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Dear Sir

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

We are pleased to comment on the above Request for Information (the RFI). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the RFI.

We have responded to the questions which covered the most significant aspects of IFRS 15 for the purposes of the Post-implementation Review. Our responses to those questions in the RFI are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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Appendix

Question 1 - Overall assessment of IFRS 15

Question 1(a) - In your view, has IFRS 15 achieved its objective? Why or why not?

In our view IFRS 15 has achieved its objective, and the requirements of IFRS 15 are capable of being applied appropriately.

Question 1(b)(i) - Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

- (i) *In developing future Standards; or*

The Transition Resource Group (TRG) was extremely helpful in assisting entities to understand the requirements of IFRS 15. Therefore, we would support the use of TRGs for future significant IFRS Accounting Standards (such as the forthcoming IFRS 18).

Question 1(b)(ii) - Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

- (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?*

It has taken a significant amount of effort from the IASB, large firms and other entities to analyse and explain the requirements of IFRS 15. This may be an unavoidable consequence of IFRS 15 being principles-based, and also from the shift to a control-based model, which is similar to but in certain respects subtly different from the previous approach in accordance with IAS 18.

When applying IFRS 15 to the identification of performance obligations in complex contracts and licensing contracts, in many cases the relevant guidance is in the Basis for Conclusion. This is particularly the case for some paragraphs which were added following the discussion of issues at the TRG. We suggest when certain paragraphs in the Basis for Conclusion become necessary for the application of the standard that they should either be moved to become mandatory application guidance or to be located in the standard itself. For example, when identifying performance obligations to determine whether there is one combined performance obligation or separate performance obligations, a key part of the analysis regarding whether a transformative relationship exists between or among the different components is in the Basis for Conclusions.

Question 1(c) - What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

We have observed that the costs of implementing IFRS 15 were high in many cases. However, ongoing, and recurring costs are significantly lower and have stabilised.

Question 6 - Licensing

Question 6 - Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?

When identifying performance obligations in pharmaceutical contracts we have observed that at times pharmaceutical companies developing new compounds enter long-term licence arrangements at a stage when they foresee promising results, with further research and development still to be performed before the drug/product can be commercialised and licensed. Such long-term arrangements are often executed to obtain funds from the customer which will be used in the development of the drug/product. We have observed that when applying the requirements of IFRS 15 to assess whether research and development qualifies as a separate performance obligation from that of the license of the compound under development, IFRS 15 does not contain relevant application guidance. For example, Examples 55A and 55B in IFRS 15 set out application guidance pertaining to the license of rights to an approved drug, which is a mature product.

Question 9 - Applying IFRS 15 with other IFRS Accounting Standards

Question 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?

We have observed an overall difficulty in determining the boundaries of IFRS Accounting Standards and exactly how they interact with one another. A number of issues have been raised with the IFRS Interpretations Committee, including the interaction of IFRS 15 and IFRS 10 for assets held in corporate wrappers, and issues can also arise when determining whether a transaction is within the scope of IFRS 15 or IFRS 16.

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

We suggest in future standard setting the IASB includes consideration of the boundary of the scope of a new IFRS Accounting Standard with existing IFRS Accounting Standards.

Question 10 - Convergence with Topic 606

Question 10(a) - How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?

We consider that maintaining the current level of convergence between IFRS 15 and Topic 606 is an important objective, in particular for those entities that have dual reporting requirements.

For example, for the sale of an asset by selling an equity interest in a separate entity (corporate wrapper), issues arise in determining whether the transaction is within the scope of IFRS 10 or IFRS 15. In contrast, under US GAAP there is specific guidance which results in the sale of an asset in a corporate wrapper generally being within the scope of Topic 606. Therefore, a different conclusion may be reached in accordance with the requirements of IFRS in comparison with US GAAP. Similarly, US GAAP contains more specific requirements for the renewal of licences, including circumstances in which a current licence is renewed before the end of the current licence period. While there may be reasons why it is appropriate for there to be a difference in the accounting requirements, we suggest the IASB consider the requirements of US GAAP when making changes based on the responses to the RFI.

Further, we are aware of the FASB holding a round table discussion on revenue with one topic being modifications to accounting for software and other licences. We encourage the IASB to consider the results of the FASB discussions as part of the RFI.