



POST-IMPLEMENTATION REVIEW OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Issued 27 October 2023

ICAEW welcomes the opportunity to comment on the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* published by IASB on 29 June 2023, a copy of which is available from this [link](#).

For questions on this submission please contact our Corporate Reporting Faculty at crf@icaew.com quoting REP 109/23.

We believe that, overall, IFRS 15 is working as intended and has met the IASB's objectives for the standard. As such, we have focused our response by only raising matters that are either significant and pervasive, or straightforward to resolve without extensive resource and due process.

As detailed in our response, we recommend that the IASB review the requirements and guidance around:

- sales within a “corporate wrapper”;
- contractual obligations to maintain or restore the infrastructure within service concession arrangements; and
- principal versus agent considerations.

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KEY POINTS

WE BELIEVE IFRS 15 IS WORKING AS INTENDED

1. We welcome the opportunity to comment on the IASB's Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*. We believe that, overall, IFRS 15 is working as intended and has met the IASB's objectives for the standard.
2. We understand and accept that the IASB must prioritise matters raised as part of the post-implementation review such that only significant and pervasive issues are addressed as a high priority. We have therefore focused our response by only raising matters that are either:
 - a. significant and pervasive, and therefore should be addressed as a high priority, or
 - b. straightforward to resolve without extensive resource and due process.
3. For this reason, we have not sought to answer all of the questions in the Request for Information and have focused on three matters, outlined below, that we believe the IASB should address in the short-term.

CORPORATE WRAPPERS

4. The first issue that we think should be addressed as part of this review concerns corporate wrappers. We understand from the Request for Information, that the IASB has already considered the accounting issues around sales made as part of an entity's ordinary activities by selling shares in a single-asset entity and has decided not to pursue further work to address the issue. However, we are aware of diversity in practice whereby the sale of assets via a corporate wrapper are sometimes accounted for as the disposal of a subsidiary using IFRS 10 *Consolidated Financial Statements* while others record such a transaction as a sale using IFRS 15.
5. In our view, this diversity is widespread and significant enough to mean that action is now required. We believe that recording a sale of the underlying asset, rather than a disposal of a subsidiary, better reflects the economics of the transaction and so recommend that amendments are made to IFRS 15 and IFRS 10 to bring such sales within the scope of IFRS 15.
6. Further details on the issue of corporate wrappers are included in our response to Question 9 below.

IFRIC 12 – OBLIGATIONS TO RESTORE INFRASTRUCTURE

7. A further issue we have identified relates to paragraph 21 of IFRIC 12 *Service Concession Arrangements*, which requires that operators recognise contractual obligations to maintain or restore the infrastructure in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
8. In our view, an operator's contractual obligations to maintain or restore an asset should be accounted for as performance obligations under IFRS 15. We therefore suggest that the requirement to apply IAS 37 is removed from IFRIC 12.
9. While it is possible that the view could be taken that this issue does not represent a high-priority or urgent matter, we think that the existing requirement is incorrect and contradictory, and creates significant confusion when applying the underlying principles of IFRS 15 to service concession arrangements within the scope of IFRIC 12.
10. Further comments on this matter are included as part of our response to Question 9 below.

PRINCIPAL VERSUS AGENT CONSIDERATIONS

11. We are aware that complex transaction flows and arrangements such as collaboration agreements can cause confusion over whether an entity is a principal or an agent in a transaction. We do not believe that the underlying concepts in IFRS 15 need to be changed. However, we would support clarification within the standard, particularly in Appendix B, to ensure preparers understand the underlying concepts.

12. Additionally, outside of the standard, we suggest that the IASB provides further guidance on identifying whether an entity is a principal or an agent in a transaction. We explain this suggestion in more detail as part of our response to Question 5 below.

ANSWERS TO SPECIFIC QUESTIONS

Question 5 – Principal versus agent considerations

5(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.

5(b) Do you have any suggestions for resolving the matters you have identified?

13. In our experience, IFRS 15's guidance on whether an entity is acting as a principal or an agent can be challenging to apply in practice. Many companies and their advisors find it difficult to understand these requirements and they lead to more application questions than any other part of the standard.
14. We do not believe the core principles relating to principal versus agent considerations in the standard require amendment. Having said that, we do believe that there is a need for amendments to the standard to ensure the explanations of the core principles are clear. We therefore recommend that the section on principal versus agent considerations in Appendix B is rewritten. In particular, we would support additional guidance within the standard, including guidance that links to the definition of a customer as we believe that this would help entities to determine:
- a. whether they are a principal or an agent where transactions involve several entities; and
 - b. in cases where the entity is the principal, which entity in a transaction is its customer.
15. We believe the explanations and guidance in Appendix B would be clearer if more emphasis is placed on assessing how control of the goods and services passes between entities. Further, we would support clarification within the standard that the guidance on principal versus agent considerations is relevant to the initial supplier as the guidance helps the supplier determine which entity is its customer.
16. In particular, we would support the development of guidance that illustrates sales from Entity A to Entity C via Entity B with reference to the flow of control of the goods or services being sold. Such guidance will better allow preparers to identify their customer. For example, if, having analysed the flow of control in a transaction, it is clear that Entity B is an agent, Entity A will identify that Entity C is its customer. Alternatively, if Entity B is a principal, Entity A will determine that Entity B is its customer. Establishing the flow of control is fundamental to identifying the customer. We therefore believe that enhanced guidance on this issue will address an area of misunderstanding that leads to a significant number of questions and errors.
17. Additionally, we believe that it would be helpful for the IASB to produce further guidance or education materials outside of the standard to enable people to better understand principal versus agent considerations. Guidance that includes a wide range of examples, including sales of services and intangible assets, would be particularly useful. Specifically, we would want the guidance to cover situations in which an entity is and is not an agent, with reference to control transferring to the customer.

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards

9(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.

9(b) Do you have any suggestions for resolving the matters you have identified?

Corporate Wrappers

18. We understand that there is diversity in practice in accounting for sales made as part of an entity's ordinary activities, by selling shares in a single-asset entity – commonly referred to as a 'corporate wrapper'. Some entities choose to apply IFRS 10 and account for a corporate wrapper transaction as the disposal of a subsidiary whereas others apply IFRS 15 and account for it as a revenue transaction. Such diversity compromises the usefulness of published financial information by limiting users' ability to make comparisons between entities.
19. We note this issue is not just about the presentation of income; the timing or measurement of income being recognised may also be affected. For example, application of IFRS 10 will always result in the recognition of a gain on disposal at a point in time. However, application of IFRS 15 to the sale of the asset held within the corporate wrapper may mean revenue is recognised over time. Alternatively, application of IFRS 15's requirements for variable consideration may lead to income being measured differently than under IFRS 10.
20. For example, Entity A may enter into a contract to manufacture a windfarm for Entity B. Without the use of a corporate wrapper, Entity A would recognise revenue for this contract over time following IFRS 15.35(c). However, where the windfarm is manufactured within a corporate wrapper, if IFRS 10 is applied then Entity A would not recognise revenue at all but would recognise the gain on the disposal of the subsidiary when it sells the shares in the corporate wrapper to Entity B, ie, at a point in time.
21. We acknowledge that Spotlight 9.4 of the Request for Information outlines the IASB's prior considerations of the matter and the reasons for not pursuing further work to address the issue - the reasons centre around IASB priorities. We believe these transactions are becoming increasingly commonplace and the corporate wrapper issue remains unresolved and therefore should be considered as a higher priority for the IASB.
22. We think that where a sale of an asset within a corporate wrapper represents the seller's ordinary activities, accounting for the sale using IFRS 15 rather than IFRS 10 would better reflect the economics of the transaction and improve the usefulness of the information. ICAEW would therefore support amendments to both IFRS 15 and IFRS 10 to bring such transactions within the scope of IFRS 15.
23. In situations where the entity being sold meets the definition of a business in accordance with IFRS 3 *Business Combinations*, we believe the sale should be accounted for as a disposal of a subsidiary per IFRS 10 as this does not represent a 'corporate wrapper' transaction.

IFRIC 12 – Obligations to restore infrastructure

24. A further issue we have identified, relates to paragraph 21 of IFRIC 12 which requires that operators recognise contractual obligations to maintain or restore the infrastructure in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This is illustrated in Example 2. The effect is that costs are provided for, instead of revenues being deferred.

25. Under IFRIC 12, in both the financial asset model and the intangible asset model, the operator controls neither the underlying infrastructure nor a right to use that infrastructure. Instead, the underlying infrastructure continues to be controlled by the grantor, and it is not leased to the operator. Under the intangible asset model, the operator's results may be directly affected by both the revenues generated from, and costs associated with, the infrastructure; nevertheless, the operator does not own the infrastructure, and cannot be said to be 'using' it in the sense of IFRS 16 *Leases*.
26. Therefore, where the operator has a contractual obligation to maintain or restore infrastructure to a specified standard, we believe that represents an obligation to perform a service for the grantor; the actions of maintaining or restoring the infrastructure will transfer benefits to the grantor because the infrastructure is the grantor's asset. This is equally true under both the financial asset model and the intangible asset model. While those models differ in terms of whether the operator has a right to receive cash or non-cash consideration from the grantor, the control of the infrastructure is the same in both. Thus, the promise to maintain or restore infrastructure represents a separate performance obligation within the contract as the contractor has promised to perform an additional, distinct service for the grantor.
27. Consequently, we believe that contractual obligations to maintain or restore an asset should be accounted for as performance obligations under IFRS 15, consistent with the illustration in Example 1 of IFRIC 12, and paragraph 21 should be amended to reflect this.
28. While this issue arises due to requirements that sit outside IFRS 15, we recommend that the opportunity is taken to address it as part of the post-implementation review, given the relevance of this issue to applying the principles of revenue recognition to service concession arrangements within the scope of IFRIC 12 and given that it arises from how IFRIC 12 was amended when IFRS 15 was issued.