Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

DRSC / ASCG • Joachimsthaler Str. 34 • 10719 Berlin

21. Sitzung FA FB am 12.10.2023
21_01c_FA-FB_PIR-IFRS15_SN-EFRAG-Entwurf

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Wolf Klinz
EFRAG FR Board President
35 Square de Meeûs
B-1000 Brussels

Berlin, 6 October 2023

Dear Mr Klinz,

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 contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's Request for Information – Post-implementation Review IFRS 15 *Revenue from Contracts with Customers* by providing our feedback vis-à-vis the IASB.

We provide our response to EFRAG's questions to constituents in the appendix of this letter and attach our comment letter to the IASB, containing our detailed comments on the questions raised in the RfI.

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

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Appendix – Answers to the questions in the DCL

Question 3 – Determining the transaction price

Do you agree with the priority of the variable consideration issue identified by EFRAG? Do you agree with the suggestions to address it? Are you aware of any other pervasive issue in the determination of the transaction price?

Auszug aus EFRAG DCL:

36. EFRAG received feedback from preparers, auditors, and national standard setters that there is a lack of guidance on whether incentives/penalties to customers by intermediaries should be presented as reductions of revenue or as expenses.

37. In addition, EFRAG's constituents indicated that there is a lack of guidance in instances where the consideration payable to a customer exceeds the amount of consideration expected to be received from it. For example, in a three-way arrangement, a fintech company may pay an incentive to attract end customers higher than the consideration they will receive from the supplier. This instance is highly related to the prior issue "Marketing incentive to end customers". An entity would only assess the recognition of 'negative' revenue once it has identified its customer.

38. However, the 'negative' revenue issue is not only circumscribed to three-party arrangements. The IFRS Interpretations Committee received a request about an airline's obligation to compensate customers for delayed or cancelled flights. The Committee however did not address the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. In particular, whether any compensation payment beyond the ticket price should be recognised as an expense or as negative revenue.

39. This issue was also raised in 2015 with the TRG for Revenue Recognition but it was not resolved.

40. Based on the above, EFRAG considers this issue to be a high priority for addressing by the IASB as it relates to the measurement of revenue and affects the presentation of revenue amounts and could affect users' analysis of performance, and, hence, their valuation of entities (e.g. when valuation is based on revenue-based multiples).

41. EFRAG suggests that the IASB considers clarifying whether and under what circumstances 'negative' revenue should be presented as an expense.

The feedback that we received from our stakeholders indicated no need for clarification whether and under what circumstances 'negative' revenue should be presented as an expense. 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.

Question 4 – Determining when to recognise revenue

Are you aware of any pervasive issues, including the one outlined in paragraphs 55 and 56 above, that give rise to diversity in practice in the timing of revenue recognition as a result of the IFRS 15 requirements of when to recognise revenue (i.e., over time or at a point in time) after assessing the pattern of transfer of control of a good or service? If yes, please elaborate.

Auszug aus EFRAG DCL:

55. Furthermore, during EFRAG's outreach, a regulator highlighted the difficulties faced by entities in the automotive industry, where there are automotive suppliers who deliver specific parts to original equipment manufacturers (OEMs)12 and a limited number of these specific parts that could be sold in a secondary market (aftermarket). EFRAG has been informed that there is diversity in practice in revenue recognition practices related to the sale of the parts. This is because OEM entities can either consider these parts resulting from one purchase order

(a) as distinct goods (or a bundle of goods); or

(b) as a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. For this characterisation, each distinct good in the series that the entity promises to transfer to the customer should meet the criteria in IFRS 15.35 to be deemed a performance obligation satisfied over time. When making this determination for this noted fact pattern, the key assessment is whether or not the aftermarket for the parts is an alternative use to the entity (i.e., IFRS15.35(c)).

56. On the latter point, even though the specific parts have an alternative use, an entity might be practically limited from readily directing the asset for another use as it would incur significant economic losses. The outcome of this assessment may differ in practice depending on the level at which it is performed; one unit, a purchase order or via a master supply agreement (MSA). Production under an MSA would not be viable if the entity had to use a secondary market for its output (as it is very limited).

[ASCG's response is pending.]

Question 7 – Disclosure requirements

Do users (and other stakeholders) of financial statements agree with the concerns and suggestions for improvement of the individual disclosure requirements detailed in paragraph 87?

Auszug aus EFRAG DCL:

87. In contrast to the above findings, as detailed below, during EFRAG's outreach, some stakeholders including preparers, auditors, and national standard setters have questioned the usefulness of some of the disclosures and/or made suggestions for their enhancements:

(a) Reconciliation of contract assets and contract liabilities: Preparers in the pharmaceutical industry have opined that the costs of preparing the reconciliation of the contract assets and liabilities could outweigh the benefits this disclosure provides for users. In addition, they noted

that the information in this disclosure is not needed by management in running the business and, therefore, they questioned its benefits for investors.

However, users have conveyed the importance of this disclosure for business models that are based on long-term contracts. For instance, this disclosure provides transparency on the fair value adjustments related to the acquiree's contract assets and contract liabilities (i.e., the difference between the fair value and transaction price of the acquiree's contract assets and contract liabilities, as discussed in respect of the Standard's interaction with IFRS 3 Business Combinations in Question 9). And users can thereafter make analytical adjustments to unwind the differing depictions of financial performance, which depend on whether a company's business is growing organically or via acquisitions.

(b) Disaggregation of revenue: The concerns and suggested improvements on disaggregation of revenue were as follows:

(i) The disaggregation of revenue is not done at a useful level as it is too standardised and may fail to represent the entity-specific circumstances in a decision-useful manner (e.g., by the failure to split between direct sales vs collaboration revenue in the pharmaceutical industry).

(ii) The disaggregation of revenue disclosure requirements are better suited for entities in the scope of IFRS 8 Operating Segments (e.g., listed entities) rather than for small-medium entities. Hence, these requirements should be differentiated based on the type or size of the reporting entity (i.e., the principle of proportionality should be applied).

(iii) The disclosure of risk factors related to different revenue streams would be useful.

(c) Remaining performance obligations: It was observed that users seem more interested in the backlog information than the remaining performance obligations.

(d) Transaction price allocated to the remaining performance obligations: It was suggested that, to improve this disclosure, a reconciliation of the transaction price allocated to the performance obligations that are unsatisfied at the beginning and at the end of the reporting period should be required. Such a reconciliation would enable users to identify unusual movements (e.g., changes in the scope of consolidation and relevant foreign exchange translation differences). In addition, an explanation of how the reported amount was calculated could be useful.

As noted in our comment letter to the IASB, we question the balance between the costs and benefits of the whole set of disclosures required in IFRS 15. We have received feedback from some of our stakeholders that they have not yet received any requests for additional information as part of their investor relations communications. Against this background, we consider the possible extensions of existing disclosure requirements as described by EFRAG in para. 87 to be critical from a cost-benefit perspective. For further explanation, please refer to our answer to question 9 in the attached comment letter to the IASB.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

Should the IASB address the interaction between IFRS 15 and IFRS 10 as detailed in paragraphs 120-123 and 127-128? In your experience, is this matter pervasive? If yes, please explain.

Auszug aus EFRAG DCL:

120. EFRAG received feedback about the challenges arising from the interaction between IFRS 15 and IFRS 10 in the case of a sale of a single asset (that could be part of its ordinary activities) through a corporate wrapper.

121. Constituents (auditors and national standard setters) have highlighted that applying different standards to similar transactions with only differing legal forms has resulted in the inconsistent accounting treatment of transactions with the same commercial substance. And this affects the timing of recognition, measurement, presentation, and disclosure of these transactions.

122. Of note, previous IFRS IC discussions concluded that IFRS 15 scopes out contracts with customers that fall within the scope of IFRS 9 or IFRS 10 and, as such, the entity shall account for the transaction under IFRS 10. However, EFRAG stakeholders have noted that diversity in practice is still in place, especially within the real estate industry.

123. Based on the above, EFRAG considers this issue to be of high priority.

[…]

127. IFRS 10: EFRAG acknowledges that the accounting for sales of assets via corporate wrappers is a cross-cutting issue and, therefore, developing a comprehensive solution for corporate wrappers could affect multiple IFRS Accounting Standards. EFRAG is also cognisant that the IASB has considered that this topic should be raised in a forthcoming agenda consultation and that it had also been considered by the IASB in respect of the PIR of IFRS 10, IFRS 11 and IFRS 12 (see Feedback Statement26).

128. Nonetheless, EFRAG considers that clarifications on the applicable treatment under IFRS 15 or IFRS 10 (or other standards) would promote consistency with regards to a) the net or gross presentation of the sale of subsidiaries which are single asset entities through selling their equity interest; and b) timing of revenue recognition. Furthermore, this is an area where convergence with US GAAP could be attained. Hence, EFRAG suggests that the IASB explores adding a narrow-scope project that would require an entity to apply IFRS 15 instead of IFRS 10 for the sale of a single-asset subsidiary to a customer.

Yes, we believe that the IASB should address the interaction between IFRS 15 and IFRS 10 with respect to corporate wrapper matter since this matter is pervasive and the accounting treatment is currently inconsistent.

Furthermore, please refer to our comments on the interaction between IFRS 15 and IFRS 3 *Business Combinations* in the attached comment letter to the IASB.

Should the IASB address the interaction between IFRS 15 and IFRS 11 as detailed in paragraphs 124-126 and 129? In your experience, under what circumstances/fact patterns has it been difficult to determine whether collaborative arrangements are in the scope of IFRS 15 and is this matter pervasive? If yes, please explain.

Auszug aus EFRAG DCL:

124. EFRAG received feedback that it is often difficult to determine whether collaborative arrangements (or portions of these contracts) that are common in some sectors fall under the

scope exception of IFRS 15. IFRS15.5 states the Standard is not applicable for some contracts, and it is only applicable to a contract if the counterparty to the contract is a customer. IFRS 15.6 states there could be circumstances where the counterparty to the contract would not be a customer. For example, if, rather than to obtain the output of the entity's ordinary activities the counterparty has contracted with the reporting entity to participate in an activity or process as part of a risk-sharing arrangement.

125. During EFRAG's outreach, preparers from different sectors (pharmaceutical, software, telecommunication) and auditors have pointed to the limitations of IFRS 15.6 in identifying whether a collaborative arrangement contract is within the scope of IFRS 15. However, there is a need to further identify under what specific fact patterns, the challenges with determining whether collaborative arrangements are in the scope of IFRS 15 arise. We note that in the March 2023 IASB agenda paper, the IASB staff noted questions had arisen from stakeholders on the interaction between IFRS 15 and IFRS 11 in respect of:

(a) how to determine what is a collaborative arrangement and how to distinguish it from a supplier-customer relationship.

(b) how to recognise revenue when no joint control is established and when neither party is seen as a customer. Some stakeholders suggested there may be diversity in practice related to this matter.

(c) whether companies from the same group can have a customer-supplier relationship.

Furthermore, it was noted in the aforementioned IASB agenda paper that the question on accounting for collaborative arrangements came up in the context of the PIR of IFRS 11. And the matter was not included in the 2021 Third Agenda Consultation and the IASB staff recommended its inclusion in a future agenda consultation.

126. Due to the cross-cutting nature of collaborative arrangements, EFRAG considers this issue a high priority. Furthermore, as the PIR of IFRS 11 focused on gathering information on collaborative arrangements outside the scope of IFRS 11 and the June 2022 PIR IFRS 11 feedback statement does not touch on the issues that may arise in the context of IFRS 15, there is a need to further identify under what specific fact patterns, the challenges with determining whether collaborative arrangements are in the scope of IFRS 15 arise. Hence, EFRAG seeks constituents' views on this issue.

[…]

129. IFRS 11: EFRAG recommends the IASB should clarify which collaborative arrangements are considered to be outside of the scope of IFRS 15 (i.e., which arrangements meet the requirements included in IFRS 15.5(d)).

[ASCG's response is pending.]