COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS
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**Reference: Request for Information – Post-implementation Review IFRS 15 Revenue from Contracts with Customers**

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond the Request for Information – Post-implementation Review IFRS 15 Revenue from Contracts with Customers.

We are a standard-setting body engaged in studying, developing, and issuing accounting standards, interpretations, and guidance for Brazilian entities.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC Brasil (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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## Addressing the questions

**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.

**Response 1 a:** The core principle and the supporting five-step revenue recognition model, in general, provide a good basis for revenue accounting decisions, but in some situation minor adjustments, clarifications, illustrative examples and educational materials could be very helpful to clarify concepts, criteria and requirements that need to be applied in different scenarios in practice.

**Response 1 b**: We have identified some difficulties in the application of the standard in specific sectors or situations considering (step 2) identifying performance obligations in the contract, (step 3) determining the transaction price, (step 4) assigning the transaction price to the performance obligations, (step 5) identifying when the entity satisfies the performance obligation and recognize revenue. See details below in the respective responses.

**Response 1 c:** Entities had relevant transition costs to implement the IFRS 15, which were mainly related to consulting, training, processes, systems, and contract revisions. After first adoption, there are ongoing costs with system to gather and process information, people to properly document the accounting policies and procedures, specialists to analyze new transactions, legal documentation, and others to guarantee the compliance with the standard. On the other hand, there are a lot benefits of applying the requirements in IFRS 15 to the users as it brings a better understanding of the nature, amount, timing, and uncertainties related to revenue recognition into the financial statements.

**Question 2 – Identifying performance obligation in 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?**

**Response 2a and b:** IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract, but we faced some difficulties in the application of the standard in specific sectors or situations like mentioned below.

2(a and b): The guidance to identify the performance obligation in a contract is not completely clear to able entities in the real state segment and electric energy sector to go through this step and consequently recognize revenue in a way that reflect the substance of the contract. In the electric energy sector, concession contracts, the challenge is to identify if there is more than one performance obligation and conclude whether it is a contract asset or a financial asset. The rate that it is charged to the consumer can include the service fee to deliver energy and a reimbursement of the infrastructure which also needs to be in accordance with IFRIC 12, that was detailed updated after the issuance of IFRS 15. This situation impacts the determination and allocation of the transaction price too. We suggest to have illustrative example and flow chart in IFRS 15 or IFRIC 12.

In relation to the telecommunications segment, it is known that in many circumstances there are contracts with multiple performance obligations, being difficult to identify each one and control them separately. In this case, the costs of applying the requirements of IFRS 15 are significant and, in our view, some specific guidelines related to relevance and materiality could reduce efforts and costs in implementing and applying the standard.

**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?**

**Response 3a and b:** IFRS 15 provides sufficient basis to determine the transaction price in a contract in general situations, however we present below some cases that lead to outcomes which do not reflect the underlying economic substance of the contract or useful information about an entity's revenue.

Electric energy concession contracts in Brazil usually have a period greater than 20 years, in most of the cases, including a significant financing component.

In determining the transaction price, entities adjust the promised amount of consideration using a nominal rate (that would be used in a separate financing transaction) to discount the future cashflow of the contract. After contract inception, entities do not update the discount rate presenting the financing effects separately from operational revenue as interest revenue/ expense during the extent of the contract.

Those concession contracts include inflation index component to update the consideration amount which is estimated and included as part of the interest rate used to discount the cash flow of the contracts. Inflation has oscillated a lot and so far being significant different from the estimated inflation index at the inception date. As entities cannot update the discount rate for changes in inflation, amounts of revenue recognized as operational or financial could lead to outcomes that do not reflect the underlying economic substance of the contract.

In aircraft segment, there are some sales including tree parties, a manufacturer (builder), an intermediary (lessor) and a final customer (airline) which are negotiated as a package with a single commercial objective. The aircraft builder has contracts to sell some planes directly to the final customer and some through the intermediary, which leases it to airlines. Despite of the fact that those contracts are negotiated as a package, at the same time, those cannot be combined as the formal documents of the transaction do not meet one of the criteria determined in IFRS 15, having contracts with the same customer or related parties. Therefore, recognition of revenue, in your view, does not reflect the underlying economic substance of the transaction.

**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?**

**Response 4a and b:** In real state segment there are some contracts that application of the concept of control and its transfer sets out in paragraphs 33 and 35 can result in outcomes that do not reflect the underlying economic substance of the transaction. The information depicted by the application of the aforementioned requirements does not mirror the performance of the real estate developers, thus it is not useful to investors.

Example are contracts related to sale of a real estate unit (unit) that should have revenue recognized over time (construction period) instead of point in time (deliverable of the keys). This kind of contracts are between a real state entity (entity) and the customer having the following characteristics: (a) it is signed before or during construction, (b) entity commits to deliver a real estate unit as specified in the contract (c) entity retains legal title until the construction is complete (for tax and credit risk protection purposes) (d) customer pays around 20-30% of the purchase price for the unit during the construction and pays the remaining amount of the contract after construction is complete (e) cannot be canceled without a 50 % of reimbursement according to the law (f) the customer can resell the unit or give it as guarantee even during the construction period and (g) gives the customer an 'in rem' right to the unit.

The fact pattern presented above contains characteristics generally found in real estate contracts negotiated in local market. We understand that recognizing revenue of such contracts at a point in time produces information that is not useful to investors for the purposes of analyzing the performance of the entity (real estate developer). We understand the main issues in applying paragraph 35 (b and c) are related to the inability of the customer to alter specification of the real estate unit under construction and because real estate developer does not have enforceable right for performance completed to date.

The nature of the transaction involves a real estate unit under construction in which the buyer commits to pay an amount during construction (20%-30%) and the outstanding amount when the unit is complete. In specific circumstances, customers may cancel the contract before completion of the unit, in which case the real estate developer has a right of reimbursement in relation to the amount already paid by the customer. Cancellations may occur in specific circumstances, but the contract is based on the premise that the customer will take delivery of the unit under construction[2] (the substance of the contract represents a transaction of buying and selling an asset). All other provisions, such as inability of the customer to alter specifications of the unit and

[2] Since contract inception customers inform payments made to the real estate developer as an acquisition of a unit under construction for purposes of Individual Income Tax Declaration, as regulated by the Brazilian Federal Revenue Office.

the absence of the real estate developer´s enforceable right are designed to maintain the technical and financial feasibility of the project (a multi-unit development project).

For the specific purposes of the fact pattern, recognizing revenue at a point in time does not adequately portray the financial performance of the real estate developer and investors evaluate the performance considering revenue recognition over time. It does not make sense in the fact pattern described to recognize revenue when the unit is completed because the entity will not demonstrate its real economic and financial situation during the periods when construction occurs, which may take long time (2-3 years). In this regard, we recall paragraph 2.7 of the Conceptual Framework, which states "Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both". We also remember the information must be useful and timely for investors. In our view, recognizing revenue at a point in time in this case will not result in information being useful, timely and having predictive value.

The event of cancellation might be appropriately dealt with a provision recognition and ceasing revenue accruals. Nor possibility of cancelations neither the absence of enforceable right for performance completed to date should direct the revenue recogniton in this specific fact pattern because, as already mentioned, the substance of contracts is the customer to take delivery of the real estate unit under construction. Historically, investors assess the performance of real state developers considering revenue recognition over time.

It is important to stress out that recognise revenue of those contracts as point in time result in financial information not useful to the stakeholders, mainly investors, which analyze the performance of the entities based on an income statement considering recognition of revenue over time through progress methods measuring (Percentage of Completion – POC).

Therefore, we believe that the concept of control should be expanded, having more details and/or illustrative situations mainly related to the criteria to be met in order to recognize revenue over time.

**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?**

**Response 5a and b:** Bonuses granted by companies to customer buy other products or have discounts in the future are being recognized differently by the entities resulting in diversity in practice. Some entities are recording as deduction of sales revenue and some as sales expenses. We believe that the Board should add more guidance on this issue in the standard.

**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?**

**Response 6a and b:** Licensing contracts has been changed a lot since the issuance of IFRS 15 which requires more basis and clarification for accounting those contracts. There are contracts that sell right to use a software which include in the same contract a free update. Entities are facing difficulties to identify if there is one or more performance obligation, when recognize the revenue, and how to allocate the total amount of the contract to each performance obligation because it is hard to estimate how many updates will be deployed and when. We believe that flowcharts and illustrative example including also materiality considerations would be helpful.

**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?**

**Response 7 a:** Disclosure requirements in IFRS 15 result in entities providing useful information to users of the financial statements if it is not used as a checklist, including specific details related to the entities transactions.

**Response 7 b:** No comments.

**Response 7 c:** There are some variation in the quality most resultant for the reason mentioned in 7a above.

**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.

**Response 8:** No comments.

**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?**

**Response 9 (a and b):** The recognition of onerous contract can result in a mismatch between revenue and expenses as, according IAS 37, losses need to be recorded at inception date of the contract and revenue will be recognized when satisfied the performance obligation.

**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?**

**Response 10:** We have no comments related of this topic as the Brazilian companies with obligation to issue financial statement in United States file their IFRS 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.

**Response 11 a**: No comments.