

**EFRAG**

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Our ref: RJ-EFRAG 620 B
Direct dial: Tel.: (+31) 20 301 039
Date: Amsterdam, 19 december 2022
Re: DASB commentletter on PIR IFRS 15 Revenue from Contracts with Customers

Dear Hans,

The Dutch Accounting Standards Board (DASB) welcomes the opportunity to respond to your questions included in the survey on IFRS 15 related matters (EFRAG Survey PIR IFRS 15). Our working group on revenue has assisted us to prepare our response. This working group consists mainly of representatives of audit firms in the Netherlands. Therefore our feedback included in this letter is primarily based on experience of auditors in the Netherlands related to the initial and subsequent application of IFRS 15 by their clients, and we may have additional feedback from a broader group of stakeholders later in the process.

Our overall assessment is that IFRS 15, now that it has been implemented, is generally working well but there is some room for improvement. We believe that especially the interaction between IFRS 15 and other standards requires attention.

A general comment is that the implementation of IFRS 15 required significant efforts by many companies but with very limited impact on most companies' balance sheets and income statements. With hindsight we question whether there could have been a more pragmatic way to improve the accounting for revenue under IFRS than building a new standard from scratch. The decision to build a new standard from scratch may have been justified by past circumstances, but with hindsight we question whether there might have been a more pragmatic way to improve the accounting for revenue under IFRS. Whilst we do not believe that this should lead to adjustments in IFRS 15 now, we do believe that this warrants evaluation by the IASB for future standard setting projects.

Our detailed feedback is provided in Appendix 1.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

Gerard van Santen
Chairman DASB

Appendix 1 – Response to the questions included in the EFRAG Survey PIR IFRS 15

Question 1

What is the overall assessment of IFRS 15 in your jurisdiction?

- a. IFRS 15 is working well
- b. IFRS 15 is generally working well but there is room for improvement as some aspects are challenging
- c. There are significant challenges with IFRS 15 that need to be solved
- d. IFRS 15 is not working
- e. Unsure

Our response

We believe that IFRS 15 is generally working well but there is room for improvement. The introduction of IFRS 15 has resulted in less diversity in practice. We acknowledge that there are challenges but the standard seems to work well in the majority of situations. IFRS 15 can be complex to implement, but when that is done it works quite well. In addition, implementing IFRS 15 is considered generally a challenge for smaller entities which have less IFRS expertise.

A general comment is that the implementation of IFRS 15 required significant efforts by many companies and was considered relatively costly, but with very limited impact on these companies' balance sheets and income statements. With hindsight we question whether there could have been a more pragmatic way to improve the accounting for revenue under IFRS than building a new standard from scratch. The decision to build a new standard from scratch may have been justified by past circumstances, but with hindsight we question whether there might have been a more pragmatic way to improve the accounting for revenue under IFRS. Whilst we do not believe that this should lead to adjustments in IFRS 15 now, we do believe that this warrants evaluation by the IASB for future standard setting projects.

Question 2

Initial implementation - Which industries (if any) found it challenging to implement IFRS 15?

[please select all that apply]

- a. Construction
- b. Aerospace and defence
- c. Telecommunication
- d. Media and entertainment
- e. Pharmaceuticals
- f. Software
- g. Asset management
- h. Consumer products
- i. None
- j. Other (please specify)

Our response

The initial implementation was challenging for all industries, but this was specifically relevant for the following industries: construction (e.g. contract modifications, claims, identifying performance obligations), aerospace and defence, telecommunication (e.g., administrative challenges to address the identified performance obligations), media and entertainment (e.g., usage based royalties if information about the usage is received with a delay), pharmaceuticals (e.g., collaboration agreements in which risks are shared between parties), software (e.g., principal versus agent considerations, licences), asset management (e.g., return fees, variable payments, scoping of IFRS 15, lack of knowledge in sector) and consumer products (e.g., principal versus agent considerations, discounts, variety in accounting for costs labeled as marketing, long-term contracts and capex investments).

Question 3

Ongoing application - Which industries (if any) still find it challenging to apply IFRS 15? [please select all that apply]

- a. Construction

- b. Aerospace and defence
- c. Telecommunication
- d. Media and entertainment
- e. Pharmaceuticals
- f. Software
- g. Asset management
- h. Consumer products
- i. None
- j. Other (please specify)

Our response

We are not able to state whether the ongoing application of IFRS 15 is challenging for certain industries. Our view is that it really depends on the complexity of the contracts agreed, and not on a specific industry, although some industries are likely to enter into more complex contracts. We noticed that the following subjects are especially challenging:

- The accounting for bundles of licences and renewal options regarding licences in the software industry (e.g., unclear whether the guidance of IFRS 15 requires a licensor to recognise revenue for the license renewal when the renewal is agreed to by the parties or when the renewal period begins).
- The accounting for collaboration agreements in the pharmaceutical industry (e.g., the assessment whether such an arrangement is in the scope of IFRS 15).
- Disaggregation of revenue in the notes to the financial statements. IFRS 15.114 requires that an entity disaggregates revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In addition, paragraphs IFRS 15.B87-89 include specific guidance how to apply IFRS 15.114. We question whether (part of) the objective of this disclosure does not better suit entities which are in the scope of IFRS 8 ('listed entities'). Therefore, we believe that the disclosure requirements relating to the disaggregation of revenue shall be differentiated between entities outside and inside the scope of IFRS 8.

Question 4

What are the most prevalent application matters in your jurisdiction? [please select all that apply]

- a. Principal vs agent considerations;
- b. Accounting for licences;
- c. Estimation of stand-alone selling prices;
- d. Accounting for variable consideration;
- e. Accounting for contract modifications;
- f. Accounting for incremental costs of obtaining a contract ('negative' revenue);
- g. Providing required disclosures;
- h. Interaction with other IFRS Standards;
- i. There are not prevalent application matters;
- j. Other (please specify);

EFRAG is aiming at identifying application issues where, for instance, there may be diversity in practice, or where the usefulness of information may be in question that EFRAG should raise during the PIR.

Our response

We believe that the following issues are the most prevalent application matters: principal versus agent considerations, the accounting for licences, the accounting for variable consideration (e.g., there are different interpretations in practice how to apply the constraint when variable consideration is negative), the accounting for contract modifications (e.g., as consequence of Covid-19) and the assessment whether certain disclosures are required (challenging because it requires judgement to achieve the disclosure objective).

Another challenging issue is the identification of performance obligations. Although the concept seems to be clear, application of it in practice can be challenging (often necessary to be supported by experts on IFRS 15). We believe that the application of 'within the context of the contract' as included in IFRS 15.27 under b is not always fully clear. IFRS 15.29 includes factors that indicate that two or more promises are not separately identifiable. However, this paragraph also

states that the factors included are not limitative. In practice it is not clear if there are other factors which could indicate that two or more promises are not separately identifiable. The accounting for collaboration agreements is also an issue (whether such an agreement is within the scope of IFRS 15). Another attention point is the assessment whether an entity's performance creates an asset with an alternative use (IFRS 15.35).

Question 5 (if you have selected h in question 4)

For which standards is the interaction with IFRS 15 causing prevalent application matters?

[please select all that apply]

- a. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- b. IFRS 3 Business Combinations
- c. IFRS 9 Financial Instruments
- d. IFRS 10 Consolidated Financial Statements
- e. IFRS 16 Leases
- f. IFRS IFRIC 12 Service Concession Arrangements
- g. Other (please specify)

Our response

For the following standards the interaction with IFRS 15 is causing prevalent application matters in our jurisdiction:

- IFRS 10;
- IFRS 9;
- IFRS 16; and
- IAS 37.

Interaction between IFRS 15 and IFRS 10

We believe that the interaction between IFRS 15 and IFRS 10 should be solved. In case of a sale to a customer of a corporate wrapper that qualifies as a subsidiary but only contains inventory the principles of IFRS 15 should in our opinion apply, and the IFRS standards should be amended accordingly.

Another comparable issue is the disposal of an asset that is within the scope of IAS 16, IAS 38 or IAS 40. The accounting treatment may differ depending on whether such a non-financial asset is sold on its own (in which case, IAS 16, IAS 38 or IAS 40 would apply) or included within a disposal of a subsidiary (in which case, IFRS 10 would apply).

Interaction between IFRS 15 and IFRS 9

It is not clear which standard applies to gift cards when a gift card is not of the client itself (financial liability within the scope of IFRS 9 or a liability within the scope of IFRS 15). Some entities have difficulties to apply these different concepts and believe that it makes more sense to align these concepts.

Interaction between IFRS 15 and IFRS 16

The existence of a leaseback in a sale and leaseback transaction, in isolation, does not preclude a sale. This is because a lease is different from the sale or purchase of an underlying asset, as the leaseback does not transfer control of the underlying asset. Instead, the leaseback transfers the right to control the use of the underlying asset for the period of the lease. However, if the seller-lessee has a substantive repurchase option for the underlying asset (a right to repurchase the asset), no sale has occurred because the buyer-lessor has not obtained control of the asset (IFRS 16.BC262). IFRS 16 does not address whether a lessee's renewal options (e.g., fixed price, fair value at the date of exercise) permitting the seller-lessee to extend the lease for substantially all of the remaining economic life of the underlying asset precludes sale accounting. The question is whether a lessee that has an option to extend a leaseback for substantially all of the remaining economic life of the underlying asset is, economically, in a similar position to a lessee that has an option to purchase the underlying asset.

Interaction between IFRS 15 and IAS 37

IFRS 15 requires a best estimate in combination with the application of the constraint (IFRS 15.56) when recognising revenue, while IAS 37 requires a best estimate of the economic benefits expected under a contract without taking into account such a constraint (IAS 37.36 and

68). Some entities (e.g., construction industry) have difficulties to apply these different concepts, as the Standards are not fully clear on how they interact.

Question 6

Can you please provide more details, where relevant, on the prevalent application matters you have selected?

Our response

We refer to our responses above.

Question 7

Can you please indicate, where relevant, how the IASB should address the prevalent application matters that you have selected?

Our response

In general, we would expect only some limited narrow-scope amendments to IFRS 15. For example, issues relating to the interaction between IFRS 15 and other standards could be solved by narrow-scope amendments. In addition, adding relevant examples focusing on emerging issues could be helpful when applying IFRS 15 in the future. Now that IFRS 15 has been implemented by entities which apply IFRS, we do not see a need nor a desire for wider or more fundamental amendments.