27 October 2023

International Accounting Standards Board
7 West ferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON RFI/2023/2 – REQUEST FOR INFORMATION – POST IMPLEMENTATION REVIEW OF IFRS 15: *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In response to your request for comments on the RFI/2023/2 – Request for Information – Post Implementation Review of IFRS 15: *Revenue from Contracts with Customers*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC). The APC comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this RFI.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Sadiki
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

COMMENTS

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 IFRS15 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.

These questions aim to help the IASB understand respondents' overall views and experiences relating to IFRS 15. Sections 2–9 seek more detailed information on specific requirements.

We generally agree that IFRS 15 has achieved its objective.

With respect to the five-step revenue recognition model referred to in (a), we agree that the model provides a clear and suitable basis for revenue recognition and have not identified any fatal flaws in the model. We, however, wish to bring the following matters to the attention of the IASB:

i. Our members raised a concern around sufficient and appropriate guidance around the accounting treatment of a transaction which have failed the recognition requirements of IFRS 15 paragraphs 9 - 14, specifically where criteria set out in paragraph 9 are not outright met. We considered the guidance in paragraphs 14 – 16, and in particular the requirement of paragraph 16 to recognise a liability, the paragraph further notes that the liability recognised represents the entity's obligation to either transfer goods or services *in the future* or *refund the consideration received*. The guidance, however, does not reflect a situation where the reporting entity is required to perform under the contract (this is prevalent in government institutions with a set mandate) or has performed under the contract and no consideration is received at the reporting date. Any revenue earned in such instances would likely be accounted for on a cash basis; and

ii. Whilst we note the guidance in paragraph 6 in identifying the customer, the guidance is not sufficiently robust to apply in multi-party arrangements (please refer to our response to Questions 2 and 5 for further commentary in this regard).

The members also provided feedback on the understandability and accessibility of IFRS 15 for the IASB to consider as requested in (b):

i. IFRS 15 has a wealth of principles and topics covered and often times it is difficult to find a specific item or topic within the Application Guidance (Appendix B to the Standard). Whilst we note the categories set out in paragraphs B1 (a) – (n), our members request that the IASB further disaggregate these categories, where possible, and link these categories to the relevant step within the five-step revenue recognition model. This is because, whilst our members can conceptually apply the five-step model, they often find that the different topics are applied first without considering where the topic fits into the five-step model. To explain; our members' experiences reflected on examples such as agent or principal considerations, where users would apply paragraphs B34 – B38, which deals with identification of the performance obligations in the contract (Step 2) without applying paragraphs 9 – 21 of IFRS 15 (Step 1) (please refer to our response to Question 2 and Question 5 for further commentary in this regard); and

ii. To provide a flowchart for the application of the contract modification requirements in paragraphs 18 – 21 of IFRS 15.

In responding to (c), our members echoed the IASB's feedback that the implementation of IFRS 15 was challenging and costly, with the expectation that over time the cost of application would reduce as entities develop and consistently apply those accounting policies. Feedback given suggests that it is challenging to apply the measurement principles of IFRS 15 as it relates to both the determination of the transaction price, and the allocation of the transaction price to performance obligations, based on the capabilities of an entity's financial reporting systems. The sentiment was shared amongst our banking and telecommunication industry participants who also noted that technological advancements within the market and the development of cyber-based product offerings requires ongoing system development as product offerings and stand-alone selling prices change. Our telecommunications industry participants also expressed difficulty in determining the standalone selling prices of products, which, within its own product offering, it would not sell separately, but is required to obtain or estimate stand-alone selling prices efficiently and accurately. These prices need to be continually assessed for appropriateness which is costly.

Overall, however, we agreed that the cost of applying IFRS 15 does not outweigh the benefit thereof.

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?

We are generally in agreement that IFRS 15 provides a clear and sufficient basis to identify performance obligations in a contract. It is not our view that IFRS 15 should be prescriptive and agree that the use of judgement and the disclosure of those judgements made in applying IFRS 15 are useful. Our members generally agreed with the examples provided in the RFI regarding the challenges in identifying the goods or services promised in a contract, in particular when applying judgement to determine whether an entity is acting as a principal or an agent in an arrangement. We provide detailed feedback on this in our response to Question 5.

Apart from our observations on principal versus agent arrangements set out in Question 5, our members observed, in response to (a) diversity in practice in the identification of performance obligations for multi-year contracts. An example was given of a 5-year contract for the continual delivery of goods and services in this period, often provided in outsourced value chain solutions. The various goods and services are not substantially the same or have the same pattern of transfer (for example, a single value chain solution could include developing artificial intelligence and delivering composite materials, both of which is dependent on continual research). Furthermore, the benefits of some of those items are consumed over the 5- year period, and not simultaneous to transfer. The contract is invoiced monthly, and consideration is received on a monthly basis. Significant judgement is applied in determining whether:

- the contract consists of 60 consecutive performance obligations (satisfied over time); or
- one performance obligation satisfied at a point in time at the end of 5 years, because the requirements of IFRS 15 paragraph 35(a) *the customer simultaneously receives and consumes the benefits*, is not met. In this instance, IFRS 15 paragraph 30 read together with IFRS 15 paragraph 32 could deem the performance obligation as a single (bundled) performance obligation satisfied at a point in time.

We did not deliberate whether the diversity presented in this scenario is pervasive or not, albeit, we believe that technological advancements in the field of advanced-manufacturing could elevate such diversity, specifically as it relates to comparability in revenue within this industry. We therefore ask the IASB to consider developing appropriate application guidance in applying IFRS 15 for multi-year value chain contracts.

With respect to (b) in resolving those matters raised, we give some suggestions in our response to Question 5 for principal versus agent considerations.

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?

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

In response to question (a), we generally agree that IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract and our members echoed the feedback provided in the RFI regarding the practical application of IFRS 15 when consideration is payable to a customer. In particular, there is observed complexity in:

i. The sale of bulk prepaid airtime, for example: prepaid airtime of R100 is sold to an individual, and sales commission is paid to the agent amounting to R10. Gross revenue is recognised for R100, and the agents commission is expensed. The entity would also enter into a transaction to sell bulk airtime to a large distributor at a lower price of R90, the distributor will not provide any telecommunication services, and only resell the same airtime. It is unclear what the correct transaction price would be. One view is that the transaction price should be equal to the proceeds (the consideration to which the entity is entitled to receive (i.e., R90 in this example)). Another view is that the transaction price should be the full value of the service (i.e., R100 in this example) and therefore assume that commission was "incurred" on the transaction; and

ii. Contract incentives paid to customers as part of a contract before any of the goods or services have actually been transferred to the customer. We understand such incentives are pervasive in the telecommunications and information technology industries, and are often either expensed as marketing expenses, or accounted for as reductions in revenue. We also discussed a situation where the amounts are expected to be recovered from a client, and therefore, an asset, akin to a contract asset could be recognised. However, because it doesn't arise from goods or services that the entity *has transferred*, it would not be recognised as such.

We also request that the IASB consider the complexities that could arise in respect of the allocation of the transaction price in transactions that involve more than two parties, for example:

iii. Company X supplies machinery to Company Y with Financial Institution Z providing finance. Company X also provides maintenance services on the machinery. Financial Institution Z pays a commission to Company X for the client referral. The agreement between Financial Institution Z and Company Y provides that the machinery (asset) will be delivered back to the Financial Institution Z at the end of the lease term. Company X undertakes to buy back the asset from the Financial Institution Z, effectively assuming the residual risk on the asset. This undertaking also allows the Financial Institution leeway to price the arrangement with Company Y more favourably. Upon disposal of the asset by Company X, Company X will share in any profits that it makes with Company Y. We deliberated whether:
   - the sharing of profits on disposal is in substance, a customer incentive to look after the asset;
   - the payment received by Company X from the Financial Institution Z is in substance, a placement commission or a payment to Company X to compensate it for assuming the residual value risk on the asset;
   - these transactions could have any impact on the determination of the price at which Company X sold the asset; and
   - Company X should account for the initial transaction as a sale of an asset with the undertaking to buy it back, consequently affecting this sale price if the amount is determined at the onset?

In response to question 3(b), we request that the IASB provide application guidance in determining the transaction price when the same product is offered to customers and agents at different prices (as per (i) above). We also request that the IASB consider expanding the definition of a contract asset to include balances that arise as a result of incentive payments to a customer even if such goods or services have not necessarily yet been transferred, but are expected to be recovered (as per our example in (ii)). With respect to our example on the supplier financing arrangement (example (iii)), we ask that the IASB consider whether the conflicting interpretation of commissions or incentives are pervasive, and if so provide appropriate clarity in this respect. We also request the IASB to consider providing guidance on the linkage between incentives or commissions, and initial transactions.

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?*

In response to (a), we agree that IFRS 15 provides a clear and sufficient basis to determine when to recognise revenue. We refer the IASB to our response under Question 6 for specific matters as it relates to licensing and the judgements around the timing of revenue recognition. We also refer the IASB to our response under Question 2 for multi-year contracts and the complexity in determining *when* to recognise revenue. Our suggestions for resolving these matters in response to (b) are also documented under Questions 6 and 2 respectively.

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?*

Whilst our members agreed that the principles of the control assessment is useful, our members noted that the interaction between the principal versus agent indicators and the control assessment is not well understood. There was a mixed response in deliberating our response to (a), in particular where an arrangement involves more than three parties. Various complexities arise, which is not just limited to the determination of principal versus agent assessments, but the application of IFRS 15 to such arrangements. The following fact patterns were presented by our members for consideration by the IASB:

i. Bundled streaming services are packaged deals consisting of the provision of streaming services with the sale of airtime. The airtime and the rights to stream are provided by different parties to the end customer. There is no inventory delivered to the customer, and the bundled product is consumed almost instantaneously upon real time delivery of the product to the customer, which makes certain of the criteria irrelevant. In such arrangements, there is uncertainty on identifying the product delivered and the actual performance obligation(s) in addition to who the principal in the arrangement is;

ii. It is not always easy to identify the customer in an arrangement involving more than three parties. Judgement is often applied in determining the customer, which could result in inconsistencies. It would helpful if clarity can be provided through guidance and illustrative examples on how consistency can be achieved in identifying the customer in such arrangements;

iii. There appears to be inconsistency amongst group entities operating in different jurisdictions, due to the level of judgement involved in applying the indicators included in paragraph B37;

iv. Entities often collect amounts from customers that are required to be remitted to a third party (for example, collecting and remitting taxes to a governmental agency). Taxes collected from customers could include duties, Value-added Tax (VAT) and some excise taxes. Amounts collected on behalf of third parties, such as certain sales taxes, are not included in the transaction price as they are collected from the customer on behalf of the government. The reporting entity is the agent for the government in these situations. Where a collecting agent is involved, there is complexity in determining whether the total amounts collected should be considered in determining the revenue. We understand that under US Generally Accepted Accounting Principles (GAAP), reporting entities may present, as an accounting policy election, amounts collected from customers for sales and other taxes net of the related amounts remitted. If presented on a net basis, such amounts would be excluded from the determination of the transaction price in the revenue standard. The accounting policy choice election, similar to those present in US GAAP, could resolve some of the complexities in accounting for such taxes.

In response to (b), we propose that the IASB reconsider some of the examples provided in the standard to remain relevant with technological advancements, specifically the application of the principal versus agent arrangements for digital products. We also propose that the IASB consider providing illustrative examples in applying the guiding principles of principal versus agent considerations to arrangements involving more than three parties.

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?

In response to (a), we agree that IFRS 15 provides a clear and sufficient basis for accounting for contracts involving licences, albeit that there are areas of application that is unclear:

i. The timing of the recognition of revenue in bundled software licensing products are complex. Such bundles contain both the continual maintenance of the licence and regular software updates. Judgement is often applied and create inconsistencies in application;

ii. Costs incurred by an entity in developing software for licensing to customers are often capitalised. The amortisation of the asset should be allocated to cost of sales, however, there is very little guidance available in determining an appropriate method of amortisation. Currently, the rebuttable presumption in IAS 38.98A restricts the use of an amortisation method based on revenue generated to limited circumstances.

In response to (b), whilst we did not deliberate any specific suggestions for resolving the matters raised, as well as those matters raised in the RFI, we believe that complexities arise from new products within the information technology industry, including bundled products. Our members did however agree that including guidance in accounting for the costs incurred in developing software for subsequent licensing to customers would be useful.

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?

Our responses are set out as follows:

a) Yes, the disclosure requirements are useful as it results in generally comparable information within similar industries and to an extent, customer base and or geographical locations, however,
   i. the requirement to disclose a reconciliation of contract balances are oftentimes not useful, as it is unclear what the stated objective of the requirement of paragraph 116 is, example disclosures might be helpful in this regard; and
   ii. whilst sufficient information is disclosed regarding the amount of revenue recognised, there is no specific requirement to present the amount of discount, or payments made to customers, or any other reduction to revenue. We believe that both quantitative and qualitative information regarding the nature of these reductions would be useful to users of the financial statements.

b) The extent of the disaggregation is not oftentimes well understood, this leads to overly disaggregated information, which is both costly, and results in clutter or reduced understandability of the information presented. In this respect, we believe additional guidance is required to apply a cost versus benefit assessment to the disaggregation requirements of paragraphs 114 and 115.

c) Yes, we have observed variation in the quality of revenue disclosures, which our members believe is either due to lack of specificity in the disclosure requirements in order to meet the stated objectives, or the cost of providing such information in a meaningful manner.

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

In response to (a), we agree that the transition requirements worked as intended by the IASB. In response to (i):

i. Members from the financial services industry indicated that transition to IFRS 15 did not have a material impact on the reported revenue balances or additional disclosure requirements, and therefore having the option of a modified retrospective method was helpful. Members from the telecommunications industry indicated that the transition had a material impact on both the reported revenue balances as well as additional disclosure requirements and opted for a full retrospective approach, with some practical expedients where appropriate, however, they also welcomed the option of applying the modified retrospective method.

In response to (b), we discussed the initial cost of applying IFRS 15 under Question 1, however it is worth noting that comparability becomes difficult when different transition methods are applied within the same industries or similar market participants. We do however believe that having the option available to apply on a case-by-case basis was useful.

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?*

Our members observed some areas of complexity when applying IFRS 15 with other standards:

i. Long-term customer contracts which include a contract liability acquired in a business combination, would be required to be fair valued in accordance with IFRS 3. The measurement of the contract liability, specifically when the contract includes both favourable and unfavourable terms is difficult. It would also then follow that the contract liability would contain an element of fair value adjustments which should unwind to profit or loss, it is unclear if this is an IFRS 15 revenue adjustment or an adjustment outside of revenue;

ii. Still keeping with acquired customer contracts, in situations where a contract asset is acquired, the asset does not necessarily relate to goods and services that the acquirer has transferred to a customer, and could potentially fall within the scope of IFRS 9 – *Financial Instruments*. The contract asset represents a conditional right to consideration for which some revenue would still be recognised under the contract, and therefore classification as a financial asset may not represent the substance of the arrangement.

We request the Board to clarify the appropriate at acquisition measurement and subsequent accounting treatment of the contract liability (or contract asset as applicable) as presented in this example.

iii. Our members expressed some concern on the interaction of IFRS 17 – *Insurance Contracts* and IFRS 15 in respect of warranty contracts, with alternative cash settlement mechanisms. Whilst we note that manufacturer warranties are excluded from the scope of IFRS 17, in South Africa, dealers or retailers offering product warranties are required to apply IFRS 17. These dealers or retailers will be primarily responsible for delivering the service to the customers, but would also offer the cash alternative to its customer (this is an option for the client). The accounting policy choice to apply IFRS 15 appears to not available, however, there is little consensus on this matter, and the application of paragraph 8 of IFRS 17 would then be highly judgemental and create divergence in practice. We are, however, not sure if this is broad enough for the IASB to consider the clarification required.

iv. There is complexity around how much weighting should then be given to the risk and reward analysis in IFRS 15 paragraph 38(d) versus the control indicators in IFRS 15 paragraph 33 in sale and leaseback transactions. IFRS 16 – *Leases* paragraph 99 refers preparer's back to IFRS 15 to perform a control assessment, however, the indicators in IFRS 15 are not suited/applicable in a leasing scenario. For example:
- legal title hardly ever transfers in a lease and therefore may be less relevant;
- It is unclear how a right to payment should be assessed in a lease, as a characteristic of a lease back arrangement is the repayment profile;
- Oftentimes, the purchaser is not physically holding the asset in a lease back scenario in that the seller/lessee will retain physical possession.

v. Whilst we note that the IASB considered the issue of "negative revenue" under the determination of the transaction price, we have considered whether it would not have some interaction with IFRS 17, specifically where the negative revenue is substantial, and exceeds the consideration receivables. The question arises as to whether the negative revenue is an insurance activity in substance.

It would be helpful if the IASB would provide more guidance and clarity for the above scenarios.

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?

Whilst it is beneficial to retain the current level of convergence between IFRS 15 and Topic 606, especially for multi-jurisdictional reporting groups, it is our view that the convergence should not be the ultimate objective of the IASB when providing clear and sufficient guidance to relevant topics.

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.

We have observed increased complexity in applying the definition of revenue (IFRS 15 Appendix A) in interpreting "ordinary activities" and "operating activities" in accordance with IAS 7.6. We do, however, note that whilst some members have raised this issue, it is not sufficiently pervasive to amend IFRS 15, and therefore we are only bringing it to the IASB's attention.