Follow-up Questions on Consultation on IASB Request for Information: *Post-Implementation Review of IFRS 15 Revenue from Contracts with Customers* – HKAB Responses

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1.	<u>**Overall assessment of IFRS 15**</u>			
	(a) In your view, has IFRS 15 achieved its objective? Why or why not? […]	(a) Yes, we are of the view that the implementation of IFRS 15 went generally smoothly and the five-step revenue recognition model was helpful to analyse various business transactions.	N/A	(a) N/A
	(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?**	(b) The five-step model in IFRS 15 provides a logical model of how accounting principles can be applied to transactions and assists preparers to determine an accounting treatment in a comprehensive and scientific way. The linkage between the steps in the model also improve readers' comprehension. It would be great if flowcharts on explaining the links between requirements can be provided by the Board.	N/A	(b) N/A
	(c) What are the ongoing costs and benefits of applying the	(c) The costs of applying IFRS 15 are significantly higher than the	N/A	(c) N/A

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	requirements in IFRS 15 and how significant are they? […]	costs of applying IAS 18 in the past. However, the single recognition model in IFRS 15 is useful to benchmarking companies in different entries. That said, IFRS 15 still presents significant opportunity for judgement and diversity in practice in a number of areas and between different types of companies.		
2.	**<u>Identifying performance obligations in a contract</u>** **(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?** […]	(a) IFRS 15 generally provides a clear and sufficient basis to identify performance obligations in a contract. However, there are still areas that can be particularly challenging. For example, one area of significant judgement concerns how to identify whether a performance obligation is a series of distinct goods and services, and whether such a series constitutes a promise of 'standing ready'. Another challenge is identifying the performance obligations in complex contracts where a variety of services/goods and ancillary services are provided under a single contractual arrangement. (b) TRG discussions on various topics (e.g. TRG Agenda Ref No. 39 on series guidance) could be summarized and included into the	(a) Please provide the fact pattern to demonstrate these two difficulties/challenges in the application of requirements of IFRS 15 and any diversity in practices noted. Also, we would like to know how pervasive of the challenges.	(a) An example of fact pattern is in relation to distribution agreements. Such agreements are for a set period of time, and generally establish a best-effort arrangement to provide distribution services to the third party (the third party is our client for distribution services) often on an exclusive basis. There is judgement on identifying the service (e.g. whether it is a single, integrated service, and whether that is an integrated service which is completed in a specific time increment, e.g. daily), whether the service (which is composed of various efforts that go into successfully completing the distribution, including marketing, technology, etc.) meets the criteria to be a series in IFRS 15.22(b), including whether the service is of a 'stand-ready' nature. There are limited examples in IFRS 15 and in Big 4 guidance on this topic, which makes it challenging to determine the scope of the guidance. Refer to IFRS 15 BC285 and TRG Agenda Ref No. 39 for technical background on this topic.

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	(b) Do you have any suggestions for resolving the matters you have identified?	Standard to further clarify and illustrate how to identify performance obligations, how to distinguish between series and bundles of contracts, etc. Further examples could be provided given that existent guidance on certain topics is highly limited, e.g. the series guidance may often be applicable in broader situations than initially discussed in the early days of IFRS 15.	(b) N/A	Complexity arises where the ancillary arrangements such as technology development are also included in the services agreement but are not normal standalone services provided to the customer, nor able to be separated from the primary performance obligation on the basis an agent. (b) N/A
3.	**<u>Determining the transaction price</u>** **(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?** […] **(b) Do you have any suggestions for resolving the matters you have identified?**	(a) No. It is noted that the inquiry about 'negative revenue' mentioned in Spotlight 3 is common to banking institution with credit card business. It is common that the costs of marketing incentive can exceed the commission received from related transactions, thus resulting in expenses at transaction level. (b) In order to improve the market comparability in applying IFRS 15, the Board is suggested to clarify whether 'negative revenue' is allowed or not and if yes, it is vital to provide subsequent measurement guidance for 'negative revenue' provided (e.g. the assessment period).	(a) May I know how to account for marketing incentives in credit card business? Any diversity in practices noted?	(a) We note that, in credit card business, most banks would consider cardholders as their customers under IFRS 15. For the marketing incentives to cardholders, common practice is to consider the consideration payable to cardholders as reduction of revenue. There are occasions that the amount of marketing incentives earned by the cardholders in one promotion campaign after they fulfilled at certain amount of transaction volume can exceed the amount of income generated by such specified transaction volume, and thus the "negative revenue" would result and should be presented under expenses in general. However, from business perspective, the incentives could aim to promote the cardholders' spending activities in the whole period of the cardholder contract, if so, the incentive should offset revenue earned over the contractual period in order to faithfully reflect the business mechanics, and no "negative revenue" would be caused in this regard. This kind of discussion

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		Further guidance could be provided on how to assess the scope of the transaction price (i.e. determine what will be included in the overall transaction price). Contracts may have various forms of consideration, and there may be cases where it is judgmental as to what to include (e.g. allowances, reimbursable amounts, consideration without a clear link to a provided good/service, etc.).	(b) The negative income is usually caused by consideration payable to a customer. If the consideration payable to a customer is a variable consideration, IFRS 15.59 provides guidance on the reassessment of variable consideration. May I know any other subsequent measurement guidance for negative income would be suggested for the IASB to consider?	echoes the stakeholders' concern about negative revenue in this exposure draft. (b) The concern around negative revenue should be about the presentation rather than measurement, so IFRS 15.59 does not directly address the concern.
4.	**<u>Determining when to recognize revenue</u>** **(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?** […] **(b) Do you have any suggestions for resolving the matters you have identified?**	(a) IFRS 15 generally provides a clear basis to determine the timing of revenue recognition that when (or as) the entity transfers goods or services to a customer, which is when (or as) the customer obtains control of that good or service. (b) We suggest to provide simplified approach/exemption to allow short-term contracts to apply point in time rather than over time with cost-benefit considerations. It would be helpful to provide more guidance or illustrative examples on allocating variable consideration (IFRS 15.84-86), including on how to meet the criteria in paragraph 85. More guidance on how to recognize	(a) N/A (b) Please provide the fact pattern to demonstrate the difficulties in these areas.	(a) N/A (b) In practice, there can be services within a short period of time (e.g. 3 months), and the related revenue should be recognized over time. However, entities may simplify the treatment by recognizing revenue point-in-time due to limitation of system or resources, as the cut-off error being immaterial. For financial reporting purpose, it may be more beneficial to readers if the standard can provide practical expedient to those simplified treatment to preparers but require them to mandatorily disclose the use of such practical expedient to increase the transparency. Non-disclosure of real

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		revenue under series guidance would also be helpful, e.g. explicit guidance on allocating and recognizing revenue based on time-increments under the series guidance.		practice because of immateriality would impair the comparability of income statements between reporting entities. As noted above for the fact pattern of distribution services with ancillary income for technology development, the IFRS 15.84-85 guidance on allocating variable consideration may be applicable where the performance obligation is identified as an IFRS 15.22(b) series. But the criteria in IFRS 15.85 are very high level and practically challenging to apply given the lack of clarity on how they shall be satisfied. It would be helpful to have some illustrative examples on the application of the criteria for consistency.
5.	**<u>Principal versus agent considerations</u>** **(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?** […]	(a) It depends as applying principal–agent analysis involves a high degree of judgement about the business arrangements. However, IFRS 15 doesn’t provide a clear basis which can reduce the controversies between preparers and auditors. Rather, it could create more controversies since the totality of facts/indicators is highly judgmental.	(a) Please elaborate the controversies between preparers and auditors.	(a) As the controversy can be case-specific, no further elaboration of fact patterns can be provided.
	(b) Do you have any suggestions for resolving the matters you have identified?	(b) It is suggested that IFRS 15 should rely more on entities’ judgement about business arrangements in the principal-agent assessment with	(b) N/A	(b) N/A

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		disclosures of how judgement being formed, rather than demonstrating the principal-agent relationship based on too many indicators, as long as the judgement are applied consistently across the years.		
6.	**<u>Licensing</u>** **(a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?** […] **(b) Do you have any suggestions for resolving the matters you have identified?**	We have no comments.	N/A	N/A
7.	**<u>Disclosure requirements</u>** **(a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?** […] **(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?** […] **(c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in**	We have no comments.	N/A	N/A

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	your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?			
8.	**<u>Transition Requirements</u>** **(a) Did the transition requirements work as the IASB intended? Why or why not?** […]	We have no comments.	N/A	N/A
9.	**<u>Applying IFRS 15 with other IFRS Accounting Standards</u>** **(a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?** […]	(a) We note that in banking industry, it can sometimes be controversial on when the income resulted by loan transaction is part of the integral part of interest or not, since the valuation/pricing of loan is complex due to the lack of transparency of relevant data/inputs in the market, as compared to other fixed income instruments with quoted price in the market. It would be useful if IFRS 15 or IFRS 9 can provide more guidance on this area, for example, in the absence of reliable observable valuation inputs, whether it is allowed, by practical expedient, to assume the nominal principal and interest rate is set on a fair basis, and no	(a) Please provide the fact pattern related to the loan transaction and advice whether this issue is pervasive.	(a) The controversy mainly arises between bilateral loan and syndicated loans. For example, in recent years, there are more and more ESG loans are granted by banks. Since some customers may not have experience of borrowing ESG-related loans, sometimes they are willing to pay the bank with a sum of consultancy fee in relation to the ESG loans. Logically speaking, since one should consider IFRS 9 requirement before IFRS 15 requirement in deciding the accounting treatment in accordance with IFRS 15 para 5(c), as such, under IFRS 9 para B5.4.2(a), such fees are presumed to be part of the effective interest rate in the case of bilateral loans (loan A); however, it is noted such service can also be performed by one bank in the case of syndicated loans/club loans

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	(b) Do you have any suggestions for resolving the matters you have identified?	other cash flows, like handling fee, should be considered in determining the effective interest rate. (b) The accounting for cooperative arrangements remains unclear, and often the line between applying IFRS 15 and not to such arrangements can be highly judgmental. IFRS 15 paragraph 6 is unhelpful in this regard. We recommend clarifying this area of accounting.	(b) N/A	(loan B), and such income arising from the consultancy service can be income recognized under IFRS 15 based on IFRS 9 para B.5.4.3 by comparing the EIR of other participating banks (since other banks haven't provide the services and earn the fees). It comes to a question that while the service scope and content of consultancy services performed by a bank in loan A and loan B can be quite similar, or even identical, the fee earned in loan A can hardly be recognized as service income owing to lack of comparable loans. To more faithfully reflect the business substance, it is suggested that IFRS may consider to provide an expedient that fee related to a loan can be recognized under IFRS 15 but not IFRS 9 if there are readily available evidence to support such underlying service is separately identifiable in usual business practice, as it is more practical to proof the fair value/standalone selling price of a service but not the fair value of the loan in some cases. (b) N/A
10.	**<u>Convergence with Topic 606</u>** **(a) How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?**	We have no comments.	N/A	N/A

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11.	**<u>Other matters</u>** **(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?** […]	There remains a need to more holistically consider the accounting for, and presentation of, expenses under IFRS 15.	N/A	N/A