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IFRS-15–Post-implementation Review
Revenue from Contracts with Customers

Dear Andreas,

The EFFAS Commission on Financial Reporting ("Commission", "We") would like to share with you its views on IFRS's *Request for Information - Post-implementation Review IFRS 15 Revenue from Contracts with Customers.*

The Commission acknowledges that the standard is working broadly well, and we think that there is no need for any major amendments. We suggest as further clarification to provide some illustrative examples in issues related to licenses and third-party fees.

Regarding the key points of the *Request for Information* document, we would like to comment as follows.

1. Overall suitability of IFRS 15

The Commission supports the five-steps approach and agrees with other stakeholders' general view that the standard has largely achieved its objectives. Although the implementation of the standard was challenging, the benefits undoubtedly outweighed the costs, and it has enhanced the information for users.

We consider the standard is well-structured while understandability and comparability have significantly improved.

2. Identifying performance obligations in a contract

We understand that identifying an obligation arising from internally developed products, digital products or contracts involving licences might be challenging for preparers. However, users consider relevant to have information of the origin of revenues to better understand a company's business.

For question 2(b), we think that updating the illustrative examples would be very helpful.

3.- Determining the transaction price

The Commission agrees with the IFRS 15 approach to determine the price of a transaction between entities -ultimately recognize as revenues- and the requirement that an entity accounts as a reduction of the transaction price the consideration payable to a customer.

Moreover, given the uncertainty that this requirement causes to some stakeholders the Commission suggests exploring potential improvements. This should be focused on the existing guidance on how to apply the estimation constraint on variable consideration unless the amount paid to the customer is in exchange for a distinct good of service that the customer transfers to the entity.

This point is relevant for preparers and for users of financial statements as the revenue reported reflects the total consideration the entity expects to receive. It is very important to get this right. Diversity in practice can make, or would make, the financial information less useful and less comparable.

4.- Determining when to recognize revenue

The Commission considers that the standard clearly defines when to recognize revenues after assessing the pattern of transfer of control of a good or service. Moreover, we consider that entities generally report revenue adequately following the standard.

5.- Principal versus agent considerations

The Commission recognizes the difficulties in applying the transfer of control notion when an entity must decide whether it is a principal or an agent in a particular transaction. The Commission also understands that the transfer of control indicators can cause confusion, particularly for entities that do not have physical possession of the goods before they are delivered.

Therefore, as the aforenoted can lead to a diversity of practices making its assessment difficult for users -as explained in the Request of Information- we would suggest giving priority to this issue and provide clarification.

We agree with the comment stated in the Spotlight-5, page 20, related to the concept of control.

6.- Licensing

Recognizing revenue from licences and similar, such as multiple-element arrangements, is probably the most challenging aspect of the standard. For example, in the pharmaceutical industry -as a royalty is related to a certain drug- and licences and software subscriptions for instance are contracts whereby revenues are particularly difficult to determine since significant judgment might be required. We will suggest that the IASB assess the possibility of introducing an amendment to provide additional clarity on this point. Also, some specific illustrative examples might be very helpful.

We would like to add that costs and revenues are connected to the customer service and to the commercial contract. For instance, contracts with a claw back clause -the option to close the contract before the contractual official deadline- should be closely monitored as contracts should be aligned with the local and European regulations.

7.- Disclosure requirements

The disclosure requirements introduced in IFRS 15 had a positive impact for primary users on the usefulness of the information. The disclosures facilitate calculating cash flows and provide better information on long term contracts. The reconciliation of contract assets and contract labilities is particularly useful. The ability to match both sides facilitates a better understanding of the timing of the cash flow generation. This information also provides a better understanding of the potential evolution of an entity's business and helps to gauge its growth potential. Having additional information on the backlog of an entity is also very useful.

For disaggregation, we think the information disclose whether by (1) primary geographical markets, (2) major goods and services or (3) timing of revenue recognition should be consistent over the years for comparability purposes.

A final comment on disclosures is that the information provided must be relevant to users to be useful. Information that is not material should be avoided.

8.- Transition requirements

The Commission does not have further comments on the standard as additional useful information is being disclosed.

9.- Applying IFRS15 with other Accounting Standards

The Commission supports the views depicted on the specific standards: IFRS 3 *Business combinations*, IFRS 16 *Leases*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint arrangement*s as they relate to IFRS-15

10. Convergence with US GAAP Topic 66

IFRS 15 has undoubtedly improved the comparability with other entities reporting under US GAAP. The Commission considers that any further step taken to reduce the differences between IFRS and US GAAP is a positive move to improve comparability between entities across the globe.

11. Other matters

No further comments.

If you would like to further discuss the views expressed in this letter, please contact us.

Javier de Frutos, Chair
EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 14-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium), Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany), and Andreas Schenone (SFAA, Switzerland).