IFRS 15 versus IFRS 9

It is unclear how to account for a subsequent downward adjustment to the transaction price after fulfillment of a performance obligation (subtract revenue under IFRS 15 versus recognise impairment loss under IFRS 9).

IAS 2 *Inventories*

- Accounting for seller’s discounts towards customers

Companies purchase goods from suppliers and sell them to customers as principals. They receive a portion of the discounted amount provided to customers in accordance with an agreement with the supplier.

(View 1) The amount should be added to the transaction price, because it is considered as supplier’s rebate to customers under IFRS 15.

(View 2) The amount should be subtracted from the inventory cost, because it is considered as supplier’s rebate to the company under IAS 2.

IFRS 16 *Leases*

- Accounting for subsequent changes regarding finance lease receivables held by lessors who are manufacturers or sellers.

To be specific, it is unclear whether IFRS 15 can be applied or not when the amount of a finance lease receivable is adjusted due to an extension of the lease term or other events.

(View 1) The increase in finance lease receivables due to the extension of the lease term is classified as variable consideration. The increased amount is recognized as revenue in accordance with IFRS 15.

(View 2) The subsequent changes regarding finance lease receivables are the changes in financial assets and should be recognized as income in accordance with IFRS 9.

Collaborative arrangement

- Detailed judgement guidelines on collaborative arrangement should be provided.
- [Pharmaceutical and Construction business] It is difficult to determine whether a contract is a collaborative arrangement* and, if so, which accounting standard should be applied to the transaction of transferring goods under the collaborative arrangement.

(*) [Example] Company A is responsible for pharmaceutical product development and supply of half-finished goods. Company B is responsible for manufacture and marketing of products. If the final gains and losses from the sale of goods are shared by Companies A and B according to a certain ratio (assuming it is not a joint arrangement under IFRS 11), judgement is required to determine whether the transfer of half-finished goods from Company A to Company B is subject to IFRS 15.

- Development of assets in accordance with a collaborative arrangement is outside the application scope of IFRS 15, and there is no clear definition of collaborative arrangement. If it is outside the scope of IFRS 15, guidance should be provided on which alternative standards should ultimately be applied. (Refer to paragraph 6, IFRS 15).

[Singapore]

Our stakeholders have the following comments:

Interaction with IFRS 3 Business Combinations

There are application challenges in accounting for the acquisition of revenue contracts in a business combination, both regarding initial recognition and measurement at the acquisition date and post-acquisition accounting, such as adjustments for favourable or unfavourable terms, presentation after the acquisition and measurement period adjustments. Our stakeholders suggested that the IASB could consider undertaking a narrow scope project to introduce amendments similar to the changes made by FASB in October 2021, such that an acquirer is required to apply IFRS 15 to measure contract assets and contract liabilities acquired in a business combination at the acquisition date.

Interaction with IFRS 9 Financial Instruments

Diversity in practice and application challenges have been observed in the following areas:

- (a) Circularity of the scope exclusions in IFRS 15 and IFRS 9. Paragraph 5(c) of IFRS 15 scopes out financial instruments and other contractual rights or obligations within the scope of IFRS 9, while paragraph 2.1(j) of IFRS 9 excludes rights and obligations within the scope of IFRS 15 that are financial instruments, except for those that IFRS 15 specifies are accounted for in accordance with IFRS 9. Our stakeholders noted that the resulting uncertainty over which Standard should take precedence could cause

application challenge, for example, in a transaction in which an entity provides services to a customer in exchange for rights to subscribe for new shares of the customer.

- (b) Transactions involving share-based sales incentives that is covered in Question 3.
- (c) A transaction where the customer purchases gift cards and is granted a choice between spending the gift cards with the selling entity or another party. While both IFRS 15 and IFRS 9 require the selling entity to recognise a liability, IFRS 15 permits recognition of revenue for breakage before expiry, i.e., selling entity can recognise the breakage amount as revenue if the entity expects to be entitled to that amount, while IFRS 9 does not. The impact from the difference in accounting treatment would be more pronounced if the gift cards have no expiration date. Some loyalty point programmes also face the same issue.
- (d) Significant judgment is often required to identify whether an entity has implicitly offered a price concession (i.e., variable consideration) or chosen to accept the risk of default by a customer of a contractually agreed-upon consideration (i.e., impairment losses under IFRS 9). This is applicable at both contract inception, and subsequently, for example, when it might not be clear if a modification has occurred (whether explicit or implied by customary business practice) or a change in price that was already contemplated in the contract.

Our stakeholders suggested that the IASB could consider providing further guidance or undertaking a narrow scope amendment project to clarify the interaction issues between these two Standards.

[Sri Lanka]

We believe that there are some areas where it is unclear on how to apply the requirements of IFRS 15 with the requirements in other IFRS accounting standard and the IASB needs to clarify which requirements take precedence where there is overlapping or inconsistent principals between IFRS 15 and requirements in other accounting standards. The following circumstances are led to overlapping/inconsistent between IFRS 15 with other relevant standards.

- There are differences between the measurement principals of IFRS 3, based on fair value, and IFRS 15, based on transaction price are complex and challenging in practice. Thus, we suggest that that IASB addresses the difference in measurement principals for contract asses and contract liabilities acquired in a business combination.
- There is conflicting principals in IFRS 15 relating to trade receivables and contract assets, and the application of the IFRS 9 expected credit loss ('ECL') model to these assets. Under IFRS 15, revenue from contracts with customers is only recognized if it is recoverable. However, the IFRS 9 simple model for ECL's for trade receivables and contract assets, requires the simplified ECL model to be applied to trade receivables and contract assets, resulting in recognition of ECL's. whereas the clarity on the interaction of these elements within IFRS 9 and IFRS 15 would aid entities in their application and understanding of the standards. However, we suggest the inclusion of guidance on this and disclosure of associated judgements.

- There is interaction between the requirements to determine whether a contract with a customer contains a lease component are clear in practice. However, it may be helpful for the IASB to enhance the interaction between the two standards with the inclusion of a decision tree, to help preparers understand how the interaction between the two standards works in practice.

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?

[China]

It is important to retain convergence between IFRS 15 and ASC 606, because it will be helpful to enhance the comparability of financial information between different capital markets and facilitate the analysis and decision-making for users. It will also help companies that listed in different capital markets reduce preparation cost of reconciliation between different accounting standards.

In addition, for how to recognize revenue when an entity acting a principal is unaware of the amount charged by an intermediary that is an agent to the end customer in our response to Question 5, and for when recognizing revenue for a renewal of a license contract which is accounted as a performance obligation satisfied at a point in time in our response to Question 6, there are clear requirements in US GAAP (ASC 606), while there are no clear specifications in IFRS 15. We suggest the IASB making a further clarification for the application matters referring to ASC 606.

[Hong Kong]

No comment.

[Korea]

Regarding convergence with US GAAP, stakeholders questioned whether the guidelines that only exist in US GAAP can be applied to IFRS (e.g., ASC 750-20-25-4 to 7, Consideration for Sales Incentives Offered to Customers by Manufacturers).

- [Platform business] IFRS 15 requires management's judgement on how to account for situations in which open-market platforms make an agreement with suppliers which involves the use of coupons or points to provide discounts to end consumers. In this case, the discounted amount that the suppliers reimburse to the platforms can be treated as additional revenue or negative cost of goods sold. On the other hand, US GAAP provides guidance that considers suppliers to have directly provided a discount to end consumers, if certain criteria are met.

[Singapore]

Our stakeholders emphasised the need for more alignment between IFRS 15 and Topic 606 on certain issues, such as share-based sales incentives, renewal of licences and measurement of contract assets and contracts liabilities acquired in a business combination which are mentioned in Questions 3, 6 and 9 respectively.

[Sri Lanka]

No Comments.

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.

[China]

Paragraph 108 of IFRS 15 states: A receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. IFRS 15 defines contract assets as: An entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance). In certain circumstances, it is difficult to distinguish contract assets from receivables; particular whether “something other than the passage of time” is related to goods or services is not clear in IFRS 15.

Paragraph 92 of IFRS 15 states: Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained. However, it is difficult to determine whether distribution fees, advertising expenses, channel fees, etc. are incremental costs in practice. In addition, the amortization of incremental costs of obtaining a contract also involves a lot of judgments and estimations, and there are different views in practice for some transactions. We suggest the IASB should add guidance and examples on the definition and amortization of incremental costs of obtaining a contract.

[Hong Kong]

In our outreach activities, our respondents also shared the following application challenges in IFRS 15. We noted that the IASB or the TRG had discussed these issues. We consider that these discussions provide valuable insights and support for the application of the judgmental aspects of the Standard. To facilitate the consistent application of IFRS 15, we recommend the IASB revisit these topics in this PIR and incorporate the relevant discussions in the Basis for Conclusions or the TRG meeting summaries into the body of the Standard.

Identifying performance obligations in a contract

BC116K discussed the notions of “separable risks” and “transformative relationship” when identifying performance obligations. As stated in that paragraph, the IASB had considered the notion of “separable risks” as an alternative basis for assessing whether an entity’s promise to transfer a good or service is separately identifiable from other promises in the contract but decided not to use this terminology in IFRS 15. Nevertheless, the notion of “separable risks” continues to influence the principle of separately identifiable in IFRS 15.27(b) when the IASB developed the standard. In addition, the IC has applied the concepts of “separable risks” and “transformative relationship” in assessing the criteria in IFRS 15.27(b) in its Agenda Decision *Revenue recognition in a real estate contract that includes the transfer of land*.

We consider that the discussions about “separable risks” and “transformative relationship” in BC105 and BC116K would assist entities in determining whether a good or service is separately identifiable from other promises in the contract. Therefore, we recommend the IASB incorporate the guidance in these paragraphs into the body of the Standard.

Series of distinct goods or services

A respondent from the banking industry commented that it is challenging in determining whether a series of distinct goods or services should be treated as a single performance obligation, and whether such a series constitutes a promise of providing a service of standing ready to provide goods or services. Specifically, questions arise as to how entities should consider whether the performance obligation consists of distinct goods or services that are substantially the same when applying the series provision in IFRS 15.22(b).

We noted that the IASB has provided examples, in its Basis for Conclusions and Illustrative Examples accompanying IFRS 15, regarding the consideration of a series of distinct goods or services. For instance, Example 7 and Example 13 illustrate a series of distinct service in cleaning services and payroll processing services respectively. BC285 discusses a series of distinct days of hotel management service and BC160 illustrates the nature of promise of a health club contract is to stand ready for a period of time. However, these examples and discussions do not provide detailed analysis on why the series of goods or services are substantially the same.

We noted that TRG Agenda No.39 (Issue 1) and TRG Agenda No. 44 (Topic 5) discussed this matter. In particular, paragraph 33 of TRG Agenda No. 44 provides clear guidance on how to

apply the series provision practically. We consider that it would be beneficial if the IASB provides guidance and illustrative examples by making reference to these TRG discussions. Additionally, the IASB could consider Example 12A-Series of Distinct Goods or Services of Topic 606-10-55-157B to 157E which provides an example to illustrate the application of the series provision.

Consideration payable to a customer

Some respondents noted that it is common for entities, such as the Technology, Media and Telecommunication industry and membership associations, to offer different types of coupons (e.g. cash coupons, discount coupons, coupons for free goods or services) to end customers after the sale transactions. Judgement is often required in determining whether the coupons should be accounted for as CPC, variable consideration, or customer options for additional goods or services. Different conclusions on the assessment could have a material impact in the determination of the transaction price and the timing of recognition.

We noted that there are various types of coupons in the market and each of these coupons could represent a different nature. We agree that judgement is required in accounting for coupons and that further guidance could be provided with reference to the relevant TRG discussions. Specifically, TRG Agenda No.14 paragraphs 7-21 and TRG Agenda No.44 paragraphs 16-17 discussed an illustrative example (cash coupons granted after sale transaction) and provided guidance on the interaction of the requirements of CPC and variable consideration. In addition, we recommend the IASB provide illustrative examples to demonstrate how to determine whether a coupon is accounted for as CPC, variable consideration or customer option for additional goods or services.

[Korea]

N/A

[Singapore]

One of our stakeholders suggested that the IASB could clarify the interaction of revenue arising from an entity's ordinary activities versus gains and/or other income with regards to climate risk reporting. It may not be clear whether certain climate-related items that are included in customer contracts, such as carbon credits, should be classified as revenue given that the current definition in paragraph 6 of IFRS 15 tags a revenue item to "an output of the entity's ordinary activities in exchange for consideration", and entities may not construe carbon credits to be "output of the entity's ordinary activities".

[Sri Lanka]

No Comments.