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VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Oct 26, 2023

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

RE: Request for Information: Post-implementation Review of IFRS 15 - Revenue from Contracts with Customers

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Request for Information: *Post-implementation Review of IFRS 15 - Revenue from Contracts with Customers.*

Our detailed comments on the questions raised in the RFI are attached in the appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

SOCPA Chief Executive Officer

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
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Appendix: SOCPA Comments on: Request for Information: Post-implementation Review of IFRS 15 - Revenue from Contracts with Customers

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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.

SOCPA Comments:

(a) SOCPA believes IFRS 15 has achieved its objective to a large extent. The core principle of IFRS 15, which is to recognize revenue when (or as) the entity satisfies a performance obligation, is clear and provides a suitable basis for revenue accounting decisions. The five-step revenue recognition model, which is used to implement the core principle, is also clear and provides a systematic approach to revenue recognition.

However, SOCPA would like to highlight certain areas where IFRS 15 could be improved. For example, the standard can be complex and may be difficult to apply in some situations. Based on the facts given below SOCPA would like to highlight the fundamental questions about the clarity and suitability of the core principle or the five-step revenue recognition model of IFRS 15:

- What constitutes a performance obligation? The standard provides some guidance on how to identify performance obligations, but it is still open to interpretation in some cases. For

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـــودية للمراجعين والمحاســبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
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example, it is not always clear how to distinguish between a single performance obligation and a series of distinct performance obligations.

- How should the transaction price be allocated to performance obligations? The standard provides a general approach to allocating the transaction price, but it can be complex to apply in practice. For example, it is not always clear how to measure the fair value of variable consideration.

- How should revenue be recognized when there are multiple performance obligations in a contract? This is a challenging issue that the standard does not explicitly address. The standard provides some guidance on how to allocate the transaction price to performance obligations in a contract with multiple performance obligations, however, it is not always clear how to apply it. For example, it is not always clear how to determine the point in time at which each performance obligation is satisfied.

- How should revenue be recognized when there are changes in the contract? The standard provides some guidance on how to account for changes in a contract, however, it is not always clear how to apply it. For example, it is not always clear how to determine the amount of revenue that should be recognized if a contract is modified. This is a consistent issue that has been raised by the software development industry.

- Timing of revenue recognition - Determining the appropriate timing of revenue recognition can be complex, especially when there are uncertainties or significant time lag between contract signing, performance, and payment.

(b) (i). In developing future Standards:

- The IASB could provide more industry focused examples, case studies and illustrations to help users understand the requirements of the standard. Additionally including FAQs would also be useful.

- The IASB could develop a toolkit or resource center to help users apply the standard.

- The IASB should consider simplifying the language used and avoid using technical jargon in its standards.

(b) (ii). In addition to the education materials and flowcharts suggested by IASB in question 1 (b) (ii), the IASB could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard by:

- developing a toolkit or resource center to help users apply IFRS 15. This toolkit could include examples, illustrations, case studies and guidance on how to deal with common issues. The case studies should be built on real-world scenarios that demonstrate how different industries and entities have applied IFRS 15 highlighting best practices and potential pitfalls to avoid.

- providing more industry specific guidance. This will assist entities in specific industries to better apply IFRS 15.

- maintaining a collection of frequently asked questions (FAQs) and offer supplementary interpretive guidance to tackle common issues and questions.

(c) SOCPA believes the cost-benefit analysis of IFRS 15 is complex and depends on a number of factors, such as the size and complexity of the entity, the nature of its business, and its existing accounting systems.

In certain cases, the ongoing costs of applying IFRS 15 may be significantly greater than expected. This could be due to a number of factors, such as the complexity of the entity's business, the need to make significant changes to its accounting systems, or the lack of clear guidance on how to apply the new requirements.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـودية للمراجعين والمحاسـبين
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In other cases, the benefits of applying IFRS 15 may be significantly lower than expected. This could be due to the fact that the new requirements do not change the way that revenue is recognized for many entities, or that the benefits of improved comparability and transparency are not realized.

A summary of costs and benefits are given below:

Ongoing costs include:

- Implementation of new systems and processes to capture and track revenue information.
- Compliance with the new requirements which can be complex and time-consuming.
- Audit and third-party consultant's costs.
- Training for employees on the new requirements.

Benefits include:

- Improved comparability of financial statements across entities.
- Increased transparency about the timing and amount of revenue recognition.
- Reduced risk of misstatement of revenue.
- Improved ability to assess the financial performance of an entity.

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?

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SOCPA Comments:

(a) SOCPA believes IFRS 15 to a certain extent provides a clear and sufficient basis to identify performance obligations in most contracts. However, there are some fact patterns where the requirements are unclear or are applied inconsistently. These include:

- When an entity functions as an agent rather than a principal in a transaction, there may be ambiguity when it comes to pinpointing performance obligations. Varied interpretations can result in distinct accounting approaches.
- In the case of contracts that span multiple financial years, especially in sectors like construction or software development, there can be subjectivity in identifying the point at which performance obligations are fulfilled. Companies might hold varying perspectives on when control is transferred, resulting in divergence in revenue recognition practices.
- Establishing performance obligations in contracts that permit customers to return goods can prove to be a complex task. As a result, the timing of revenue recognition in such contracts could result in varying approaches being employed.
- In contracts that involve multiple deliverables, i.e. when a contract encompasses the sale of various products or services bundled together, discerning the individual performance obligations can pose difficulties. As a result, companies might encounter challenges in accurately apportioning the transaction price to each component, which could result in variations in application.
- In contracts with performance obligations that are contingent on the occurrence of a future event, for example, a contract may include a performance obligation to provide goods or services only if the customer achieves a certain level of performance. In these cases, it can be difficult to determine whether the performance obligation is satisfied and whether the entity is entitled to receive the variable consideration.

(b) SOCPA would like to suggest the following for resolving the challenges and matters identified above:

- Provide additional guidance or illustrative examples in IFRS 15 to help entities distinguish between cases where they act as agents versus principals in a transaction.
- Offer more specific guidance for industries with long-term contracts, such as construction and software development, to help entities determine the point at which performance obligations are satisfied.
- Develop additional guidance or examples in IFRS 15 that address contracts involving return rights.
- Provide illustrative examples or practical guidance within IFRS 15 to assist companies in identifying performance obligations and allocating transaction prices accurately in contracts with multiple deliverables.
- Offer specific guidance or examples in IFRS 15 for contracts with contingent performance obligations tied to future events.

Based on information collected during an outreach carried out by SOCPA, constituents noted that IFRS 15 does not provide a clear and sufficient basis to identify performance obligations in an insurance contract that has as their primary purpose the provision of services for a fixed fee or for service that is connected to an ordinary debt instrument and implied a coverage for insurance risk/s need to be dealt as regular "performance obligation contract" and their revenue recognition need to be connected to EIR method and not to IFRS 17 regardless the performance obligation form is in service or in cash.

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P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعــودية للمراجعين والمحاسـبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٨٠٠٤٤٠٤٤٤٤

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?

SOCPA Comments:

(a) IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract in general, but there are certain specific areas related to consideration payable to a customer where the requirements are less clear or are being applied inconsistently. SOCPA agrees with the 2 specific fact patterns identified in spotlight 3. SOCPA believes that the diversity in application arises due to several factors:

- IFRS 15 does not provide explicit guidance for certain scenarios, such as the treatment of incentives paid to end customers or negative net consideration. This lack of clarity leads to different interpretations by entities.
- IFRS 15 requires judgment and interpretation by preparers, and different entities may exercise their judgment differently, resulting in inconsistent accounting treatments.
- Revenue recognition can be complex, especially in contracts with multiple components, incentives, and variable consideration. The complexity of contracts can make it difficult for entities to apply IFRS 15 consistently.

In addition to the above fact patterns in "spotlight 3" relating to contracts in which there is consideration payable to a customer, SOCPA also believes for a situation as described below, IFRS 15 lacks a clear and sufficient basis to determine the transaction price.

Contract Modifications with Consideration:

Contracts often undergo modifications during their term, resulting in changes to the transaction price. Some modifications may involve additional consideration payable to the customer. IFRS 15 provides guidance on accounting for contract modifications but does not explicitly address situations where additional consideration is provided to the customer as part of the modification. Entities may apply IFRS 15 differently when assessing the impact of contract modifications involving consideration payable to the customer. Some may treat it as a reduction of revenue, while others may account for it separately. This variance can affect the timing and amount of revenue recognized.

The lack of specific guidance in IFRS 15 or the need for judgment in applying the standard can lead to inconsistencies in accounting treatment. This diversity in application can impact the comparability of financial statements and the usefulness of financial information to users.

Non-cash consideration:

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
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How should the transaction price be determined in a real estate development contract in case of in-kind consideration?

Paragraph 66 of IFRS 15, "non-cash consideration", provides that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

Paragraph 68 under the same heading, "non-cash consideration", provides that the fair value of the non-cash consideration may vary because of the form of the consideration. If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the fair value could vary because of the entity's performance), an entity shall apply the requirements in paragraphs 56–58.

Paragraph 56 provides that an entity shall include in the transaction price some or all of an amount of variable consideration estimated.

Paragraph 59 of IFRS 15, "reassessment of variable consideration", provides that at the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Based on the above, it is not clear whether the in-kind consideration should be measured at the inception or end of the contract.

Additionally, based on information collected during an outreach carried out by SOCPA, it was noted that constituents in certain industries believed guidance provided to determine the transaction price was insufficient when applying IFRS 15.In Petrochemical industry, it is routine that products are initially sold under provisional price mechanism at the mutually agreed price and are later trued up for actual sales price by the off-taker or marketer to the final customer. The adjustment requires for the actual price realized, is contingent on the final sale price of the product, as the differential is variable consideration under IFRS 15. This requires an assessment of the amount of differential for inclusion in the transaction price, and to ensure that the amount of differential so included will not reverse in future when the uncertainty is resolved. The entity recognizing revenue shall also have to estimate the differential amount upfront which would be realized when actual sales are made by the final customer. Such estimation would be based on either the expected value or most likely method and shall remain subject to the constraint. This aspect would require significant estimates/judgements and could potentially cause diversity in practice and impair comparability. Further additions of specific guidance will be helpful to minimize such variations.

(b) SOCPA believes that the matters identified above can be resolved by including:

(b) Specific Guidance to address each of the fact patterns identified above.

(c) Including industry focused illustrative examples within the standard that cover various scenarios related to above identified fact patterns.

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?**

SOCPA Comments:

(a) SOCPA agrees that many entities have largely overcome initial challenges related to determining whether to recognise revenue over time or at a point in time. However, there are still situations where the requirements of IFRS 15 may not provide a clear and sufficient basis for determining when to recognize revenue. SOCPA agrees as given in "spotlight 4" - some challenges remain in the software development, gaming and construction industries and determining when to recognise revenue in these industries can be difficult. The challenges in recognizing revenue and the inconsistencies that arise as a result can be summarised as follows:

- In the software development industry, determining when to recognize revenue can be challenging. This is because software development projects often involve multiple phases and assessing whether the criteria in paragraph 35 (c) of IFRS 15 are met, especially regarding the enforceability of the entity's right to payment, can be complex. This might be due to uncertainties related to customers changing their requirements during the project or disputes over milestones and deliverables.

- In the gaming industry, some game developers offer in-game items or services that are provided to players over time. Determining when to recognize revenue in these cases can be tricky, as the criteria in IFRS 15 must be applied to assess whether control over the benefits is transferred over time. This may involve subjective judgments regarding player engagement and usage.

- The construction industry is another area where the criteria for recognizing revenue over time can be challenging. Construction projects often span extended periods, and there may be disputes or uncertainties related to project completion, changes in scope, or customer acceptance criteria. These factors can make it difficult to determine when control is effectively transferred to the customer.

Diversity in the application of IFRS 15, particularly regarding recognizing revenue over time, exists in practice. This diversity can be attributed to several factors:

- The application of criteria paragraph 35 (a), (b), and (c) often involves subjective assessments, leading to differences in interpretation among entities. For example, what constitutes "simultaneous receipt and consumption" or what qualifies as an "enforceable right to payment" can vary from one entity to another.

- Different industries have unique characteristics and challenges, as illustrated by the examples above. These industry-specific factors can lead to inconsistent application of the standard.

- The complexity of contracts and the presence of multiple performance obligations can also contribute to diversity in application. Contracts with varying terms and conditions may lead to different conclusions regarding when revenue should be recognized.

The diversity in the application of IFRS 15 can affect entities' financial statements and the usefulness of the resulting information for users of financial statements by impacting comparability, transparency and risk assessment.

Based on information collected during an outreach carried out by SOCPA, certain constituents noted IFRS 15 resulted in an increase in effort with regard to when to recognise revenue,

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٨٠٠٤٤٠٤٤٤٤

especially for items relating to annual fees. The need to spread the fees over 12 months has created increased efforts by a bank. An example is the annual fee for credit cards. The difference between recognizing upfront and spreading over 12 months is minimal and has added little benefit as the amounts are typically immaterial to the overall performance of a bank. Therefore, it is suggested that fees recognized over 12 months or less and are recurring in nature are allowed a practical expedient to record at the commencement of the contract as opposed to recognizing over 12 months.

Additionally, constituents also raised concerns regarding real estate development companies, in which they stated they faced issues in determining the time of revenue recognition; Should it be over time or at a particular point in time. They were uncertain whether paragraphs 31, 32, 35 and 36 were applicable to real estate development contracts and off-plan sale projects. They raised the question whether revenue should be recognized at a point in time in case of off-plan or real estate development contracts? As such contracts extend for a long period of time, mostly 3 to 5 years. They believed according to the standard, if revenue is not recognized over time, it shall be recognized at a point in time. In such cases, some issues arise:

- Costs are capitalized over the period of construction and the revenue is recognized after a long period of time, resulting in incorrect matching of financial statements
- Income statement doesn't reflect the efforts exerted by the entity during the period of construction, which constitutes a denial of such efforts

Amounts in the income statement fluctuate considerably due to the inconsistency in revenue recognition over time.

(b) IASB should consider issuing additional guidance or interpretive guidance specific to industries facing challenges in revenue recognition. This guidance can provide practical examples and clarify the application of criteria in paragraph 35 (a), (b), and (c) under different circumstances.

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?

SOCPA Comments:

(a) SOCPA believes IFRS 15 provides a clear and sufficient basis to determine whether an entity is a principal or an agent in most cases. However, as given below there are some fact patterns in which the requirements are unclear or are applied inconsistently:

- Arrangements involving more than three parties: IFRS 15 does not provide specific guidance on how to determine whether an entity is a principal or an agent in arrangements involving more than three parties. This can lead to diversity in application, as entities may interpret the requirements differently.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيـئة السعــودية للمراجعين والمحاسـبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
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- Arrangements involving services: When determining whether an entity is a principal or an agent, the concept of control can be more difficult to apply in the context of services than in the context of goods. This is because services are typically intangible and there may be no physical object to which the entity can assert control.
- Arrangements where the indicators point to different conclusions: IFRS 15 provides a non-exhaustive list of indicators of control. However, the indicators may not always be consistent with each other. When determining whether an entity is a principal or an agent, entities may need to exercise judgment to determine which indicators are most relevant and how to weigh them.

SOCPA believes some reasons why IFRS 15 may not provide a clear and sufficient basis to determine whether an entity is a principal, or an agent is because:

- Determining when and how control is transferred can be subjective and dependent on various factors. Different interpretations of control can lead to diverse conclusions.
- The standard lacks detailed illustrative examples for various scenarios, which could have helped clarify the application of the principles in practice.
- Experience shows that the concept of control is not well understood, particularly in relation to services. Some entities may rely solely on the indicators provided without a clear grasp of the underlying concept of control, leading to inconsistent assessments.

Based on information collected during an outreach carried out by SOCPA, certain constituents noted that the standard does not include specific guidance on how an entity allocates a discount in an arrangement in which it is a principal for some goods or services and an agent for others. To achieve the allocation principle in these situations, judgement will be needed in determining the discount to allocate to the performance obligation related to acting as an agent in arranging for goods or services on a customer's behalf.

(b) SOCPA suggests the following to resolve the matters identified in our response to 5 (a) above:

- The IASB could consider providing more detailed guidance on the concept of control, especially in relation to services. This could include specific examples and case studies to illustrate the application of control in different scenarios.
- The standard could establish a hierarchy or a weighting system for the indicators of control. This would help entities prioritize and evaluate the indicators more consistently, particularly in situations where multiple indicators may lead to different conclusions.
- The IASB could develop a comprehensive set of illustrative examples that cover a wide range of contractual arrangements. These examples should include both goods and services transactions, as well as cases with multiple parties involved.

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?

SOCPA Comments:

(a) SOCPA has noted the requirements in the following fact patterns are unclear or are applied inconsistently.

- IFRS 15 does not provide a specific definition of a licensing arrangement. This can lead to uncertainty in determining whether a particular arrangement is a licensing arrangement or a sale of intellectual property (IP) or service provision. For example, an arrangement that is described as a licence may in substance be a sale of IP if the customer obtains all of the entity's rights to the IP.
- IFRS 15 requires entities to identify the performance obligations in a contract in order to determine the appropriate timing of revenue recognition. This can be challenging in arrangements that include both goods or services and a licence. For example, if a contract includes a licence to use software and a maintenance service, it is necessary to determine whether the licence and the maintenance service are distinct performance obligations or a single performance obligation.
- IFRS 15 does not provide specific guidance on accounting for licence renewals. This has led to diversity in practice, with some entities recognising revenue from a licence renewal when the renewal period starts and others recognising it when the renewal is agreed.

Diversity in application can lead to variations in how entities report revenue from licensing arrangements. Entities also incur additional costs in assessing and applying the standard to licensing arrangements, particularly if they need to seek external expertise or perform complex evaluations.

Based on information collected during an outreach carried out by SOCPA, certain constituents noted that the standard does not include explicit guidance on distinguishing attributes of a license from additional licenses, therefore judgement is required to determine when a restriction creates multiple licenses and when it is an attribute of the license.

(b) IASB could provide specific guidance on how to:

- determine whether an arrangement is a licensing arrangement. This could include factors to consider, such as the nature of the rights granted to the customer, the duration of the arrangement, and the level of control that the customer has over the IP.
- identify performance obligations in arrangements that include both goods or services and a licence. This could include factors to consider, such as the nature of the goods or services being provided, and the licence being granted.
- account for licence renewals. This could include clarifying when revenue should be recognised from a licence renewal and how to account for any upfront payments received for a licence renewal.

Additionally, the IASB could also develop comprehensive illustrative examples relating to the above.

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.

Saudi Organization for Chartered and Professional Accountants
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8004404444
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Info@socpa.org.sa
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٨٠٠٤٤٠٤٤٤٤

(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?

SOCPA Comments:

(a) SOCPA believes the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements.

Some of the particularly useful disclosures in IFRS 15 include:

- Disaggregated revenue information: This information shows how revenue is broken down by different types of products or services, geographic markets, and customer segments. This helps users to understand the sources of an entity's revenue and to identify any areas of concentration or risk.
- Revenue recognition policies: These disclosures explain how an entity recognizes revenue from different types of contracts. This helps users to understand how revenue is measured and reported, and to compare the financial performance of different entities.
- Significant contracts: These disclosures provide information about the nature, amount, timing, and uncertainty of revenue and cash flows from significant contracts. This helps users to understand the impact of these contracts on the entity's financial performance and position.
- Significant judgments applied in determining the timing of satisfaction of performance obligations and the transaction price allocation.

However, there are a few disclosures in IFRS 15 which might be complex and difficult to understand by some users of financial statements. For example, the disclosure requirements for variable consideration contracts. Additionally, the disclosures of significant judgments and estimates helps users to understand the risks and uncertainties associated with the entity's revenue recognition process, however in certain instances they can be subjective and may not provide users with enough information to assess the risks and uncertainties associated with the entity's revenue recognition process.

(b) Disclosure requirements in IFRS 15 can give rise to significant ongoing costs. Meeting these requirements is costly because:

- Entities may need to aggregate or disaggregate disclosures to ensure that useful information is not obscured. This can involve additional effort and resources.
- Entities are required to disclose qualitative and quantitative information about their contracts with customers, significant judgments made in applying the guidance, and any assets recognized from the costs to obtain or fulfill a contract. Gathering and preparing this information can be time-consuming and resource-intensive.

These costs are likely to remain high over the long term because:

- As business practices evolve and new types of contracts emerge, entities will need to continuously assess and update their disclosure practices to meet the evolving requirements.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
8004404444
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
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- Entities may need to invest in systems and processes to capture and report the necessary information accurately and efficiently. These investments may require ongoing maintenance and updates to keep pace with changes in the business environment.
- Certain controls and resources need to be embedded in the system to adhere with disclosure requirements as they might involve quantitative and qualitative information

(c) SOCPA believes there is significant variation in the quality of disclosed revenue information under IFRS 15. This is due to a number of factors, including:

- IFRS 15 requires companies to make significant judgments about how to recognize revenue. Different companies may make different judgments, leading to variation in the quality of their disclosures.
- IFRS 15 has only been in effect for a few years, and many companies are still learning how to implement it effectively. This can lead to errors and inconsistencies in their disclosures.

To reduce variation in the quality of disclosures and ensure that companies are providing investors with the information they need to make informed decisions, the IASB could issue additional implementation guidance on IFRS 15, clarifying what constitutes high-quality revenue disclosure.

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.

SOCPA Comments:

(i) The vast majority of entities elected to apply the modified retrospective method. The most common reason for this choice was that it was the simplest and most straightforward method to apply. Only a small minority of entities elected to apply one or more of the practical expedients. The most common practical expedient used was the completed contracts expedient. Overall, the transition requirements of IFRS 15 appear to have worked as intended.

However, there were some challenges associated with the transition to IFRS 15. One challenge was the need to identify and assess all contracts that were not completed contracts at the date of initial application. Another challenge was the need to estimate the cumulative effect of initially applying IFRS 15.

(ii) The cost of transition to IFRS 15 varied significantly from entity to entity. Entities with complex contracts or large numbers of contracts found the transition to be more costly. The usefulness of the information provided by the transition requirements also varied from entity to entity. Entities that provided detailed information about the impact of IFRS 15 on their financial performance provided more useful information to users.

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صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٨٠٠٤٤٠٤٤٤٤

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?**

SOCPA Comments:

IFRS 3:

Allocation of Consideration in a Business Combination:

Determining how to allocate the consideration transferred in a business combination when the acquired entity has contracts with customers that are within the scope of IFRS 15. This ambiguity can affect the allocation of purchase price and the recognition of revenue from existing customer contracts. It may lead to differences in fair value assessments and potentially affect goodwill calculations.

Recognition of Contract Liabilities:

Deciding how to account for contract liabilities assumed in a business combination, especially when the acquiree has unperformed obligations under customer contracts. Ambiguity in this area can result in inconsistencies in recognizing and measuring contract liabilities, which can affect the timing and amounts reported as revenue and liabilities on the acquirer's financial statements.

IFRS 9:

Price Concession versus Impairment Losses:

One potential area of ambiguity arises when a customer provides concessions or modifications to a contract that may lead to a reduction in the transaction price. Determining whether such a reduction should be accounted for as a price concession under IFRS 15 or as an impairment loss under IFRS 9 can be challenging.

The ambiguity in this area can lead to differences in accounting treatment, impacting the timing and amount of revenue recognition. Additionally, it can affect the measurement of financial assets, potentially leading to different impairment assessments and disclosures. Different industries and entities may have varying practices for assessing whether a reduction in the transaction price represents a price concession or an impairment loss, resulting in inconsistency in financial reporting.

IFRS 16:

Allocation of consideration between lease payments and service revenue:

In situations where a contract includes both revenue-generating activities and leasing arrangements, the application of IFRS 15 and IFRS 16 can be complex. For example, consider a contract that includes a lease of property with associated services. Deciding how to allocate consideration between lease payments and service revenue can be challenging.

Ambiguity in such cases can lead to inconsistencies in revenue recognition, affecting the comparability of financial statements across entities. Users of financial statements may find it difficult to assess the nature and extent of revenue-generating activities and lease commitments.

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P.O.Box:22646 Riyadh 11416
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To address these scenarios the IASB can include illustrative examples within the standards or separate guidance documents that walk through various scenarios described above.

Based on information collected during an outreach carried out by SOCPA, certain constituents noted difficulty of classifying whether a particular income transaction falls under IFRS 9 or IFRS 15 as there is limited guidance to assist banks regarding this which could result in varying interpretations.

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?**

SOCPA Comments:

SOCPA believes retaining the current level of convergence between IFRS 15 and Topic 606 is important as:

- It supports global capital markets. The convergence of IFRS and US GAAP has been a major factor in the development of global capital markets. It has made it easier for companies to raise capital from investors around the world. If IFRS 15 and Topic 606 were to diverge significantly, it could undermine the integrity and efficiency of global capital markets.
- It makes it easier for investors and creditors to compare the financial statements of companies from different countries.
- It reduces the cost of compliance for multinational companies. Companies that are listed on stock exchanges in both the United States and other countries need to comply with both US GAAP and IFRS. If IFRS 15 and Topic 606 were to diverge significantly, companies would need to maintain two separate sets of accounting records and produce two separate sets of financial statements. This would be very costly and time-consuming.

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.

SOCPA Comments:

Smaller entities have reported significant challenges in implementing IFRS 15, due to the complexity of the standard and the cost of implementation. The IASB should consider whether there are any simplifications that could be made to IFRS 15 without sacrificing the quality of financial reporting.

SOCPA believes the IASB also should examine the use and effectiveness of practical expedients allowed under IFRS 15. These expedients can simplify implementation but might also lead to diversity in practice. Assess whether entities are using these expedients consistently and whether they achieve the intended simplifications without compromising the quality of financial reporting.

Additionally, based on information collected during an outreach carried out by SOCPA, certain constituents noted that contract modifications that are treated as termination of existing contract and creation of a new contract are accounted for prospectively under IFRS 15 paragraph 21, which describes how to calculate the amount of consideration to be allocated to remaining goods or services specifically mentioning amounts already received from customers i.e. contract liabilities. However, standard does not provide the required guidance for the treatment of contract assets in such situations.

Constituents also raised a concern regarding paragraph 5(d), "non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers" being excluded from the scope of the standard. They believed that this exception needs more clarification and considerations to assist an entity in assessing its applicability.

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8004404444
www.socpa.org.sa
Info@socpa.org.sa
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صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٨٠٠٤٤٠٤٤٤٤