

RSM International Limited

50 Cannon Street  
London  
EC4N 6JJ  
United Kingdom  
T +44 207 601 1080  
rsm.global

Mr Andreas Barckow  
Chairman  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD

By e-mail only - [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

23 October 2023

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

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Request for Information – Post-Implementation Review IFRS 15 *Revenue from Contracts with Customers*.

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the Request for Information are set out in the appendix to this letter.

We would like to highlight that we do not believe there are any major fundamental flaws in IFRS 15 *Revenue from Contracts with Customers*, however in our view there is scope for enhancement of some of the requirements and areas where the inclusion of additional implementation guidance and examples would be beneficial.

Furthermore, we would like to emphasise that in our view it is important to retain the convergence of IFRS 15 with ASC 606, to provide a stable and comparable global reporting framework for revenue.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,



Marion Hannon  
Global Leader, Quality & Risk  
RSM International

## APPENDIX

### Question 1—Overall assessment of IFRS 15

- (a) In your view, has IFRS 15 achieved its objective? Why or why not?
- (b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:
- i) in developing future Standards; or
  - ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?
- (c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

Overall, we believe that the objective of IFRS 15 has been achieved. The core principle and five-step model provide a clear basis for entities to recognise revenue. The disclosure requirements provide 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.

In terms of the understandability of the standard, we would encourage the IASB to provide further educational material and flowcharts to illustrate the linkage between the steps in the revenue recognition model. We also believe that there are areas in the standard where the language could be simplified to aid understandability, for example IFRS 15.56 on constraint of variable consideration. Furthermore, we believe that additional application guidance would be beneficial in some areas, as set out in our responses to the other post-implementation review ('PIR') questions.

Whilst we do not have any specific comments on the on-going costs of applying the requirements of IFRS 15, we do believe that the benefits to users of financial statements from the application of IFRS 15 outweigh the costs.

### Question 2—Identifying performance obligations in a contract

- (a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?
- (b) Do you have any suggestions for resolving the matters you have identified?

We believe that in certain circumstances, IFRS 15 does provide a clear and sufficient basis to identify performance obligations in a contract. However, for complex revenue contracts with multiple goods and/or services, entities have found it difficult to apply the two criteria in IFRS 15.27 and the additional guidance in IFRS 15.29 to identify the performance obligations in a customer contract.

We believe that it would be beneficial for the IASB to expand the application guidance and illustrative examples, to enhance the practical application of the identification of performance obligations for complex revenue contracts to bring out how IFRS 15.27 should be applied.

Furthermore, we believe that the language used in IFRS 15.22-30, identifying performance obligations, would benefit from simplification, for example 'distinct' and 'distinct in the context of the contract' are differing concepts which are often misunderstood.

### Question 3—Determining the transaction price

- (a) **Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract – in particular, in relation to accounting for consideration payable to a customer? If not, why not?**
- (b) **Do you have any suggestions for resolving the matters you have identified?**

Overall, we believe that IFRS 15 provides a clear and sufficient basis to determine the transaction price in the contract.

However, accounting for consideration payable to a customer is a complex area and we believe that the standard would benefit from application guidance in this area to enhance understandability and ensure consistency of application of the principles. Consideration payable to a customer, that is not for a distinct good or service, is deducted from the transaction price which can result in negative consideration. However, there is limited guidance in IFRS 15.70-72 to determine how this should be applied practically. This issue can be further complicated if the consideration payable to a customer is variable. We believe that it would be helpful to have additional guidance on the practical application of consideration payable to a customer, to ensure consistency of application and disclosure of such arrangements.

Furthermore, we believe that the application of variable consideration to a series of distinct goods or services promised in a contract that forms a single performance obligation is a complex and challenging area for entities, advisors, and auditors. IFRS 15.84 and 84b) states:

*Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract, such as either of the following:*

- b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 22(b) (for example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index).*

Whilst the application of this guidance was discussed by the TRG when developing the standard, we believe that the standard would benefit from the inclusion of application guidance and examples on the allocation of variable consideration to a series of distinct goods and services that form a single performance obligation. In our view, this would enhance the standard and provide clear practical guidance on how to apply IFRS 15.84.

Finally, we would encourage the IASB to simplify the language in the standard to describe circumstances in which variable consideration is constrained, in paragraph IFRS 15.56-57.

#### **Question 4—Determining when to recognise revenue**

- (a) **Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?**
- (b) **Do you have any suggestions for resolving the matters you have identified?**

Overall, we believe that IFRS 15 provides a clear and sufficient basis to determine when to recognise revenue. We believe that 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?**
- (b) **Do you have any suggestions for resolving the matters you have identified?**

We believe that the guidance in IFRS 15.B34-38 provides a clear and sufficient basis for an entity to determine whether it is a principal or an agent and is significantly improved from the previous standard.

However, assessing whether an entity is a principal or agent in a contract is inherently judgemental. In particular, the assessment to determine whether an entity is a principal or agent is challenging in circumstances where the contract involves the provision of services or the indicators in IFRS 15.B34-38 do not provide a definitive conclusion on whether an entity is principal or agent. In our view in this area the standard would benefit from additional application guidance.

This is further evidenced by the request received by the IFRS Interpretation Committee (Committee) in 2022 on whether a reseller of software licenses applying IFRS 15 is a principal or agent in the arrangement. The Committee observed:

*that the conclusion depends on the facts and circumstances of the arrangement, which were provided in the request, and concluded that the reseller would apply judgement in making its overall assessment of whether it is a principal or agent.*

*The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a reseller to determine whether—in the fact pattern described in the request—it is a principal or agent for the standard software licences provided to a customer.*

However, in this instance, the Committee was not able to conclude, based on the facts and circumstances provided in the request, whether the reseller of software licences was principal or agent.

#### **Question 6—Licensing**

- (a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?**
- (b) Do you have any suggestions for resolving the matters you have identified?**

In the majority of cases IFRS 15 does provide a clear and sufficient basis for accounting for contracts involving licences.

However, we are of the view that the additional guidance in ASC 606 is beneficial in clarifying the requirements on licences and would welcome the introduction of this additional guidance into IFRS 15.

We believe that it would be beneficial to have additional guidance on the interaction of the granting of a licence and the nature of updates/upgrades. This will help entities to determine whether the software intellectual property licence can fully function with or without these updates and upgrades and hence whether a licence with updates/upgrades provides a right to assess the intellectual property as it exists throughout the licence period or a right to use the intellectual property at the point in time at which the licence is granted.

Furthermore, we believe that the standard would benefit from the inclusion of application guidance on licence renewals, to ensure consistent application of the requirements and remove diversity in the timing of revenue recognition for licence renewals.

#### **Question 7—Disclosure requirements**

- (a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?**
- (b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?**

- (c) **Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?**

Overall, if correctly applied, we believe that the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements.

We have no comments on whether the disclosure requirements in IFRS 15 give rise to significant ongoing costs.

However, we have observed diversity in practice and variation in the quality of disclosed revenue information. The most useful disclosures on revenue are those that are specific to the customer contracts and describing in detail how the 5-step model has been applied to those contracts. We would encourage the IASB to emphasise the importance to preparers of financial statements that revenue disclosures need to be specific to the types of customer contracts entered into by the entity and enable the user to understand how the 5-step model has been applied to each customer contract type, rather than simply describing the 5-step model in IFRS 15.

#### **Question 8—Transition**

- (a) **Did the transition requirements work as the IASB intended? Why or why not?**

We believe that overall, the transition requirements worked as the IASB intended. The change in revenue accounting was a significant change and, in our experience, there was a broad mix of application of both transition approaches.

#### **Question 9—Applying IFRS 15 with other IFRS Accounting Standards**

- (a) **Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?**
- (b) **Do you have any suggestions for resolving the matters you have identified?**

We believe that there are some areas where it is unclear how to apply the requirements of IFRS 15 with the requirements in other IFRS accounting standards. We believe that it would be useful for the IASB to clarify which requirements take precedence where there is overlapping or inconsistent principals between IFRS 15 and requirements in other accounting standards.

We have observed diversity in practice on the classification of contract costs in the statement of financial position, with recognition within non-current assets as an intangible asset or recognition within trade and other receivables. The differing classification of contract costs results in diversity in practice, not only in the statement of financial position but also in the statement of cash flows. We believe that the IASB should clarify the classification of contract costs to enhance comparability.

In addition to the other IFRS Accounting Standards noted below, we believe that clarity on collaborative arrangements, which are outside the scope of IFRS 15, would be beneficial to enable entities with collaborative arrangements to understand which other IFRS Accounting Standards apply to such arrangements.

#### IFRS 3 *Business Combinations*

We believe that the 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.

We would suggest that that IASB addresses the difference in measurement principals for contract asses and contract liabilities acquired in a business combination. We note that this area of difference has already been addressed in US GAAP, with the FASB amending Topic 805 *Business Combinations* requiring the acquirer to apply Topic 606 to contract assets and contract liabilities

acquired in a business combination at acquisition date. We would welcome a similar amendment to IFRS 3 *Business Combinations*.

#### IFRS 9 *Financial Instruments*

We would encourage the IASB to provide further guidance on the 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 recognised 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.

We believe that clarity on the interaction of these elements within IFRS 9 and IFRS 15 would aid entities in their application and understanding of the standards. For example, the inclusion of guidance on how contract assets incorporate expectations of credit losses on origination and how this then flows into applying the ECL requirements of IFRS 9.

Entities often struggle with effective interest rate ('EIR') and ECL calculations, particularly as the interactions between the two are not clear, we would welcome the inclusion of guidance on this and disclosure of associated judgements.

#### IFRS 16 *Leases*

We believe that the 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?**

We believe it is extremely important to retain the current level of convergence between IFRS 15 and Topic 606. The convergence of the two revenue standards is important to global financial statement users and enables comparability of revenue accounting across jurisdictions which apply US GAAP or IFRS. Where there has been divergence between the two standards, this has largely resulted in additional guidance being introduced into Topic 606 and we would encourage the IASB to introduce some of this into IFRS 15, to re-converge the standards and provide preparers with the application guidance on the requirements of IFRS 15 in practice.

### **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?**

We have no further matters that we think the IASB should examine as part of the post-implementation review of IFRS 15.

END OF DOCUMENT