Government of **Western Australia**
Department of **Treasury**

Your ref : ITC 53 PIR IFRS15
Our ref : 00729306
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Dr Keith Kendall
The Chair
Australian Accounting Standards Board
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Dear Dr Kendall

ITC 53 – POST-IMPLEMENTATION REVIEW – IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Invitation to Comment (ITC) 53 Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*.

Consistent with the response to ITC 50, HoTARAC supports the conceptual underpinnings of IFRS 15, while noting that opportunities exist to enhance guidance and reduce disclosure burden. Moreover, a review of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is suggested due to its unusually exclusive scope and apparently dated application of conceptual frameworks.

If you have any queries regarding HoTARAC's comments, please contact Mark Hort from Western Australia's Department of Treasury on (08) 6551 2577 or via email at Mark.Hort@treasury.wa.gov.au.

Yours sincerely

Brendan Davies

for Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

13 September 2023

Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers

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.

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.

Overall HoTARAC supports the shift to a principle-based model under IFRS 15 where revenue is recognised as individual enforceable contract performance obligations are satisfied.

HoTARAC highly recommends development of educational supporting materials as maturation in interpreting and application of IFRS 15 remains lumpy, with inconsistent understandings being evident between preparers and auditors. This aligns with the suggested development of educational materials mentioned in 8(b) of AASB Agenda paper 5.1 (M183)[1].

Preparers are influenced by the implementation workloads and the highly technical content of the standard. The brunt of the ongoing application costs is mostly shouldered by preparers and their advisors, as operational staff refer the determinations to finance staff. This is due to the competing priorities of operational staff and they are unlikely to enhance their understanding of the complexities attaching to the technical accounting requirements.

The core principles of IFRS 15 do not appear to be incorporated in IAS 20, with IAS 20:12 referring to the defunct matching concept. By contrast IFRS 15 recognises revenue by reference to satisfaction of performance obligations at a point in time or over time. Moreover, the current conceptual framework inextricably links income to control (assets) or obligations (liabilities) [CF paragraph 4.68]. Divergence between IFRS 15 and IAS 20 does not support sector neutrality, which is a worthwhile objective where IPSASB adopts modified IASB standards.

[1] http://www.aasb.gov.au/admin/file/content105/c9/Framework_07-04_COMPmar20_07-21.pdf

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?

HOTARAC notes that promises to transfer goods or services to counterparties in a contract must be sufficiently specific and enforceable to qualify as performance obligations under IFRS 15. 'Sufficiently specific' means that whether the obligation has been satisfied at any point in time can be determined.

This issue often remains unclear and requires considerable judgement for the public sector, such as in grant-like arrangements. Grant arrangements vary considerably with some:

- requiring satisfaction of performance obligations over time;
- requiring satisfaction of performance obligations at a point in time;
- containing a continuum from vague to specific performance obligations; and/or
- having clauses to claw back benefits provided where non-performance of grant conditions occurs.

Where a grant agreement contains clearly identifiable performance obligations that must be required over time, consistency of results for application of IFRS 15, IAS 20 and the CF is preferred whether the reporting entity is a For-Profit or Not-for-Profit entity.

Publicly available information indicates divergent revenue recognition practices for Australian Commonwealth grants to States and Territories in respect of components of Activity Based Funding (ABF) under the National Health Reform Agreement. We understand that funding is being inconsistently recognised under either the local equivalent of IFRS 15 or the local NFP revenue recognition standard in lieu of IASB addressing the sector:

- some jurisdictions apply the IFRS 15 equivalent to specific components of the grant and a local NFP standard (AASB 1058) to other components;
- some jurisdictions apply the IFRS 15 equivalent to all components of the grant; and
- some jurisdictions apply the local NFP standard (AASB 1058) to all components of the grant.

The diversity arises from differing opinions on the application of sufficiently specific to performance obligations.

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

HoTARAC offers no comment on the basis that jurisdictions have limited exposure to research grants, marketing incentives and 'negative' revenue.

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?

HoTARAC has no comment on this question.

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?

Further guidance on the distinction between principal and agent transactions would be beneficial.

For example, it is relatively common in the public service context for a parent entity or KMP of the parent entity to contractually enter into a commitment to deliver services. The parent entity, or holding company, is contractually accountable for imposed obligations but may not have capacity to discharge the responsibilities. It is, therefore, often only the subsidiaries that have capacity to provide the goods or services inherent in the contracted performance obligations.

For transparency purposes, and compliance with the Government Finance Statistics (GFS) framework, this is rendered financially by grossing revenues and gross expenses for both the parent and the subsidiary. The flows internal to the economic entity eliminate on consolidation.

As regulators, HoTARAC views the subsidiary as principals for recognition purposes though preparers have struggled with this conceptually. Therefore, it is noted that general guidance would be helpful to preparers:

- with attributes of discretion and control being indicative for principal determinations; and
- that a determination by the subsidiary may not be mutually exclusive for the determination for the parent entity.

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 [FASB has amended Topic 606 to clarify that an entity is not permitted to recognise revenue from a licence renewal until the beginning of the renewal period].

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?

HoTARAC suggests that local guidance for the NFP sector has been developed in lieu of a clear and sufficient basis for accounting for contracts involving licences [please refer to AASB 15:Appendix G][2].

[2] https://www.aasb.gov.au/admin/file/content105/c9/AASB15_12-14_COMPdec22_01-23.pdf

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?

HOTARAC supports the streamlining of IFRS 15 disclosures.

In example 1, IFRS 15:116(b) and (c) provide marginal benefit relative to compliance costs, particularly where many contracts are managed, or have multiple performance obligations, or, where contracts are commercially sensitive.

For example 2, IFRS 15:114, B87-B89 provides marginal benefits for users of jurisdiction or agency financial reports. HoTARAC revenue sources are broadly consistent at an agency or jurisdictional level, but differing interpretations appear to be applied by preparers and auditors across our jurisdictions. In this environment, HoTARAC is of the view that the manual curation of extensive quantitative data far exceeds benefits to users, particularly where qualitative disclosures adequately inform decision makers for comparable revenue streams. Therefore, a practical expedient reducing quantitative disclosures is recommended, subject to a rebuttal presumption based on the needs of identifiable decision-makers.

Question 8—Transition requirements

(a) Did the transition requirements work as the IASB intended? Why or why not?
Please explain:

1. *whether entities applied the modified retrospective method or the practical expedients and why; and*
2. *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.*

Australian jurisdictions chose varying transition policy options, with the majority opting to:

- apply the modified retrospective method;
- utilise the expedient to apply IFRS 15 to only incomplete contracts; and
- utilise the expedient for before date of application.

Overall, jurisdictions undertook considerable analysis to determine that ongoing income reporting profiles would be very similar to prior year reporting under pre-existing standards, with the most notable impact being recognised for transition. Explaining the transition differences and maintaining consistency of reporting under Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) frameworks were given significant priority for revenues that largely comprise taxes, fines, appropriations and royalty income types.

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?

A major challenge for the public [NFP] sector is delineating whether IFRS 15 applies to not-for-profit transactions such as grants. IFRS 15 is restricted to contracts with customers and therefore does not cover revenue recognition from taxes, fines, levies and grants.

IAS 20 clearly operates in the space of provision of grants to FP entities, but it excludes NFP recipients from its scope. Furthermore, the standard has not been revised subsequent to conceptual framework developments and now appears contradictory in places to the CF and recent revenue standards.

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?
[FASB has amended Topic 606 to clarify that an entity is not permitted to recognise revenue from a licence renewal until the beginning of the renewal period].

Topic 606 is not binding precedent in the Australian context and HoTARAC offers no comment on this question.

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.

HoTARAC has no comment on this question.