Thank you so much for sending us the template and giving us the opportunity to comment on the PIR of IFRS 15. Given below are our comments:

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

Kindly submit your feedback latest by 31st August, 2023

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.

Response

(a) 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. However, the standard also includes requirements to recognise cost as assets which is missing in the model. The model may be modified to also include the costs.

(b) We have the following comments on improving the understanding of IFRS 15:

1. The IASB could improve the understanding of IFRS 15 by providing more examples on highly dependent and integrating. In this regard attention is drawn to paragraph B35 of IFRS 17 which states as follows:

   A good or service other than an insurance contract service that is promised to the policyholder is not distinct if:

   (a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks ass components in the contract; and

   (b) the entity provides a significant service in integrating the good or service with the insurance components.

   Paragraph BC110 of IFRS 17 states that in principle, an entity should use similar principles to those in IFRS 15 to separate performance obligations to provide goods and non-insurance services. Under IFRS 15, meeting of any one of the conditions stated in paragraph B35 would make the good or service not distinct whereas para B35 of IFRS 17 requires both highly interrelated and integrating to be met for the good or service to be not distinct. It is not clear whether para B35 is a departure from IFRS 15 or IFRS 15 requires more than one of the indicators given in para 29 of IFRS 15 to be present for the promise to be not distinct within the context of the contract.

2. The Institute of Chartered Accountants of India has stated that contract asset is not a financial asset (Response to Question 46 of the Educational Material on Ind AS 115 issued by The Institute of Chartered Accountants of India). Ind AS 115 is largely converged with IFRS 15. Hence, all references to Ind AS 115 may be read as IFRS 15.

   In this regard, attention is drawn to the following requirements of IFRIC 12:

   Consideration given by the grantor to the operator

   15 If the operator provides construction or upgrade services the consideration received or receivable by the operator shall be recognised in accordance with IFRS 15. The consideration may be rights to:

(a) a financial asset, or

(b)an intangible asset.

16 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

17 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

18 If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially in accordance with IFRS 15.

19 The nature of the consideration given by the grantor to the operator shall be determined by reference to the contract terms and, when it exists, relevant contract law. The nature of the consideration determines the subsequent accounting as described in paragraphs 23–26 of this Appendix. However, both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with IFRS 15.

Paragraph 15 of IFRIC 12 states that the consideration may be right to financial asset or intangible asset. Paragraph 19 of IFRIC 12 states that both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with IFRS 15. Paragraph BC62 of the Basis for Conclusions on IFRIC 12 states that if the amount to be received by the operator is conditional on the infrastructure meeting quality or performance or efficiency targets as described in paragraph BC44, this would not prevent the amount from being classified as a financial asset. Such an amount as per IFRS 15 will be classified as a contract asset as the consideration is not unconditional, that is, not only the passage of time is required before payment of that consideration is due. Therefore, reading the paragraphs in IFRIC 12 and its basis for conclusions, it can be drawn that contract asset may be classified as financial asset. However, the educational material rules out contract asset from being classified as financial asset. Thus, there is a lack of clarity in this regard. Further, the basis for conclusions on IFRIC 12 has not been updated for IFRS 9 which also increases the confusion. The IASB is already considering amendments to IFRS 9. The IASB may considering clarifying whether contract asset is a financial asset and under what circumstances can contract asset be classified as financial asset or non-financial asset.

Our reading of the exclusion from the scope given in paragraph 2(j) of IFRS 9 suggests that contract assets that are financial instruments are excluded from the scope of IFRS 9 except for the impairment requirements. However, this is not how the Educational Material issued by The Institute of Chartered Accountants of India reads. Hence, request IASB to provide clarity on the same

(c) We have no comments on the ongoing costs and benefits of applying IFRS 15.

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?

Response

As stated in response to question 1, there appears to be a disparity between paragraph 29 of IFRS 15 and paragraph B35 of IFRS 17 which makes application of the principle of distinct within the context of the contract inconsistent. The IASB may consider the requirements of paragraph B35 of IFRS 17 in this regard. If according to IASB the use of the word “and” in para B35 of IFRS 17 is proper, the IASB may explain why, for insurance contracts, the entity needs to see whether the good or service is highly interrelated and also whether the entity provides a significant service of integrating whereas for other contracts, if the good or service is highly interrelated it is sufficient to conclude that the good or service is not distinct.

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?

Response

With regard to variable consideration, we have the following comments:

1. More guidance is required on accounting for claims. Claims could be either by customer or on customer. A claim by a customer could result in negative consideration.

   A claim on a customer could be in accordance with the terms of the original contract or for reasons not specified in the original contract. Insofar as our understanding of IFRS 15 goes, if the entity claims an amount for reasons not specified in the original contract, the principles for modification of contract will become applicable. However, if the entity claims for reasons permitted in the original contract, the same should be part of variable consideration.

Paragraph 51 of IFRS 15 states as follows:

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

Thus, paragraph 51 is silent on claims as part of variable consideration. An example of a claim on customer is delayed payment charges which has been opined by Expert Advisory Committee of The Institute of Chartered Accountants of India as not to be considered as variable consideration (See point 2 below for details)

Given below is an extract of the accounting policy on claims related to revenue disclosed in one the companies from construction industry:

Revenue related Claims/Bonus are accounted in the year in which awarded/settled or accepted by customer or there is a tangible evidence of acceptance received.

Further, companies disclose claims not recognised as contingent liability or contingent assets, as the case may be. Claims by customer not recognised is reported as contingent liability whereas claims on customer not recognised is reported as contingent asset. The IASB had issued IFRIC 23, Uncertainty over Income Tax Treatments, to resolve the confusion of whether IAS 37 applies or IAS 12 applies to uncertain tax treatments. Similarly, it is required that the IASB also issue a clarification as to whether uncertain receipts or payments from or to a customer such as claims can be disclosed as contingent liability or contingent asset. This is because paragraph 5 of IAS 37 states that when another standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

(g) revenue from contracts with customers.

Thus, IAS 37 provides example of provisions. It is silent on contingent liability and contingent asset. The IASB may clarify when a claim by or on customer takes the character of contingent liability or contingent asset. The IASB may also clarify when a claim by or on customer loses the character of contingent liability or contingent asset. Is it only on recognition of the claim as revenue that the claim loses the character of a contingent liability or contingent asset.

2. Charges on delayed payment from customers (This is also an example of claim on customer)

   The Expert Advisory Committee of The Institute of Chartered Accountants of India has issued an opinion on Accounting for delayed payment charges. The facts of the case state that the company has aggregated income from delayed payment charges with the line item 'Revenue from Operations' whereas the auditor was of the view that the same must be aggregated with 'other income'. The company had disclosed the following accounting policy on delayed payment charges:

   Income in respect of delayed payment charges (except for cases where suits are filed in the court) is accounted on the basis of actual realisation of late payment against outstanding energy bills.

   Therefore, the issue to be addressed was whether the aggregation is proper. The opinion refers to Ind AS 115 which is largely converged with IFRS 15. Therefore, we have replaced the references to Ind AS 115 with IFRS 15. The expert advisory committee in its opinion has noted the following:

   The Committee notes from the above that the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Further, IFRS 15 provides that while determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of, inter alia, variable consideration, such as, penalty. The Committee also notes that as per paragraph 51 of IFRS 15, promised consideration can vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. In the extant case also, one may argue that the promised consideration is contingent on the occurrence of the customer making the payment and accordingly, it may be considered as a variable consideration. However, the Committee notes that even if one were to assume that the Delayed Payment Charges is of the nature of penalty, ***the transaction price in the extant case is fixed*** *at the rate or price specified by the SERC for the electricity supplied, whereas Delayed Payment Charges is a charge to be paid by the customers towards delay in payment and is not towards exchange of promised goods and services to the customer.*

   Thus, the according to expert advisory committee the delayed payment charges in not to be considered as variable consideration and it has stated that the transaction price is fixed though the contract with customer provides for delayed payment charges. The expert advisory committee has opined that aggregation of delayed payment charges with Revenue from Operations is not proper. The same shall be aggregated with 'Other Income'.

   The IASB may clarify whether a charge to be paid by the customers towards delay in payment results in variable consideration.

A copy of the opinion is attached with the comments for ready reference.

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?

Response

We have no comments on timing of revenue recognition.

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?

Response

We have no comments on principal versus agent considerations.

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?

Response

We have no comments to offer in this regard.

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?**

Response

We have observed significant variation in the quality of disclosures. However, in our view, the variation is related to education which cannot be resolved by amending the standard.

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.

Response

We have no comments to offer in this regard.

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?

Response

1. It is not clear how to apply the requirements in IFRS 15 with the requirements of IAS 37, for example, claims by or on customer being disclosed as contingent liability or contingent asset, as the case may be. The same has been specified in detail above.
2. It is not clear how paragraph B35 of IFRS 17 is in line with paragraph 29 of IFRS 15. The same has been specified in detail above.
3. It is not clear whether contract asset is a financial asset. For example, IFRIC 12 regards contract asset as financial asset whereas educational material issued by the Institute of Chartered Accountants of India rules out contract asset from being classified as financial asset. The same has been specified in detail above.

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?**
Response We have no comments to offer in this regard.

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.
Response We have no comments to offer in this regard.