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Our ref BOD/288

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Dear Dr. Barckow

Comment letter on Request for Information *Post-implementation Review – IFRS 15 Revenue from Contracts with Customers*

We appreciate the opportunity to comment on the International Accounting Standards Board's (IASB) Request for Information *Post-implementation Review – IFRS 15 Revenue from Contracts with Customers*. We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we believe that IFRS 15 is working well and does not require significant amendment. IFRS 15's core principles provide a suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers. IFRS 15 provides a consistent framework for entities to analyse transactions across a wide array of business models. Some level of diversity of outcome is inevitable due to the judgement required to apply a principles-based accounting standard and the complexity of many revenue transactions. However, our overall impression is that IFRS 15 strikes the right balance between the costs of application and the benefits of the resulting information to users of financial statements.

We believe that the Request for Information has appropriately identified the most common application issues. We highlight below a small number of areas in which we believe there is scope for the IASB to provide clarification or additional guidance to help reduce diversity in practice and result in more useful information to users:

- accounting for amounts payable to a customer's customer;
- the presentation of negative revenue; and
- the interaction between IFRS 15 and other IFRS® accounting standards.

Amounts payable to a customer's customer outside the direct value chain

We are concerned that the consideration payable to a customer guidance can be difficult to apply – and there is existing diversity in practice – in cases when multiple parties are involved in providing goods or services to an end customer and/or the end customer receives significant incentives. The question is whether these incentives should reduce the transaction price or be presented as expenses. The diversity primarily arises due to a lack of clarity in the requirements with respect to payments made to a customer's customer outside the direct distribution chain. This issue is relevant to a wide range of businesses, including food ordering platforms, ride hail platforms, online ticket sellers and discount websites. These business models have become much more prevalent since the requirements on determining the transaction price in IFRS 15 were developed.

We recommend that the IASB clarifies what the circumstances are, if any, in which an amount paid to a customer's customer (that does not relate to a distinct good or service) is not treated as consideration payable to a customer.

Negative revenue

Prima facie, IFRS 15 envisages that revenue from a contract with a customer can be negative. The guidance on the transaction price states, without limitation, that consideration payable to a customer (that is not for a distinct good or service) is deducted from the transaction price and therefore revenue can be negative.

However, IFRS 15 does not specify whether such amounts should be presented as part of revenue or reclassified and presented as an expense. In September 2019, as part of its agenda decision on *Compensation for Delays or Cancellations – IFRS 15 Revenue from Contracts with Customers*, the IFRS Interpretation Committee specifically declined to address this question. Due to the lack of guidance, diversity in practice has arisen as to whether and when net negative revenue transactions are reclassified and presented as an expense.

We recommend the IASB clarify in what limited circumstances, if any, net negative revenue can be reclassified and presented as an expense.

IFRS 15's interaction with other IFRS accounting standards

We welcome the IASB's request for feedback regarding IFRS 15's interaction with other IFRS accounting standards as this is an area where the guidance can be unclear and conflicting requirements exist. Questions arise on the interactions between IFRS 15 and the following accounting standards: IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 16 *Leases* and IFRIC 12 *Service Concession Arrangements*. We believe that clarification of which accounting standard takes precedence or minor amendments could reduce diversity and provide more consistent information to users.

Convergence with Topic 606 *Revenue from Contracts with Customers*

We support maintaining the current level of convergence between IFRS 15 and Topic 606. It is beneficial to users for the two accounting standards to remain converged to allow for comparisons between entities applying the two sets of requirements.

Appendix A to this letter contains our detailed responses to the questions raised in the Request for Information.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Kim Heng at kheng@kpmg.com.au if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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Appendix A

KPMG's responses to the specific questions raised in the Request for Information

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.

In our view, IFRS 15 has generally achieved its stated objective to establish principles that an entity can apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15's core principles work well and provide a suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

IFRS 15 provides a consistent framework for entities to analyse transactions across a wide array of business models. Consistency of analysis does not always result in consistency of outcome, and some level of diversity is inevitable due to the judgement required to apply a principles-based accounting standard and the complexity of many revenue transactions.

For these reasons, we do not believe that significant amendments to IFRS 15 are required. We caution against making changes to IFRS 15 that would require entities to reconsider key judgements made under the existing requirements. However, there are certain narrow areas where additional guidance or clarification are needed which we discuss in more detail in our responses to Questions 3–9 below.

The understandability and accessibility of IFRS 15 was enhanced by the characterisation of the accounting standard as setting out a 'five-step model'. We used this approach in our own training and guidance materials. The main body of the accounting standard itself follows the traditional structure of scope / recognition / measurement etc. This is useful when analysing detailed application questions.

Providing education materials and flowcharts on how to apply the requirements can be helpful. In our experience, many IFRS 15 application issues are essentially 'geography' questions – i.e. which part of the accounting standard applies to this issue? Education materials and flowcharts that bridge between the 'five-step model' and the detailed requirements will continue to be useful when addressing such questions.

Our overall impression is that IFRS 15 strikes the right balance between the costs of application and the benefits of the resulting information it provides to users of financial statements. For some entities, the initial cost of implementing IFRS 15 was relatively high, particularly when systems changes were undertaken. It appears, from what we have observed, that the ongoing – i.e. post-transition – costs of applying IFRS 15 are not so significant, though we have not collected any specific data on this question. The views of other key stakeholders such as users, preparers and securities regulators will provide important input on this question.

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?

The requirements for identifying performance obligations in a contract provide a clear and sufficient basis to identify the performance obligations in a contract. Application of these requirements will often require an entity to make judgements about the nature of its promise(s) to its customer. However, this is inevitable in a principles-based accounting standard that applies to multiple business models.

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?

We believe that IFRS 15 generally provides a clear and sufficient basis for determining the transaction price, subject to the specific points discussed below.

Accounting for consideration payable to a customer

We are concerned that the consideration payable to a customer guidance can be difficult to apply – and there is existing diversity in practice – in cases when multiple parties are involved in providing goods or services to an end customer and/or the end customer receives significant incentives. The diversity primarily arises due to a lack of clarity in the requirements with respect to payments made to a customer's customer outside the direct distribution chain. This issue is relevant to a wide range of businesses, including food ordering platforms, ride hail platforms, online ticket sellers and discount websites. These business models have become more prevalent since the requirements on determining the transaction price in IFRS 15 were developed.

The issue typically arises when an intermediary is acting as an agent in selling a provider's underlying good/service to end users and the intermediary identifies only the provider of the underlying good/service as its customer. The question arising in this scenario is whether incentives that the intermediary offers to the end users, such as discounts or cash back, should be treated as consideration payable to a customer when determining the transaction price. For example, an entity operates a food ordering platform on which an end user can order food. The food will be prepared by one of a number of restaurants that can be selected via the platform. The entity identifies the restaurants as its customers and determines that it acts as an agent. The entity also pays incentives to the end users, whom it does not consider to be its customers. If the entity takes a narrow view of the application of the consideration payable to a customer guidance, then it would treat the incentives paid to end users as a marketing expense with no impact on its revenue. This would be the case even if the entity plays a significant role in the overall value chain and the incentives paid are significant in comparison to the revenue earned on transactions with the restaurants, which the incentives are designed to promote.

The accounting standard is unclear in this situation because the consideration payable to a customer guidance in paragraph 70 of IFRS 15 refers only to amounts paid to a customer and amounts paid to another entity who purchases the entity's goods or services from the entity's customer – i.e. payment to a customer's customer in the direct distribution chain. In cases like that described above, the food ordering platform has concluded that the end users are not its customers. A question therefore arises as to whether such amounts should be treated as amounts payable to a customer in determining the transaction price. The limited discussions on this issue by the Transition Resource Group for Revenue Recognition only highlighted the judgemental nature of the question.

Lack of clear directional guidance on this topic has led to different interpretations as to when amounts should reduce the transaction price and this has resulted in diversity in practice between entities with very similar business models. It has also led to some regulators forming their own, sometimes divergent, interpretations of when amounts paid to a customer's customer outside the direct distribution chain should reduce the transaction price. For example, some interpretations require the intermediary to evaluate payments to end users to determine whether they represent payments made on behalf of their customer (the seller), and therefore represent in-substance price concessions recorded as a reduction to the transaction price. This interpretation includes an assessment of contractual obligations to the seller as well as whether information about the intermediary's incentive practices provides the customer (seller) with a valid or reasonable expectation that the intermediary will provide incentives to their customer (end user). If it is concluded that payments do not meet the definition of amounts payable to a customer, then they are generally presented as sales and marketing expense.

The issue arises partly due to the judgement required to identify who an entity's customer(s) is (are) in a multi-party arrangement. For example, if the end users were also identified as a customer of the food ordering platform in the scenario above, then it would be clear that the incentives represent consideration payable to a customer.

We recommend that the IASB clarifies what the circumstances are, if any, in which an amount paid to a customer's customer (that does not relate to a distinct good or service) is not treated as consideration payable to a customer – i.e. when, if ever, such amounts do not reduce the transaction price. We believe that specific commentary on payments to a customer's customer outside the direct distribution chain could help to reduce diversity in this area.

Given the prevalence of this issue, if an appropriate clarification of the requirements cannot be made, then the IASB should consider requiring entities to disclose the value of payments made to a customer's customer outside the direct distribution chain that are recognised as an expense, because this information would be useful to users.

Negative revenue

Prima facie, IFRS 15 envisages that revenue from a contract with a customer can be negative. The guidance on the transaction price states, without limitation, that consideration payable to a customer (that is not for a distinct good or service) is deducted from the transaction price and therefore revenue can be negative.

However, IFRS 15 does not specify whether such amounts should be presented as part of revenue or reclassified and presented as an expense. In September 2019, as part of its agenda decision on *Compensation for Delays or Cancellations – IFRS 15 Revenue from Contracts with Customers*, the Interpretation Committee specifically declined to address this question. Due to the lack of guidance, diversity in practice has arisen as to whether net negative revenue transactions are reclassified and presented as an expense.

In some cases, the amount an entity pays to a customer (or a customer's customer) under a contract may exceed the amount of consideration that the entity receives from the transaction, leading to net negative revenue. In the food ordering platform example discussed above, incentives paid by platforms to end users often exceed the amount receivable from restaurants. Negative revenue also arises in other scenarios, including those in which entities are trying to increase their user base or launch a new good/service. The incentives can be offered in the form of cash or equity instruments of the entity (e.g. warrants). Negative revenue can also arise when the entity is required to pay compensation or penalties to customers. Depending on the facts and circumstances, net negative revenue can arise at the transaction level, customer level and, in some cases, at the level of total revenue from contracts with customers.

Some argue that net negative revenue amounts do not meet the definition of revenue because revenue is defined as a form of income, which is defined to be an increase of economic benefits, i.e. an inflow. However, as noted above, IFRS 15 does not preclude the transaction price being negative.

Some also point to the Interpretations Committee's January 2015 agenda decision *IAS 39 Financial Instruments: Recognition and Measurement and IAS 1 Presentation of Financial Statements – Income and expenses arising on financial instruments with a negative yield – presentation in the statement of comprehensive income*. In that agenda decision, the Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset reflects a gross outflow (instead of a gross inflow) of economic benefits. Consequently, it did not meet the definition of interest revenue under the Accounting Standards at that time and should not be presented as such. However, this decision does not appear to be applicable to contracts in the scope of IFRS 15 because the requirements of IFRS 15 envisage that revenue from a contract with a customer can be negative.

Another common example of negative revenue is a scenario in which an entity acts as an intermediary between the end users and the provider of the good/service and identifies *both* parties as its customers. In such scenarios, the intermediary may offer a discount on the underlying good/service to the end user that exceeds the revenue earned by the intermediary on the transaction. This leads to the revenue from an individual transaction with the end user being negative. However, it may be the case that revenue generated from the end user is positive when combined with other previous and expected future transactions with that end user, or revenue from a transaction is positive when combined with the revenue earned from the provider of the underlying good or service. In these scenarios, it is unclear if the intermediary is permitted to reclassify the net negative revenue amount as an expense.

Another example is a start-up entity aiming to establish itself by offering incentives in the form of its equity instruments to a large customer if that customer purchases a certain volume of its product. In some cases, these types of arrangements can lead to total revenue from contracts with customers being negative. Again, in this scenario, it is unclear whether the net negative revenue should be presented as revenue from contracts with customers or reclassified as an expense.

We recommend the IASB clarify in what limited circumstances, if any, net negative revenue can be reclassified and presented as an expense. If the IASB considers there are limited circumstances in which negative revenue can be reclassified as an expense, then it should also clarify the level at which any reclassification assessment should be made – i.e. whether it should be performed at the contract level, customer level or a broader level (e.g. considering revenue generated from related customer contracts). In addition, if it is permissible for amounts to be reclassified to an expense line, then the IASB should consider requiring entities to disclose the amount of negative revenue reclassified as an expense, because this information would be useful to users.

Complexity associated with high interest and inflationary environments

IFRS 15 was initially adopted against a background of relatively stable economic conditions in many jurisdictions. With higher, more volatile inflation and interest rates becoming more prevalent in recent years, the relevance and significance of accounting for significant financing components and variable consideration due to inflation adjustments will likely increase. These changed conditions may highlight application issues or lead to diversity in practice in coming periods that previously have not been observed. For example, the conditions may put extra pressure on the assessment of whether a difference between the promised consideration and the cash selling price of a good or service is for reasons other than financing under paragraph 62C of IFRS 15, in particular, whether the difference is proportional to the reason given. Another example of when additional questions may arise is the application of the constraint guidance to variability in the transaction price arising from inflation. The IASB should continue to monitor this area to assess whether additional guidance is necessary.

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?**

We believe that the requirements provide a clear and sufficient basis to determine when to recognise revenue. In the early stages of implementation, there were some challenges in assessing which contracts met the criteria in paragraph 35(c) of IFRS 15. However, these questions largely related to understanding the terms of the contract and assessing enforceability, which often required an in-depth understanding of country-specific contract and/or property law. These issues have now largely been resolved.

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?**

Assessing whether an entity is acting as a principal or an agent in a transaction is one of the most challenging areas of IFRS 15. The judgemental nature of this assessment can lead to apparently similar transactions being treated differently due to very small differences in facts and circumstances. The assessments can be particularly challenging when the control principle is not clearly met and the principal/agent indicators are mixed.

The challenges faced by entities in making this assessment were acknowledged in the very first meeting of the Transition Resource Group for Revenue Recognition and were key to the Clarifications to IFRS 15 published in April 2016. More recently, the Interpretations Committee emphasised the judgemental nature of the assessment and its dependence on the detailed facts and circumstances of individual transactions in its discussion of IT resellers in the April 2022 agenda decision *Principal versus Agent – Software Reseller*.

The application of the requirements is challenging across a wide range of business models, including intra-group arrangements, online sellers, service businesses and developing areas such as online platform businesses and crypto trading platforms. However, most companies have now reached conclusions under the existing requirements.

We have considered carefully whether the IASB should re-open the guidance in IFRS 15 to seek to address these challenges. However, in the absence of a 'silver bullet' fix to the existing model, or a credible alternative model, we are concerned about the costs to stakeholders of amending the guidance and the risk of unintended consequences. Even a small change to the guidance designed to address a specific class of transactions could require preparers to revisit a wide range of previous conclusions. On balance, we recommend that the IASB retain the current guidance.

In some cases, an entity may be considered an agent for some of the good/services it sells and a principal for others due to differing terms and conditions of the arrangements. This situation sometimes arises when an entity operates in multiple jurisdictions and local laws lead to slightly different terms and conditions in the contracts in its otherwise identical business model. In these situations, it may be helpful to users if entities were required to disclose separately revenue from contracts with customers recognised on a net basis and that recognised on a gross basis.

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?

Generally, IFRS 15 provides a clear and sufficient basis for accounting for contracts involving licences of intellectual property. The first two items referred to in Spotlight 6 require entities to exercise judgement in some cases but not to an extent that is inappropriate in the context of a principles-based accounting standard. The IASB considered and rejected proposals to amend IFRS 15 to address the third matter referred to in Spotlight 6, as discussed in paragraphs BC414S–BC414U. We have not identified additional arguments that would support overturning that decision.

Question 7 – Disclosure

(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?

Our overall impression is that the disclosure requirements generally result in useful information for users of financial statements and strike the right balance between information provided and the cost of providing required information. While we are generally not supportive of addressing diversity in application of the recognition and measurement requirements through additional disclosure requirements, as noted above, we have included in our answers to the earlier questions a small number of proposals for additional disclosures. We also believe that other key stakeholders such as preparers, users of financial statements and securities regulators may be in a better position to provide more detailed input in this area.

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.

Generally, the transition requirements struck the right balance between providing users with useful information and providing relief to preparers where information may be particularly difficult to obtain. We have not collected any quantitative information about the number of entities that elected to apply the modified retrospective method or the practical expedients.

Question 9 – Applying IFRS 15 with other 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?**

We believe that there are a number of specific areas in which it is not clear how to apply the requirements of IFRS 15 with other IFRS accounting standards, as explained below.

As a general point, we note that the IASB spent over ten years discussing the core requirements of IFRS 15 but spent rather less time debating the consequential amendments to other accounting standards. Some key interactions – e.g. the impact of IFRS 15 on accounting for service concession arrangements in the scope of IFRIC 12 – were not discussed in detail by the IASB in public forum.

We believe that a key learning point from the wave of major standard-setting projects that included IFRSs 9, 15, 16 and 17 is that the project staff and the IASB should devote more time to the interactions between IFRS Accounting Standards.

A. Interaction between IFRS 15 and IFRS 9

A number of issues arise from the interactions between IFRS 15 and IFRS 9. These issues primarily arise because of:

- IFRS 15's measurement requirements which generally differ from fair value measurement; and
- the guidance in IFRS 15 about when a contract asset becomes a receivable.

Whether a trade receivable is always recognised at the transaction price

An issue we raised in our response to Post-implementation Review of IFRS 9 *Financial Instruments – Classification and Measurement* is that paragraph 5.1.3 of IFRS 9 requires an entity to measure trade receivables without a significant financing component at their transaction price (as defined in IFRS 15) – i.e. IFRS 9 does not seem to envisage scenarios in which the amount of a receivable may differ from the transaction price. In contrast, paragraph 108 of IFRS 15 envisages scenarios in which an entity may recognise a receivable for an amount which will be subject to refund in the future if the entity has a present right to payment – i.e. the amount of the receivable may differ from the transaction price. This is illustrated in Example 40 in IFRS 15.

We welcome and support the proposed amendments to paragraph 5.1.3 of IFRS 9 included in the Annual Improvements exposure draft released in September 2023 to address this issue.

Measurement difference on initial recognition of a trade receivable related to a contract with a customer that includes a significant financing component

IFRS 15 requires an entity to recognise revenue at the transaction price which is generally not measured at fair value. The approach includes calculating the effect of any significant financing component using information available at contract inception. Under paragraph 5.1.1 of IFRS 9, trade receivables related to contracts with customers that include a significant financing component are required to be measured at fair value on initial recognition. These conflicting measurement requirements can potentially lead to a difference between the revenue and receivable recognised for the transaction. For example, a difference may arise if the contract is long-term in nature and changes in interest rates have occurred between the date when the transaction price is determined and the date when the receivable is initially recognised. Paragraph 108 of IFRS 15 notes that any difference between the measurement of the receivable on initial recognition and the revenue recognised is treated as an expense. This guidance does not appear to envisage a scenario in which the initial measurement of the receivable is higher than the revenue recognised, which could occur when interest rates are declining. This issue is particularly relevant to IFRIC 12 arrangements given their long-term nature.

B. Interaction between IFRS 15 and IFRS 10

As noted in the Request for Information, the conflict between IFRS 15 and IFRS 10 in respect of sales in a corporate wrapper has previously been discussed by the IASB with no resolution being reached. Due to the conflict, there is an outstanding question as to which accounting standard takes precedence. In certain jurisdictions, transactions structured though corporate wrappers are very common. For example, in some jurisdictions they are a common form of real estate transactions. While in the jurisdictions where these types of transactions are most common consistent practices have generally developed, it is still an area where uncertainty exists. As such, we believe that this issue should be considered again.

When looking at the issue consideration could be given as to whether the FASB guidance in respect of sale of a subsidiary which is, in substance, not a business, but a group of assets ('corporate wrapper') could be used to address the issue under IFRS Accounting Standards.

C. Interaction between IFRS 15 and IFRS 16

Determining the contract term when a lease arrangement includes a non-lease component

Under IFRS 16, if a contract contains a lease component and one or more additional lease or non-lease components, then the lessor allocates the consideration in the contract in accordance with the requirements of IFRS 15. When a contract that contains lease and non-lease components includes an optional renewal period, it is not clear whether to allocate the consideration based on the lease term as determined under IFRS 16 (i.e. including optional renewal periods when the lessee is reasonably certain to extend) or based on the contract term as determined under IFRS 15 (i.e. only including periods during which the parties have presently enforceable rights and obligations).

In addition, it is not clear whether the allocation guidance in IFRS 15 for changes in the transaction price also applies for the lessor's reallocation on remeasurement of the lease payments when there is a change in the non-cancellable period – e.g. if a lessee exercises a renewal option that it initially considered it would not be reasonably certain to exercise. Following the guidance in IFRS 15 would require the entity to use the stand-alone selling prices at contract inception to allocate the change in the transaction price. An alternative view is to allocate the updated transaction price based on the stand-alone selling prices at the remeasurement date.

Sale and repurchase agreements

Under the guidance on repurchase agreements in paragraphs B64–B76 of IFRS 15, in certain circumstances an entity may be precluded from accounting for a transaction as a sale and instead be required to account for the transaction as a lease in accordance with IFRS 16. An issue arises when the good is a commodity or similar because the arrangement does not meet the definition of a lease as there is no identified asset. In these cases, it is unclear how such transactions should be accounted for because IFRS 15 requires IFRS 16 to be applied but the lease definition is not met.

The IASB noted in paragraph BC425 of IFRS 15 that there could be issues in applying the repurchase guidance when substantially similar assets are readily available in the marketplace. At the time, the IASB believed that 'an entity would be unlikely to enter into such a transaction.' Since then, the Interpretations Committee has been asked to consider commodity lending, and there are practice questions around crypto lending.

We recommend that the IASB assess whether the evidence suggesting that entities do in fact enter into such transactions should prompt a reconsideration of this recognised but unresolved issue.

D. Interaction between IFRS 15 and IFRIC 12

In our comment letter on the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, we noted that the consequential amendments arising from the introduction of IFRS 9 and IFRS 15 added significant complexity to operator accounting under IFRIC 12.

Issues commonly encountered in practice arising from the consequential amendments include, but are not limited to, the following.

Intangible asset model

- **Is the operator required to assess whether the arrangement includes a significant financing component?**

  Illustrative Example 2 of IFRIC 12 does not include a significant financing component under the intangible asset model. Also, the reference to the capitalisation of borrowing costs in paragraph 22 of IFRIC 12 and the references in the illustrative examples to presenting the contract asset arising during the construction period as an intangible asset indicate that it was not intended that a significant financing component would arise under the intangible asset model.

- **How should the contract asset recognised during the construction period be tested for impairment?**

  IFRS 15 states that contract assets should be tested for impairment in accordance with IFRS 9. However, in the intangible asset model the contract asset represents a right to non-cash consideration in the form of a right to charge users. It is unclear how the impairment requirements of IFRS 9 should be applied in this instance.

- **What is the measurement date for the non-cash consideration received from the grantor?**

  IFRS 15 does not specify the measurement date for non-cash consideration. In the intangible asset model, this is often the principal consideration that the operator receives from the grantor and is highly material.

Financial asset model

- **At what point(s) in time does the operator recognise a financial asset?**

  The consequential amendments to IFRIC 12 require the operator to recognise a contract asset rather than a financial asset during the construction phase. Questions arise as to whether the operator recognises a financial asset at the end of the construction period, or progressively over the operating period in accordance with the billing schedule. This is important because over the course of a multi-year contract, the fair value of the financial asset may diverge significantly from the initial measurement of the contract asset, which leads to additional questions as to how any gains or losses on remeasurement should be accounted for.

- **Under what circumstances does the operator's financial asset meet the SPPI criteria?**

  Service concession arrangements generally include minimum service level requirements which if not met could reduce the cash the operator receives from the grantor. Questions arise as to whether these represent variable consideration under IFRS 15, or are attributes of the operator's financial asset.

General

- **Obligations to restore the infrastructure to the specified level of serviceability**

  Questions arise as to whether these represent performance obligations in the scope of IFRS 15 or legal obligations in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

  More recently, we have become aware of practice questions about whether certain service concession contracts are, or contain, insurance contracts.

We therefore recommend that the IASB conduct a comprehensive review of IFRIC 12, encompassing the impact of IFRS 9 and IFRS 15 as well as the more recently issued IFRS 17 *Insurance Contracts*.

If the IASB agrees with our suggestion to undertake a review of IFRIC 12, then we recommend that this review should also address accounting for modifications to service concession arrangements. For example, we have observed that in response to the COVID-19 pandemic and other economic pressures, intangible asset model arrangements are being modified during the operating period through negotiations with government – e.g. to change the terms of the intangible asset or introduce a guaranteed minimum income for the operator. The analysis of such modifications is complex because the grantor is not necessarily the customer for all of the services to be provided by the operator.

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?

We support retaining the current level of convergence between IFRS 15 and Topic 606. It is beneficial to users for the accounting standards to remain converged to allow for comparisons between entities applying the two sets of requirements. This is particularly important for users in capital markets where financial statements are commonly prepared under both IFRS Accounting Standards and US GAAP.

Topic 606 has also been updated to include requirements with respect to equity-based instruments issued as consideration payable to a customer. Under the updated requirements, equity instruments granted in conjunction with selling a good or a service are measured and classified using the requirements of Topic 718 *Compensation – Stock Compensation*. We recommend the IASB consider making similar amendments to IFRS 15 (i.e. require equity-based instruments issued as consideration payable to a customer to be measured and classified using the requirements of IFRS 2 *Share-based Payment*), as there are currently no specific requirements covering this topic.

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.

Other than the matter noted below, we have not identified any additional matters that we believe should be examined as part of the post-implementation review.

Illustrative Example 38 of IFRS 15 provides an illustrative journal which includes an entry to recognise the entity's expected obligation to refund part of the receivable recognised under a volume rebate arrangement. The entry is labelled "Refund liability (contract liability)". This labelling leads to some confusion as to the difference between a contract liability and refund liability. When a refund liability is recognised, questions also arise as to which accounting standard(s) apply to the balance – e.g. whether a refund liability is a financial liability subject to the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*. We recommend that the IASB consider a clarification to the illustrative example or otherwise specify which IFRS accounting standard(s) apply to a refund liability.