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Mr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Berlin, 06 October 2023

Dear Andreas,

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

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Request for Information Post-implementation Review IFRS 15 *Revenue from Contracts with Customers*, issued by the IASB on 29 June 2023 (herein referred to as 'RfI'). We appreciate the opportunity to respond to questions raised in the RfI. The views expressed hereafter are based on our experience with the application of IFRS 15 in Germany and reflect our consultation of German constituents on the IASB's RfI.

We consider that IFRS 15 is a principles-based, well-structured, and understandable Standard that is generally working well in practice. Overall, we consider the core principle and the supporting five-step revenue recognition model to provide useful information about an entity's revenue from contracts with customers.

We observed that various aspects of IFRS 15 were challenging during the implementation phase of the Standard but over time, pragmatic and well working solutions were found in practice. We believe that stability should be the primary objective of the PiR; fundamental conceptual discussions and fundamental changes to the Standard should be avoided.

With respect to cost-benefit balance, we obtained feedback that the implementation and transition costs were significant while the effect on the amount of revenue recognised in the financial statements was limited. In further standard-setting projects, the IASB should pay more attention to ensuring that the benefits of the new or amended Standard exceed the costs of implementing it.

Also, the ongoing costs appear to remain still significant for some industries. The main cost driver appears to be data collection to meet disclosure requirements. We suggest that the IASB should seek an exchange with users of financial statements to evaluate whether and to what extent these disclosures are relevant for investment decisions making.

Our responses to the questions in the RfI are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions raised in the RfI

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.

Response to (a)

We consider that IFRS 15 is a principles-based, well-structured, and understandable Standard that is generally working well in practice. In our view, the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting for entities in various industries. Overall, we consider them to provide useful information about an entity's revenue from contracts with customers.

However, we see the need for some targeted improvements to IFRS 15; please refer to our responses to IASB's Questions 5 and 9 below.

Response to (b)

We observed that various aspects of IFRS 15 were challenging during the implementation phase of the Standard (e.g., revenue recognition over time, principal-agent considerations, interaction with other IFRSs, especially with IFRS 9) but over time, pragmatic and well working solutions were found in practice. However, for some complex issues, entities still need to use significant judgement in applying the requirements of IFRS 15, which might lead to inconsistent outcomes between entities and thus could affect comparability. However, in our view, this may be less due to the conceptual weaknesses of the Standard then to the varying complexity of modern business models. For this reason, we believe that stability should be the primary objective of the PiR; fundamental conceptual discussions and fundamental changes to the Standard should be avoided.

Response to (c)

We obtained feedback that the implementation and transition costs were significant while the effect on the amount of revenue recognised in the financial statements was limited. Thus, the cost-benefit ratio in implementing the requirements of IFRS 15 appears questionable in our view. In further standard-setting projects, the IASB should pay more attention to ensuring that the benefits of the new or amended Standard exceed the costs of implementing it.

The ongoing costs appear to remain still significant for some industries. The main cost driver appears to be data collection to meet disclosure requirements (in particular, disaggregation of revenue and the reconciliation of contract assets/contract liabilities). Furthermore, analysing new transactions is associated with a high level of effort, which may be mainly due to the increasing complexity of the transactions.

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?

Response to (a)

We agree with the IASB's observation that identifying goods or services promised in a contract and determining whether those goods or services are distinct is sometimes challenging. Particularly, we noted that application challenges arise for license agreements as well as for software-as-a-services arrangements and cloud-based solutions.

Response to (b)

When IFRS 15 was issued, many business models did not yet exist or were not widespread. Further, business models are continuously changing, so applying the principle-based requirements of the Standard for new business models will still remain challenging. In our view, the core principles of IFRS 15 provide a sufficient basis for identifying performance obligations, even if this is challenging in individual cases in practice.

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?

Response to (a)

In our view, IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract. The fact pattern regarding the incentives paid by an agent to the end customer or for negative net consideration from a contract and the question of how to account for this fact pattern does not appear to be a widespread issue.

Response to (b)

We have not identified any need for Standard amendments in this respect.

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?

Response to (a)

We share the IASB's observation that the initial challenges - some of which were significant - related to determining whether to recognise revenue over time or at a point in time have largely been overcome. Existing challenges can still be observed in the software sector. However, these challenges are not because the requirements of the Standard are unclear, but because of the complexity of legal contract drafting. Therefore, we do not see any need for standard setting activities on this topic.

Response to (b)

We have not identified any need for Standard amendments in this respect.

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?

Response to (a)

Determining whether an entity is a principal or an agent is not an IFRS 15-specific, but a cross-cutting issue across various IFRSs relevant wherever more than two parties are involved in a transaction. E.g., IFRS 10, IFRS 16, and IFRS 9 contain principal versus agent requirements. We acknowledge that principal versus agent determination is challenging when applying these requirements.

IFRS 15 requires an entity to determine whether it is a principal or an agent based on the concept of control. Additionally, IFRS 15 includes a non-exhaustive list of indicators of control to help entities assess whether they control the goods or services before they are transferred to the customer. In our opinion, the relationship between the concept of control and the corresponding indicators is not clearly described in the Standard. In practice, the assessment is often made based on the fulfilment or non-fulfilment of predefined indicators rather than on the concept of control. In many cases, a fulfilment of the indicators does not allow a clear assessment of whether the company is acting as a principal or as an agent. In these cases, an entity uses judgement that has a significant impact on revenue accounting and thus, the numbers reported in the financial statements.

Response to (b)

We suggest that the IASB should give more prominence to the assessment of control and clarify that the indicators listed in IFRS 15 are non-exhaustive and are intended to help entities assess the transfer of control. The link of the indicators to the control concept should be clarified. In doing so, the IASB should consider convergence with the related requirements in Topic 606 (see response to Question 10).

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?

Response to (a)

We share the IASB's observations that the identification of performance obligations in software-as-a-service arrangements as well as in those arrangements that include both the obligation to provide goods or services and a license are applied inconsistently. However, in our view, this is due to the complexity of the respective contract agreements, which means that using judgement cannot be avoided or ruled out. Overall, we believe that the Standard provides a sufficient basis for identifying performance obligations and accounting for contracts involving licences. Therefore, we do not see the need for standard setting in this respect.

Response to (a)

If the IASB decides to amend the Standard on this topic, it should first collect concrete examples in which the requirements are unclear. Instead of amending IFRS 15, the IASB could provide educational materials which include more complex fact patterns involving licences.

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?

Response to (a)

Overall, we consider the disclosure requirements to be sufficient and suitable for providing users of financial statements with a picture of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. We see no need for any additional disclosure requirements. We do not share the IASB's observation that entities sometimes omit the disclosures required by IFRS 15 because the disclosure requirements are not sufficiently specific.

Response to (b) and (c)

In our view, the ongoing costs of complying with some disclosure requirements of IFRS 15 do exceed the benefits for users of financial statements, e.g.:

- Disclosures on contract assets and contract liabilities, especially disaggregation of revenue and disclosures on cumulative catch-up adjustments to revenue which affect the corresponding contract asset or contract liability. Gathering this information is in part associated with a considerable level of effort and thus, is costly, as this data cannot be produced automatically. We expect costs to remain high in the long term.
- Providing disclosures on the amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date are also very time-consuming and costly. Moreover, we observed that there is diversity in practice as to as how entities approach this disclosure requirements.

We question the usefulness of the information to be provided under these disclosure requirements and thus, the balance between the costs and benefits of the whole set of disclosures required in IFRS 15. We suggest that the IASB should seek an exchange with users of financial statements to evaluate whether and to what extent these disclosures are relevant for investment decisions making.

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.

Response to (a)

The modified retrospective method option has been used extensively in practice since this method has significantly reduced costs and the burden of transition for preparers of financial statements. In our view, there was no significant loss of information for users of the financial statements because of additional disclosures the entities had to provide when applying the modified retrospective method according to IFRS 15. Therefore, we consider that 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. We encourage the IASB to use the option of the modified retrospective method also in further standard setting projects.

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?

<u>Response to (a)</u>

We consider that application challenges arise from applying IFRS 15 and the following two other IFRSs:

- IFRS 3 *Business Combinations* – measuring contract assets and contract liabilities acquired as part of a business combination; and
- IFRS 10 *Consolidated financial statements* – accounting for sales of assets via corporate wrappers.

Both issues are explicitly identified in the IASB's RfI. We consider them to be of high priority, since these are common issues, whose accounting is currently inconsistent.

<u>Response to (b)</u>

<u>Interaction with IFRS 3 *Business Combinations*</u>

Regarding IASB's Spotlight 9.1 – IFRS 3 *Business Combinations* we would like to point out that the issue described is pervasive and affects many of our acquisitions, especially in the software sector.

The current regulations in IFRS 3 require a revaluation of deferred revenue acquired in a business combination to its fair value. Fair value of deferred revenue is generally determined by computing an amount equal to the cost of providing services in the post-acquisition period plus a reasonable profit margin, which typically results in a significant downward adjustment (commonly referred to as a 'haircut') in the consolidated statements of the acquiring company.

The relating revenues are never realised, which distorts investors since they usually expect higher revenues after an acquisition has taken place.

The FASB acknowledged this issue and simplified purchase price accounting for deferred revenue in US-GAAP by releasing Accounting Standards Update (ASU) 2021-08. This ASU requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with ASC 606, the revenue standard. Consequently, an acquiring entity will generally account for deferred revenue as if it had originated the contract, resulting in no deferred revenue 'haircuts' at the date of acquisition.

As mentioned by the FASB, the new approach offers several benefits like:

I. improving comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination,

II. reducing the complexity associated with determining the fair value of contract liability at the acquisition date by providing better information to investors and stronger comparability by specifying for all acquired revenue contracts regardless of their timing of payment the circumstances in which the acquirer should recognize contract assets and contract liabilities that are acquired in a business combination and how to measure those contract assets and liabilities,

III. improving comparability of post-acquisition reporting by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination,

IV. eliminating a need to revalue deferred revenue and determine the cost to deliver contracted services, and

V. reducing the effort and costs associated with post-acquisition accounting.

This relief is available for all public and private entities applying US-GAAP and significantly enhances information comparability in the pre-acquisition and post-acquisition periods for users of financial statements.

We strongly encourage the IASB to resolve the inconsistency between the requirements for measuring contract assets and contract liabilities in IFRS 15 and IFRS 3 and to update IFRS 3 regulations accordingly. Such an amendment appears appropriate from a conceptual perspective, since there are other areas in IFRS 3 that are not based solely on fair value measurement, but on the relevant accounting in the respective Standards. Moreover, such an amendment would increase convergence between IFRS and U.S. GAAP requirements, which we consider to be very important, at least with regard to revenue accounting (see our answer on Question 10 below).

<u>Interaction with IFRS 10 *Consolidated financial statements*</u>

The corporate wrapper matter was already addressed by many stakeholders in the different contexts. The IASB decided not to include a question about accounting for the sale of assets via corporate wrappers in the RfI of the PiR of IFRS 15 but to reserve it for the next agenda consultation. We acknowledge that accounting for the sale of assets via corporate wrappers is a cross-cutting issue and thus, developing a comprehensive solution for corporate wrappers could affect multiple IFRSs. Therefore, we understand that the IASB has not included this issue in this RfI. Nonetheless, we suggest that the IASB addresses this issue in the short term within a narrow-scope project instead of assessing the demand for resolving this matter in the next agenda consultation.

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?

Response to (a)

We believe that generally, convergence should not be a primary objective of the IASB when developing Standards. However, regarding revenue accounting, we consider convergence to be very important. Firstly, the two Standards - IFRS 15 and ASC 606 - were developed jointly by the IASB and the FASB. Secondly, revenue accounting is one of the key topics in financial reporting. In this respect, the IASB should continue to exchange views with the FASB and maintain convergence as far as possible. Any amendments to IFRS 15 that are not adopted by analogy in U.S. GAAP should be avoided unless these amendments significantly enhance the quality of the information reported.

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.

Response to (a)

We have not identified any other matters.