The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
https://jicpa.or.jp/english/

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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

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

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board (IASB) to develop high quality accounting standards and welcomes the opportunity to comment on the Request for Information *Post-implementation Review of IFRS 15 Revenue from Contracts with Customers*.

We believe the consistency of revenue accounting among entities has improved under IFRS 15 when compared to the previous revenue recognition requirements by introducing the core principle for revenue recognition and the supporting five-step revenue recognition model.

That said, as commented below to the questions for the Request for Information, we still see some inconsistencies in practice for certain revenue accounting treatments due to various reasons, such as IFRS 15 requirements not being clear enough in particular areas and entities being required to use significant judgements in applying the IFRS 15 requirements to complex fact patterns. We believe the IASB can improve the quality of revenue accounting and disclosures with comparability maintained by providing more clarification to the requirements and associated guidance.

Please see our comments to each Question in the following pages.

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.

Comment:

(a) IFRS 15 achieved its objective to report useful information about an entity's revenue from contracts with customers.

The core principle and the supporting five-step revenue recognition model in IFRS 15 can be applied to various types of transactions. They are also helpful in determining accounting treatments for complex revenue transactions and capable of providing a clear and suitable basis for revenue accounting decisions. Accordingly, we believe the consistency of revenue accounting among entities has improved when compared to the previous Standard for revenue recognition.

However, as the application of the five-step revenue recognition model involves a lot of estimates and judgements, we recommend the IASB to provide additional application guidance and other materials to address practical application issues.

(b) The IASB may be able to provide illustrative examples and education materials.

(c) We think the ongoing costs of applying the requirements in IFRS 15 is minimal. On the other hand, we believe IFRS 15 is providing benefits to both preparers and users of financial statements.

Ongoing costs arise because significant estimates and judgements are required in applying the IFRS 15 requirements to new, complex fact patterns, especially when an entity needs to spend a significant amount of time for consideration or specialists need to be involved. Nonetheless, we understand that many entities have already determined their accounting policies for ongoing revenue transactions at the time of implementing IFRS 15. This means additional application costs are expected to arise only under limited circumstances, such as when entering into new transactions.

On the other hand, benefits are provided in various ways. Firstly, the five-step revenue recognition model, a single model applicable to various types of revenue transactions, is enabling entities to establish stronger consideration processes and internal controls for revenue recognition accounting treatments. Further, comparability among entities has improved by applying the globally consistent Standard for revenue recognition, regardless of industries. The enhancement of disclosures related to revenue has also increased benefits to users of financial statements.

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?

Comment:

(a) We believe IFRS 15 serves as a useful guidance to identify performance obligations in a contract. However, diversity in application may arise in certain areas due to the following reason.

It is required under IFRS 15 that when identifying performance obligations, an entity should determine whether a good or service is capable of being distinct and whether the good or service is separately identifiable within the context of the contract. In determining whether the good or service is distinct from a contractual perspective, IFRS 15 illustrates factors to be considered, including whether a significant integrating service is provided, whether there is significant modification or customisation, and whether the good or service is highly dependent on, or highly interrelated with, other goods or services, all of which require significant judgements to determine their materiality and magnitude. In the software and information technology industry, for example, there are many contracts that require complex judgements, including Software as a Service (or 'SaaS') arrangements, which may cause diversity in application depending on judgements used. As different types of complex transactions are further expected to emerge in the future, we think significant judgements will continue to be required in identifying performance obligations.

(b) We highly recommend the IASB to develop more illustrative examples for the application of significant judgements in identifying 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?

Comment:

We believe IFRS 15 serves as a useful guidance to determine the transaction price in a contract. However, we do not think the following matters are clear enough, causing diversity in application. We have also made some suggestions for resolving the identified matters

① Incentives to end customers

In practice, it is quite common for an entity acting as an agent to pay incentives to end customers, including digital platform entities offering incentives to end customers. In determining how to account for such incentive transactions, an entity is required to use judgements, such as whether the end customer is a customer of its own or the entity is simply acting as an agent of the customer when making incentive payments (i.e. the end customer is not the entity's own customer). Given that there are no application guidance or other materials when making the determination, we see diversity in practice, where some entities account for these incentive payments as a reduction of revenue and other entities treat them as marketing expenses even though the nature of transactions appears to be identical. We highly recommend the IASB to provide guidance on how to determine whether an end customer is an entity's own customer or the entity is simply acting as an agent of the customer when the entity is making incentive payments.

② 'Negative' revenue

We see cases where entities pay large incentives that exceed the amount of consideration to be received to attract new customers, particularly when the entity is acting as an agent in a transaction. According to paragraphs 70 and 71 of IFRS 15, if the amount of consideration payable to the customer is not in exchange for a distinct good or service that the customer transfers to the entity or if it exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. Therefore, some entities record ‘negative’ revenue in accordance with the requirements. There are other entities, though, which choose to establish their own accounting policy to reclassify that excess as an expense. As we believe such diversity in practice is causing harm to comparability, we highly recommend the IASB to provide guidance for clarification purposes. If entities are allowed to reclassify the excess as an expense, we further suggest the guidance explicitly state which unit of account is subject to the assessment for the excess (e.g. transaction unit, contract unit, customer unit).

③ Asset recognised when prepayment is made for consideration payable to a customer

There are cases where a prepayment is made for consideration payable to a customer. For example, an entity may pay incentives to potential customers, or may pay incentives for goods or services that will be transferred under both the original contract and future contracts. As discussed by the Transition Resource Group of US FASB in November 2016, an asset is recognised if the upfront payment meets the definition of an asset; however, no explicit IFRS Standards exist for the subsequent accounting for the asset, including impairment tests, causing diversity in practice. For example, impairment could be accounted for under IFRS 9, IAS 36, or other methods, such as estimating expected future cash flows, which we think is quite common in practice regardless of industries. Such inconsistency could harm the comparability of accounting treatments for the recognised asset as well as its presentation and disclosure. Therefore, we recommend the IASB to provide guidance on subsequent evaluation of assets recognised when a prepayment is made for consideration payable to a customer.

④ Constraining estimates of variable consideration

IFRS 15 requires that an entity shall include in the transaction price an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. Due to the constraining rule, entities need to make significant judgements when estimating variable consideration. Especially, when the amount of consideration is highly susceptible to factors outside an entity’s or its customer’s influence under long-term contracts, such as volatility in a market, the judgement or actions of third parties, and weather conditions, some entities can be extremely conservative and estimate the effect of constraining estimates of variable consideration to be zero at the inception of the contract, causing diversity in practice when applying the rule of constraining estimates of variable consideration. If the IASB does not support such extreme conservatism in applying the requirement, we suggest the Board clarify the Standard and provide illustrative examples as needed.

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 recognizing 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?**

Comment:

We believe IFRS 15 serves as a useful guidance to determine when to recognise revenue. However, we do not think the following matters are clear enough, causing diversity in application. We have also made some suggestions for resolving the identified matters.

① Agreement to repurchase an asset with an active market at fair value

When an entity has a contract to repurchase an asset with an active market at fair value, such as commodity, the entity has to use complex judgements in determining whether and when to recognise revenue. In particular, time swap arrangements and commodity loans, which were discussed at one of the IFRIC meetings in April 2017, require complex judgements in understanding the nature of transactions based on contractual terms and applying appropriate accounting standards. As this is causing diversity for practical application purposes, we recommend the IASB to provide guidance in determining whether and when to recognise revenue for the above-mentioned cases.

② Assessing the criterion for performance obligations satisfied over time

One of the criteria for performance obligations satisfied over time in accordance with paragraph 35(c) of IFRS 15 requires an entity to assess whether it has an enforceable right to payment for performance completed to date. Diversity in application may arise when making the assessment partly because when determining whether or not an enforceable right exists, an entity has to not only go through contracts but also look into laws, historical business practices, and other information to make a thorough judgement. Also, additional costs are incurred when an entity needs to seek advice from specialists, such as lawyers, when making such assessments. We suggest the IASB provide a more detailed guidance to improve revenue accounting decisions and to reduce the burden on preparers of financial statements.

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?**

Comment:

We believe IFRS 15 provides a useful guidance on principal versus agent considerations. However, we think the following matters are not clear enough or require complex judgements, causing diversity in application. We have also made some suggestions for resolving the identified matters.

① Role of an agent in a transaction and commission payment

When an arrangement involves three parties or more, it might be hard sometimes to determine for which party an entity is acting as an agent in a transaction. For example, in a case where there are three parties—material manufacturer (the supplier), a specialised trading company, and a parts manufacturer (the user)— and when the material manufacturer, the supplier, is paying commission to the specialised trading company, the supplier may need consideration in determining the accounting treatment for the commission payment. Depending on how the material manufacturer sees the role of the specialised trading company—whether it is acting as an agent of the material manufacturer or as an agent of the parts manufacturer—the material manufacturer is required to account for the commission payment differently: either account for the commission payment as an agent fee and expense it; or treat it as a reduction of revenue. Given there is no clear-cut guidance in IFRS 15, subjective judgements could be made in such cases, leading to inconsistent accounting treatments. Therefore, we highly recommend the IASB to provide further guidance to enhance objectivity when using judgements.

② Transactions involving intangible goods or services

When determining whether an entity is a principal or an agent, the entity should first identify specified goods or services to be provided to a customer, and then assess whether it controls the specified goods or services before they are transferred to the customer. As digital assets and transactions in digital spaces are expected to increase in the future, we believe using judgements will become more challenging for entities. This is because intangible goods or services, such as digital assets, usually have the following features: intangible goods do not exist physically; digital transactions are completed in an instant manner; and a number of parties are involved at the same time. Accordingly, it is expected that entities are required to use more complex judgements when identifying specified goods or services to be provided to a customer and assessing whether entities control the specified goods or services before they are transferred to the customer. That said, we recommend the Board to consider providing additional illustrative examples reflecting the latest trends in digital transactions.

③ Concept of control and associated indicators

An entity determines whether it is a principal or an agent based on the concept of control, which requires the entity to assess whether it controls each specified good or service before it is transferred to the customer. Indicators are provided in IFRS

15 as examples to support the assessment of control. However, we see some entities make the assessment solely based on the indicators listed in paragraph B37 of IFRS 15 without having a thorough understanding of the concept of control, which is causing diversity for practical application purposes. Therefore, we highly recommend the IASB to clarify the relation between the concept of control and associated indicators and to provide illustrative examples which entities can refer to when they are making the assessment based on the concept of control.

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?**

Comment:

We believe IFRS 15 provides a useful guidance on the accounting treatment for licensing. However, we think the following matters are not clear enough, causing diversity in application. We have also made some suggestions for resolving the identified matters.

① Renewal of licensing arrangements

There is no clear guidance on how to account for the renewal of licensing arrangements. Thus, in practice, we see diversity in application especially in the area of the timing to start recognising revenue not only for simple renewals, but also for renewals involving contract modifications, such as when there are changes in price, the number of licences granted, the scope of licensing, and the contractual period. We suggest the IASB clarify IFRS 15 by improving the guidance on the renewal of licensing arrangements, including those that involve contract modifications.

② Application scope of guidance on licensing

When an entity enters into a contract with a customer, allowing the customer to use the entity's information system, it is not explicitly stated under IFRS 15 as to whether the entity should refer to paragraphs B52 to B63B in IFRS 15, the guidance for licensing, or paragraphs 31 to 38 of IFRS 15, general requirements referred to for SaaS type of arrangements. The reason why paragraph B52 of IFRS 15 is stating that 'a licence establishes a customer's rights to the intellectual property of an entity' and also providing types of licences of intellectual property as an example is probably because there are no clear definition and application scope of a licence in the Standard. We acknowledge there are some entities in practice that apply general requirements instead of the licensing guidance when the criteria in ASC985-20-15-5 *Software Subject to a Hosting Arrange*ment under the U.S. GAAP are not met. However, because of the diversity in practice, where some entities apply the licensing guidance and others apply general requirements, judgements as to whether revenue should be recognised at a point in time or over a certain period could also be different. Such diversity in practice could be pervasive among entities, including those that provide SaaS arrangements to customers. As we believe such diversity in practice is causing harm to the comparability of the timing of revenue recognition, we highly recommend the IASB to provide additional guidance on licensing to clarify the application scope.

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?**

Comment:

(a) We believe the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements. However, we suggest clarifying the relation between information on disaggregated revenue and information on segments to provide more useful information.

According to IFRS 15, the objective of the disclosure requirements is for an entity to disclose information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We believe establishing such objective is enabling entities to provide more useful information compared to the previous Standard for revenue recognition. For example, we see some entities provide both qualitative and quantitative information in a more understandable way by disclosing information on disaggregated revenue in connection with information on performance obligations and categorising such information by type of good or service, geographical region, timing of revenue recognition, and other factors. In this way, users of financial statements can better understand the nature, amount, timing and uncertainty of revenue and cash flows.

That said, we believe more useful information can be provided by clarifying the relation between information on disaggregated revenue and segments. IFRS 8 requires entities to disclose information on revenue by their operating segments, products and services, and the geographical areas in which they operate. There are many preparers and users of financial statements who think such disclosure information under IFRS 8 is overlapping disclosures on disaggregated revenue in IFRS 15. Thus, we highly recommend that the IASB clarify the relation between information on disaggregated revenue and segments, thereby making the information on disaggregated revenue more useful for users of financial statements to understand how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

(b) Disclosure requirements are giving rise to ongoing costs to preparers of financial statements.

We are afraid many disclosure requirements in IFRS 15, including those on remaining performance obligations, are giving rise to ongoing costs for entities.

Particularly, it could become costly for entities operating globally with a number of subsidiaries as they have to gather information on remaining performance obligations from their subsidiaries around the world, including those that are newly acquired and controlled. Although paragraph 121 of IFRS 15 provides a practical expedient, allowing entities not to comply with the disclosure requirement when certain conditions are met, we suggest adding the following as part of the conditions: sales-based or usage-based royalties; and variable consideration fully allocated to unsatisfied obligations based on certain criteria. The additional conditions are already stipulated as practical expedients in the U.S. GAAP (ASC 606-10-50-14A), exempting entities from disclosing information on remaining performance obligations. In this way, entities would no longer need to make estimates solely for the purpose of disclosures, which shall contribute to reducing their ongoing costs.

(c) Significant variation is observed in the quality of disclosures.

In order to meet the disclosure objective in IFRS 15 and provide useful information, each entity is required to use considerable judgements, including choosing items to be disclosed and determining the level of details to be provided in the light of materiality. For example, the extent to which an entity's revenue is disaggregated should be determined based on facts and circumstances that pertain to the entity's contracts with customers, which requires substantive judgements. This means each entity's quality of judgement is directly linked to the entity's quality of disclosures, which may be one of the reasons why variation arises in the quality of disclosures. Another reason for variation could be that some entities are mechanically using the disclosure requirements only as a checklist without using considerable judgements. We believe the IASB could prevent such variation in the quality of disclosures by providing a list of disclosure examples together with judgments applied for the disclosures as a guidance.

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.

Comment:

(i) Entities have applied both the modified retrospective method and the practical expedients, including those for completed contracts and contract modifications, to reduce the transition burden in practice.

(ii) We believe 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. For example, even when entities are using the modified retrospective method, they are still required to disclose each line item of financial statements as if they were prepared in accordance with the previous Standard for revenue recognition in the initial reporting period applying IFRS 15 in order to appropriately provide useful information to users of financial statements.

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?

Comment:

Generally speaking, we think it is clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards. That said, we do not think the following matters are clear enough, causing diversity in application. We have also made some suggestions for resolving the identified matters.

① Fair value measurement of contract assets and contract liabilities at the acquisition date (in relation to IFRS 3)

When contract assets are acquired and contract liabilities are assumed as part of a business combination, they are required under IFRS 3 to be measured at fair value at the acquisition date; however, they are measured subsequently not in their fair values but in accordance with IFRS 15. One of the measurement methods to fair value contract liabilities is to estimate costs to fulfill a contract and profit ratios from the perspective of market participants. Under such method, it is likely that the fair value of contract liabilities at the acquisition date is different from the balance of contract liabilities as of the date right before the business combination recognised by the acquiree under IFRS 15. Meanwhile, the measurement of contract liabilities subsequent to the acquisition date could create day 2 gains or losses, as they are measured in accordance with IFRS 15. This example illustrates that the fair value measurement of contract assets and contract liabilities at the acquisition date may end up not only generating additional costs for preparers of financial statements, but also causing harm to the usefulness of financial statements due to the recording of day 2 gains or losses. Therefore, we recommend the IASB to resolve the matter by amending the IFRS Standards as needed.

② Price concessions versus impairment losses (in relation to IFRS 9)

When an entity accepts settlement at a price lower than what is originally stated as consideration in a contract, it needs to determine as at the contract inception whether the contract contains an implicit price concession or the consideration should be classified as variable. Further, when an entity accepts lower consideration from a customer whose financial position has deteriorated over the course of their relationship, the entity needs to use significant judgements as to whether revenue should be reduced as a contract modification or the reduction should be accounted for as impairment of receivables or contract assets in accordance with IFRS 9. Therefore, we think it is necessary for the IASB to provide illustrative examples for reference purposes when making those significant judgements.

③ Application scope in IFRS 15 and IFRS 9

As described below, application scope is stipulated in IFRS 15 and IFRS 9, respectively, but the relation between the two Standards is not straightforward. It is not clear whether financial instruments arising from contracts with customers should fall within the application scope of IFRS 15 or IFRS 9.

- IFRS 15 is not applied to financial instruments and other contractual rights or obligations within the scope of IFRS 9 (per paragraph 5(c) of IFRS 15)
- IFRS 9 is not applied to rights and obligations within the scope of IFRS 15

that are financial instruments, except for those that IFRS 15 specifies are accounted for in accordance with IFRS 9. (per paragraph 2.1(j) of IFRS 9)

Accordingly, inconsistencies are seen in accounting treatments and disclosures for such financial instruments as follows:

<u>A transaction in which an entity may be required to either provide goods or services to a customer or pay cash to another entity in the future, depending on the customer's choice</u>

When gift certificates are sold or points are granted to a customer in a transaction, in which an entity may be required to either provide goods or services to the customer or pay cash to another entity in the future, depending on the customer's choice, it is not clear whether the entity should apply IFRS 15 or IFRS 9 when measuring, presenting, and disclosing the amount of liabilities to be recognised. If the entity decides to recognise the liability as a contract liability in accordance with IFRS 15, revenue could be accounted for differently from IFRS 9, as the liability would represent the sales amount of gift certificates or other goods or services, including the customer's unexercised rights.

<u>Refund liabilities and contract liabilities</u>

A contract liability is recognised as revenue as performance obligations are satisfied and is generally considered as a liability with no payment obligations. On the other hand, according to paragraph 55 of IFRS 15, a refund liability recognised when a refund is expected shall be considered as a contract liability. It is not clear from these descriptions whether refund liabilities and contract liabilities represent financial liabilities in accordance with IFRS 9 and, more specifically, whether they should be included in the notes for financial instruments. As a result, diversity in practice is observed where some entities do not include refund liabilities and contract liabilities in the notes for financial instruments, whereas other entities include refund liabilities in trade and other payables, whose breakdowns are disclosed in the notes, and disclose them as financial liabilities in the notes for financial instruments together with contract liabilities. We are afraid such diversity could harm the comparability of information among entities, negatively affecting the usefulness of the resulting information to users of financial statements.

Contract assets

According to paragraphs 105 and 107 of IFRS 15, contract assets are recognised separately from receivables that are unconditional rights, and an impairment of a contract asset shall be measured, presented, and disclosed on the same basis as a financial asset that is within the scope of IFRS 9. However, it is not explicitly stated whether or not contract assets fall within the category of financial assets, which could harm the comparability of information among entities, negatively affecting the usefulness of the resulting information to users of financial statements.

Based on above, we suggest the IASB clarify the following: whether financial assets and financial liabilities arising from contracts with customers fall within the application scope of IFRS 15 or IFRS 9; and how those financial assets and financial liabilities should be accounted for, presented, and disclosed in the financial statements.

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?

Comment:

It is important to retain convergence between IFRS 15 and Topic 606 at a certain level. However, we believe the IASB should prioritise improving its post-implementation review findings over pursuing convergence.

There are many Japanese companies locating their significant subsidiaries in the U.S. but preparing their consolidated financial statements under IFRS. Retaining convergence between IFRS 15 and Topic 606 at a certain level becomes crucial for those companies to reduce costs associated with revenue-related IFRS adjustments. That said, we still think the improvement of post-implementation review findings should be put first before the convergence effort. Our hope is the FASB would take similar measures that align with the IASB's improvement of post-implementation review findings; however, even if not and differences remain between IFRS 15 and Topic 606, we still think the IASB should prioritise the development of IFRS Standards to provide more useful information to users of financial statements.

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.

Comment:

We understand refund liabilities do not meet the definition of a contract liability. However, the following descriptions within IFRS 15 are creating confusion (underline added to highlight):

- The refund liability (and corresponding change in the transaction price and, therefore, the contract liability) shall be… (per paragraph 55 of IFRS 15)
- Refund liability (contract liability) (per paragraph IE207 of IFRS 15)

If refund liabilities do not represent contract liabilities, we recommend the underlined words should be deleted.

Yours faithfully,

Eriko Otokozawa
Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants