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Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
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Dear Dr Barckow

Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ("the IASB's") Post-implementation Review IFRS 15 *Revenue from Contracts with Customers* ("the PIR").

Overall, we believe that IFRS 15 has been effective and that the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting.

As explained further in our attached comments, we encourage the Board to make two key amendments as a result of the PIR:

- to amend IFRIC Interpretation 12 *Service Concession Arrangements*, so as to remove an inconsistency between its requirements and those of IFRS 15; and
- to amend IFRS 15 to make clear that, when goods or services are sold within a corporate wrapper, IFRS 15 should be applied, except if the assets being sold meet the definition of a business.

There are other areas for which we believe educational material would be beneficial. This is particularly the case for IFRS 15's agent / principal guidance, which can be very hard to understand, but also for the application of the licensing guidance, and application of IFRS 15 in the context of the software and technology industries.

Finally, we would emphasise that the high degree of convergence between IFRS 15 and its US GAAP equivalent, ASC 606, is highly beneficial to both users and preparers of financial statements. As such, we believe that continuing convergence should be an important objective for both the IASB and the FASB. For example, as noted later in this response, we believe it would be helpful to amend IFRS 15 to add requirements equivalent to those in US GAAP to address variable rebates settled in the seller's own equity.

Our detailed responses to the questions in the PIR are included in the Appendix.

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If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7936 3000.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Deloitte.

Appendix

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 educational 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.

(a) We believe that IFRS 15 has achieved its objective, and that the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting.

(b) IFRS 15 can initially be a difficult Standard to understand and apply, in part because it has been drafted so as to be appropriate for a very wide variety of scenarios. As discussed further below, there are certain aspects for which understandability could be improved; however, in most cases, we do not believe that it would be appropriate to make changes to the drafting of IFRS 15 itself, as the benefits would not outweigh the associated disruption. In that light, we believe that educational materials, including flowcharts, could be helpful in making some of IFRS 15's most complex requirements more readily understandable.

(c) We do not believe that the ongoing costs of applying IFRS 15 exceed the benefits of the resulting information to users of financial statements.

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?

(a) We believe that IFRS 15 provides a clear and sufficient basis to identify performance obligations in a contract.

As was anticipated during the development of the Standard, judgement is often needed when assessing whether promised goods or services are distinct in the context of a contract (IFRS 15:29). Consequently, there is some diversity in application. However, in general, we do not believe that this diversity significantly affects entities' financial statements or the usefulness of the resulting information.

We believe that the explanation provided in IFRS 15:BC116K (functional vs transformative relationship) is important when applying IFRS 15:29. We are also aware that a number of entities find the discussion by the Transition Resource Group of hotel management services to be a helpful analogy when assessing whether a bundle of services needs to be disaggregated. If the Board developed educational materials on this topic, it would be helpful to highlight both of these aspects.

(b) We believe that educational materials highlighting the above aspects of applying IFRS 15:29 could be helpful. We would not favour amending IFRS 15.

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?**

(a) We believe that IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract.

Different entities may account differently for marketing incentives paid to end customers, but we do not believe that this necessitates a change to IFRS 15's requirements. To some extent, the different accounting may reflect different fact patterns (e.g. the end customer may or may not separately be a customer of the entity) and different judgements as to whether or not the entity is receiving a distinct good or service in return. If the impact of the accounting policy applied is material, we would expect an entity to provide appropriate disclosure.

Although IFRS 15 includes no discussion of 'negative' revenue that may arise if amounts paid to a customer are included in the transaction price, we believe that the application of the Standard's recognition and measurement requirements is already sufficiently clear, such that they do not need to be amended. There is some diversity in practice in terms of how 'negative' revenue is presented. We do not believe that standard-setting is needed to address this; once again, if the impact of the accounting policy applied is material, we would expect the entity to provide appropriate disclosure.

(b) We would not favour amending IFRS 15 to address 'negative revenue', but we believe that educational materials on this topic would help to illustrate how the requirements of IFRS 15 might be applied to fact patterns involving negative revenue.

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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?**

(a) We believe that IFRS 15 provides a clear and sufficient basis to determine when to recognise revenue.

There can be practical difficulties in applying IFRS 15:35(c), primarily to property transactions when it is difficult to establish, under the applicable legal framework, whether or not an enforceable right to payment exists. Such a right will only exist if the entity is entitled to compensation for work performed to date, rather than compensation for loss of profits; however, where this would be dependent upon case law rather than statute, there is often no history of a seller having sought such a remedy, because compensation for loss of profits may be a more attractive outcome.

(b) Notwithstanding the above, we believe that the drafting of IFRS 15 in this regard is appropriate and we do not believe that amendments are required. If an entity has needed to make a judgement due to uncertainty over the legal position, this can be explained in the financial statements.

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?**

(a) In our experience, the agent / principal guidance represents the most significant source of questions when applying IFRS 15, and this is primarily because the guidance is hard to understand. Often, entities may be tempted to rely solely on the indicators, because they have not understood the principles and requirements that precede them. In addition, when applying the concept of control, entities often focus wrongly on whether or not they obtain physical possession of items, rather than focusing on the promises that they have made and the consequences of those promises in terms of control.

If any guidance in IFRS 15 were to be substantially redrafted, we believe the agent / principal guidance would be the prime candidate. We think it is important that the IASB achieves greater clarity over how the guidance is meant to be understood and applied. Nevertheless, on balance, we would favour retaining the existing guidance in IFRS 15 and supplementing this with high quality educational materials.

(b) As explained above, we believe that the IASB should produce high quality educational materials that explain clearly how the guidance is meant to be understood and applied. We believe the following points are key:

- A performance obligation is a promise. Accordingly, as explained in IFRS 15:B34, it is key to assess whether, in substance, an entity is promising to provide goods or services itself, or to arrange for another party to do so.
- An assessment of primary contractual responsibility is important because it is reasonable to conclude that the entity with primary contractual responsibility to a customer is, in substance, the entity that is promising the associated goods or services to the customer. The assessment should consider all important aspects of the contractual relationship and not merely be limited to explicit statements in a written agreement.
- If an entity is promising to provide goods or services itself, it would be expected that it is a principal in respect of those goods or services. This reflects the fact, in order to fulfil its promise, it will need to obtain control of either:
    - The goods or services themselves, so that it can transfer control of those goods or services to the customer, or
    - A right to require a third party to transfer those goods or services to the customer on its behalf (i.e. in settlement of its promise). We note that IFRS 15:B35A(b) addresses this concept in the context of services, but we believe it applies equally to a right to require a third party to transfer goods in settlement of the entity's promise.
- If an entity is not promising to provide goods or services itself, because another party is instead making that promise, the entity will not be a principal in respect of the sale of those goods or services.
- Nevertheless, an additional situation that generally results in an entity being the principal in a transaction arises when the entity has obtained control of an asset that represents a third party's promise to provide goods or services, and the entity is promising to transfer that asset (i.e. the third party's promise) to its customer. One such example would be where a supermarket obtains control of mobile phone top-up cards (e.g. by purchasing them without a right of return), and then needs to find customers to sell them to. In this scenario, the supermarket is unlikely to be a principal in respect of the underlying telecom services, but it is a principal in respect of the sale of the top-up card itself, because it has obtained control of that card, and is transferring control to the customer. Accordingly, it will recognise gross revenue (i.e. the amount paid by the customer) when the card is transferred, rather than when the underlying services are provided.
- If instead the entity obtains title to such a third party's promise only momentarily and does not have primary responsibility for the third party's promise, it will be an agent. For example, this

would be the case if the supermarket described above holds top-up cards as consignment stocks (i.e. the top-up cards continue to be controlled by the third party supplier), and only becomes obliged to pay for a card at the point of onward sale.

We believe it would be helpful to note that, in many scenarios, the assessment of whether an entity is acting as principal or agent will be clear from the control principles above without referring to the indicators per se.

Finally, we believe that the educational material should illustrate how the agent / principal guidance may affect an entity's assessment of which party is their customer when an intermediary is involved. In particular, if A (the entity) is selling goods or services through B (an intermediary) to the purchaser C, A will need to consider whether B is acting as a principal or an agent to determine who is A's customer:

- If B is a principal, then B will be A's customer; and
- If B is an agent, then C will be A's customer.

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?**

(a) On balance, we believe that IFRS 15 provides a clear and sufficient basis for accounting for contracts involving licences. Accordingly, we would not favour making further amendments to IFRS 15 itself.

We note that the tests in IFRS 15:B58 are key when establishing whether a licence is a right to use or a right to access. In our experience, these tests are difficult to understand. Conversely, the approach taken by the FASB in ASC 606, which focuses on whether intellectual property is functional or symbolic, achieves almost identical accounting outcomes and is much easier to understand. Therefore, if the IASB concludes that it would be beneficial to achieve greater alignment[1] between IFRS 15 and ASC 606, we would favour adopting the approach from ASC 606. However, unless a decision is taken to achieve greater alignment, we would not favour amending IFRS 15, because we believe the improved clarity would not outweigh the associated disruption.

(b) We believe that additional educational materials could usefully be developed to illustrate how certain aspects of the licensing guidance are applied. Those materials could further explain what IFRS 15:B58 means in practice and could illustrate how the guidance on modification in IFRS 15 would be applied when a licence renewal is agreed.

[1] Please see also our response to question 10.

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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?**

(a) We believe that the disclosures required by IFRS 15:116(c), which requires information on revenue recognised in the period from performance obligation satisfied in a previous period, and IFRS 15:118(b) , which requires disclosure of catch-up adjustments to revenue that affect contract asset/liability, are particularly important when understanding the extent to which current year revenues have been affected by changes in estimates, which would include the release of amounts previously constrained.

We have not identified any disclosure requirements that do not potentially provide useful information in at least some scenarios. For example, we note that the disclosure set out in IFRS 15:124(b), which requires an entity to explain why the methods used to recognise revenue over time provide a faithful depiction of the transfer of goods or services, could result in boilerplate information in many scenarios. However, as noted in IFRS 15:BC331, the disclosure requirements in IFRS 15 should not be viewed as a checklist of minimum disclosure but instead entities need to consider these requirements in the context of the disclosure objective and materiality. If this approach is followed, the disclosure in IFRS 15:124(b) is only provided when it is genuinely useful to a reader.

(b) The information needed to comply with certain of IFRS 15's disclosure requirements was not readily available from accounting systems prior to implementation of the Standard. For example, amendments to accounting systems and processes were generally required in order to comply with the disclosure requirement in IFRS 15:120 (transaction price not yet recognised as revenue). Once necessary changes to systems and processes have been made, additional investment is typically not required. In certain industries, there can be significant ongoing costs related to providing the disclosures. However, we are not aware of such ongoing costs being prohibitive or outweighing the benefit/usefulness of providing such disclosures.

(c) Inevitably, there is some variation in the quality of revenue disclosures. Some regulators have published thematic reviews of IFRS 15 disclosures, noting where improvements would be possible and highlighting examples of best practice. While it would be useful to produce educational material illustrating how to apply judgement in deciding which disclosures are important and how they are best communicated, we do not believe this is a pressing need, especially when compared with some of the other topics discussed above.

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.

(a) In our experience, many entities applied the modified retrospective method and/or made use of practical expedients. We believe that the transition requirements worked as intended, and there was appropriate balance between reducing costs and providing useful information.

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?

(a) We believe there are two areas of interaction with other Standards where amendments should be made to existing requirements.

- IFRS 10 *Consolidated Financial Statements* (Spotlight 9.4)

  As we noted in our response to the post implementation review of IFRS 10, in certain jurisdictions, some entities whose ordinary activities involve constructing and selling certain items (e.g. real estate, renewable projects) will sell those items inside a corporate wrapper. This has led to some diversity in practice over whether these are revenue transactions or transactions within the scope of IFRS 10. We continue to believe that it is important for the issues associated with such corporate wrapper transactions to be addressed.

- IFRIC Interpretation 12 *Service Concession Arrangements*

  IFRIC 12:21 envisages that an operator might set up a provision for the future costs of maintaining or restoring the grantor's infrastructure, instead of deferring revenue. We believe such accounting is conceptually flawed. Such maintenance and restoration activities transfer control of benefits to the grantor, and they should be accounted for as performance obligations under IFRS 15, as illustrated in Example 1 accompanying IFRIC 12. If such an obligation arises under IFRIC 12's intangible asset model, we believe the intangible asset received would represent non-cash consideration that is in part attributable to such performance obligations, which would therefore give rise to a contract liability.

In terms of the other specific matters raised in the PIR, we would comment as follows:

- IFRS 3 *Business Combinations* (Spotlight 9.1)

  We believe that significant differences can arise between an acquiree's measurement of contract assets and their acquisition date fair value when the revenue recognised by the acquiree has been significantly impacted by IFRS 15's variable consideration constraint. This can be the case, for example, when the acquiree is an investment manager and significant amounts of carried interest would be recognised on an unconstrained basis, but the amounts that can be considered highly probable, and therefore recognised, are much smaller. At present, under IFRS 3, we believe that those balances existing at the acquisition date are required to be measured at fair value. Hence questions arise in practice on whether these amounts represent contract assets in the consolidated financial statements of the acquirer, because they do not relate to goods or services that the acquiring group has transferred to a customer instead, they relate to goods or services transferred prior to acquisition. This is important because this may affect whether the subsequent remeasurement of the asset recognised at the acquisition date affects revenue or another line in the statement of profit or loss.

  The Board may wish to consider whether alignment of IFRS 3 with US GAAP would be an appropriate way to address this complex area. Alternatively, we believe that educational material on this topic could be helpful.

- IFRS 9 *Financial Instruments* (Spotlight 9.2)

  We believe IFRS 15 is clear that, when a seller grants a price concession, this represents an adjustment to the transaction price, and is therefore reflected in revenue. We believe this remains true when a seller grants a price concession in relation to a balance for which a significant impairment loss has been recognised due to the customer's perceived inability to pay.

  It might, however, be helpful to clarify which liability balances fall within the scope of IFRS 9 and which within the scope of IFRS 15, as the interaction of IFRS 9:2.1(j) and IFRS 15:5(c) is difficult to understand and can appear circular.

- IFRS 16 *Leases* (Spotlight 9.3)

  Although some judgements may be needed, we have not identified particular difficulties when accounting for contracts that include a service component and a lease component.

  However, in our experience, one of the most significant uncertainties in relation to the interaction of IFRS 15 and IFRS 16 is in assessing whether or not certain transactions should be regarded as leases. For a variety of arrangements, not limited to those with the legal form of a lease, but also including those where there is a customer option to return an item, it can be hard to know whether to apply IFRS 15 or IFRS 16, and the accounting can be markedly different. For example:

  - Under IFRS 15 revenue from a sale with a right of return will typically be point in time – but if this is instead assessed as an operating lease, lease income will be over the period of that lease.
  - If an asset is being constructed for a customer, and revenue would be recognised over time under IFRS 15 because IFRS 15:35(c) is met, it seems possible that lease income might instead be at a point in time (at lease commencement) under IFRS 16.

- The accounting under IFRS 15 for recognising and constraining variable consideration is very different from the guidance on accounting for contingent consideration under IFRS 16.
- The treatment of contract modifications can also be different.

To give a specific example, it is not uncommon for a mobile phone company to ‘sell’ a handset to a customer on credit terms but granting the customer the right to put that handset back to the mobile phone company at a later date (e.g. after one year) as part of the settlement of the amount owed. Title may transfer to the customer, or it may be retained by the mobile phone company as security for the debt balance. If such a transaction is a lease, it is likely to be an operating lease, with income recognised over the period from the initial ‘sale’ until the handset is returned; if it is not a lease, income will be recognised at the point of initial sale.

Accordingly, we believe it would be helpful for the Board to develop more guidance on how to determine whether or not arrangements, such as those described above, are leases.

(b) In respect of sales within a corporate wrapper, if a wider project is not undertaken, we believe the Board should consider amending IFRS 15 to make clear that when an entity sells goods or services that are outputs from its ordinary activities, but within a corporate wrapper, it is appropriate for IFRS 15 to be applied to the sale of those goods or services, except when the assets being sold meet the definition of a business.

As noted above, we believe that IFRIC 12:21 should be amended to indicate that obligations in respect of maintenance and restoration represent performance obligations.

In respect of the other matters raised, we believe that greater clarity could be achieved through the publication of educational materials.

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?

(a) Although some differences between IFRS 15 and Topic 606 have arisen, primarily due to modifications to the latter that have not been reflected in the former, the standards remain largely converged. We believe such convergence remains very valuable to both users and preparers. We therefore recommend that, when changes are made to Topic 606, the IASB also considers whether equivalent changes would be helpful in IFRS 15.

For example, the US guidance on variable rebates that are settled in the seller’s own equity addresses a scenario that also arises for IFRS reporters. Where such changes represent clear improvements to the existing requirements, it would generally be helpful for them also to be reflected in IFRS Standards.

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.

(a) There are no further matters that we wish to raise as part of the post-implementation review.