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12 November 2015

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

RE: Exposure Draft: *IFRS 15 Clarifications*

Our Reference: 2015/JE/C1/IASB/113

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *IFRS 15 Clarifications* (the Exposure Draft or ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

### **General Observations**

Members of Committee 1 are supportive of the Board's process for addressing implementation questions related to IFRS 15. To this end, members are supportive of the efforts being made to clarify the intended application of IFRS 15 and believe that the Transition Resource Group (TRG) has provided valuable feedback on the application of and ability to implement the guidance as issued.

Nonetheless, with respect to the content of the ED, the lack of proposed convergence on certain clarifications being made by the IASB and the Financial Accounting Standards Board (FASB), specifically with respect to identifying performance obligations and accounting for licenses, is

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disappointing to C1 members. If the IASB and the FASB finalize their respective draft amendments largely as proposed, then those in practice, including securities regulators, will face complexities in implementation and enforcement, which was the goal the project aimed to alleviate. Thus, C1 members urge the two boards to maintain their efforts to keep the standards as converged as possible.

### **Question 1— Identifying performance obligations**

IFRS 15 requires an entity to assess the goods or services promised in a contract to identify the performance obligations in that contract. An entity is required to identify performance obligations on the basis of promised goods or services that are distinct.

To clarify the application of the concept of ‘distinct’, the IASB is proposing to amend the Illustrative Examples accompanying IFRS 15. In order to achieve the same objective of clarifying when promised goods or services are distinct, the FASB has proposed to clarify the requirements of the new revenue Standard and add illustrations regarding the identification of performance obligations. The FASB’s proposals include amendments relating to promised goods or services that are immaterial in the context of a contract, and an accounting policy election relating to shipping and handling activities that the IASB is not proposing to address. The reasons for the IASB’s decisions are explained in paragraphs BC7–BC25.

Do you agree with the proposed amendments to the Illustrative Examples accompanying IFRS 15 relating to identifying performance obligations? Why or why not? If not, what alternative clarification, if any, would you propose and why?

C1 members observe that this aspect of the guidance, specifically with respect to the concept of ‘distinct,’ resulted in significant discussion at the TRG and a general consensus that the guidance in IFRS 15 (as issued) lacks clarity and may result in differing financial reporting outcomes for similar arrangements. C1 members support the Board’s efforts to improve IFRS 15 in this regard; however, we question whether the proposed revisions to the examples sufficiently clarify the guidance.

C1 members are also not certain that converged outcomes are likely to result among IFRS preparers and between IFRS and US GAAP preparers because (i) the IASB has chosen not to provide clarifications related to the determination of whether goods and services are distinct in the context of the contract within paragraph 29(c), and (ii) certain of the IASB’s and FASB’s proposed changes to the Illustrative Examples use different words that do not seem to result from different approaches taken to clarify how to identify a performance obligation. Accordingly, it is unclear whether the FASB and IASB standards are converged and whether interpretation and application of the examples to the same transaction would reasonably be expected to produce the same financial reporting outcomes under either standard. Members observe that a converged standard for the accounting and disclosure of revenue arrangements with customers was an important objective in the joint project that led to the issuance of IFRS 15. In this regard, members believe that if in the end differences between the IASB’s and the FASB’s standards will exist, then it is important for the IASB and the FASB to describe the Boards’ view of the implications of those differences, if any, on consistent application. Some examples where we believe differences exist include the following:

- As discussed above, the IASB proposed to clarify the application of the guidance by amending the Illustrative Examples whereas the FASB proposed to amend paragraph 29 (Topic 606-10-25-21) to reframe the factors. The FASB’s proposal clarifies that if “each of the goods or services is significantly affected by one or more of the other goods or services in the contract,” then the goods or services are highly integrated or highly interrelated. IFRS 15 states that this might indicate whether the goods or services are highly integrated or highly interrelated. C1 members believe that labeling something as an example rather than an indicator within the body of the standard may result in different outcomes in certain circumstances.
- Similarly, paragraphs IE48A through IE48D in Example 10 – Case B and paragraphs IE58A through IE58L in Example 11 – Case C, Case D and Case E use different words and phrases and it is unclear why and whether those differences result in different outcomes.

Members believe that the Board should reconsider their approach of not using the same words and phrases. However, if this is the final approach, then members recommend including the reasons why the Boards chose not to make similar amendments. The Board included the reasons why they chose not to make certain FASB-proposed amendments related to promised goods or services that are immaterial in the context of the contract and accounting policy elections related to shipping and handling activities. C1 members believe those explanations provide useful insights and information to stakeholders about the Board’s views on the design of the standard and believe similar explanations would be helpful background for understanding the Board’s thought process and conclusions relative to identifying performance obligations.

C1 members believe the IASB should clarify the concept of “distinct within the context of the contract.” Given the volume of questions received by the TRG from preparers both in the U.S. and other jurisdictions, C1 members believe further clarity on the application of this concept is needed in the following areas:

- Example 10 as amended by this ED does not sufficiently or clearly distinguish the concept of “distinct within the context of the contract.” It is unclear to members how the conclusion in Example 10 – Case B was drawn, and C1 members suggest that the basis for the conclusion should be added to the example.
- It would be helpful to expand Example 10 – Case B to include an alternative that includes a custom design service in the same contract in order to clarify whether the custom design service is considered to be distinct within the context of the contract. Members believe fact patterns where the design is essentially portable by the customer separate from the other products or services the customer could acquire from the same vendor are commonplace and it would be reasonable to conclude that there isn’t a significant integration service but rather a distinct performance obligation. Others may reasonably conclude that the entity is “responsible for the overall management of the contract” in which the design service is not considered to be a distinct performance obligation, which is similar to Example 46.
- Example 11 – Case A could better illustrate the application of the indicator in paragraph 29(c) – that is, when a good or service is not “highly dependent on, or highly interrelated with” other goods and services promised in the contract. In order to avoid diversity in practice, we encourage the IASB to consider revisions to paragraph 29(c) or – at a minimum – more clearly illustrate this concept in the existing examples (e.g., similar to how the FASB proposed to amend Example 11 – Case A).

As a broader observation, the IASB should clarify the relevance of certain facts presented in the illustrative examples. For example, in paragraph IE58H in Example 11 - Case E, the relevance of the fact that the consumables are “only produced by the entity” is unclear. The example is intended to illustrate that the equipment and consumables are distinct performance obligations, but it is not clear whether and, if so, how the notion that a good or service is “only produced by the entity” is relevant.

## **Question 2 – Principal versus agent considerations**

When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent. To do so, an entity assesses whether it controls the specified goods or services before they are transferred to the customer.

To clarify the application of the control principle, the IASB is proposing to amend paragraphs B34–B38 of IFRS 15, amend Examples 45–48 accompanying IFRS 15 and add Examples 46A and 48A.

The FASB has reached the same decisions as the IASB regarding the application of the control principle when assessing whether an entity is a principal or an agent, and is expected to propose amendments to Topic 606 that are the same as (or similar to) those included in this Exposure Draft in this respect.

The reasons for the Boards’ decisions are explained in paragraphs BC26–BC56.

Do you agree with the proposed amendments to IFRS 15 regarding principal versus agent considerations? In particular, do you agree that the proposed amendments to each of the indicators in paragraph B37 are helpful and do not raise new implementation questions? Why or why not? If not, what alternative clarification, if any, would you propose and why?

Committee 1 members believe aspects of the principal-agent guidance in IFRS 15 would be difficult to apply and are supportive of the IASB’s efforts to clarify the guidance to promote more consistent application. Despite the useful clarifications provided in the proposed revisions, C1 members encourage the IASB to provide additional clarity on the following aspects of the principal-agent guidance to prevent diverse application and enhance enforceability:

- Additional clarity is needed to understand how (i) custody of the specified goods or services and (ii) the existence of restrictions affect the transfer of control and the conclusion about whether the entity is the principal or agent in the transaction. That is, C1 members encourage the IASB to clarify the relevance of contractual restrictions on the entity’s ability to direct the use of the specified goods or services to another party and custody of the specified goods or services. These could be added as factors to consider (in paragraph B37) when determining whether the entity has control of the specified goods and services prior to transfer of control to the customer and, therefore, is the principal in the transaction.
- Proper identification of the customer is critical to properly identifying the entity’s performance obligations. C1 members encourage the IASB to emphasize this notion in paragraphs B34, B34A and 37A. Members also encourage the IASB to clarify each Illustrative Example where the entity is determined to be the agent for the following items:

(i) which party is deemed to be the entity's customer (ii) the performance obligations to the customer, and (iii) a clear explanation of why control transferred by reference to the definition of control (i.e., ability to direct the use of and obtain substantially all of the remaining benefits). Also with respect to the Illustrative Examples, C1 members encourage the staff to ensure that only facts relevant to the analysis are included and any extraneous ones are removed.

- Paragraph B35A(c) states that "...if the entity provides a significant servicing of integrating other goods and services provided by another party into the specified good or service for which the customer has contracted, **it controls** the specified good or service before that good or service is transferred to the customer." C1 members believe this is may not be true in all circumstances including arrangements where the entity provides the integration service on behalf of another party. We suggest that the IASB include the term "may" or "might" in the aforementioned paragraph to acknowledge these circumstances.
- The indicator in paragraph B37(a) should be clarified to acknowledge that an entity primarily responsible for fulfilling the contract could differ from the entity that is responsible for acceptability. As proposed, paragraph B37(a) requires the principal to be responsible for both fulfillment and acceptability.
- The proposed amendments are unclear about whether an entity is required to consider the indicators in paragraph B37 to determine that it obtains control of the goods or services before transfer to the customer. The conclusion in paragraph IE238 to Example 46 notes that the indicators in paragraph B37 do not need to be considered because control transferred based on the guidance in paragraph B35-B35A. While paragraph B35 also reinforces this notion, inconsistent application may result if this concept isn't clearly articulated in the body of the standard. C1 members suggest that the guidance be clarified within the standard rather than in the Basis for Conclusion and illustrative examples.
- BC41 states that the indicators in B37 are intended to indicate whether the entity controls a specified good or service *at any point* before that good or service is transferred to the customer. The use of the phrase "at any point" appears inconsistent with the definition of control in paragraph 33 and the application of the control model to determine transfer of control. It is unclear whether the intent of this phrase is to communicate that the purpose of the guidance is to identify whether the entity *ever* controlled the good or service, and therefore (i) is a principal in the transaction to the party that obtained control from the entity (either the end customer or another party) or (ii) is a principal to the end customer (in other words, an entity could transfer control to another party who then transfers control to the customer, and the entity could still be a principal in the transaction with the customer). C1 members believe that the Basis for Conclusion should be revised to remove the phrase "at any point."

### Question 3 – Licensing

When an entity grants a licence to a customer that is distinct from other promised goods or services, IFRS 15 requires the entity to determine whether the licence transfers to a customer either at a point in time (providing the right to use the entity's intellectual property) or over time (providing the right to access the entity's intellectual property). That determination largely depends on whether the contract requires, or the customer reasonably expects, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. IFRS 15 also includes

requirements relating to sales-based or usage-based royalties promised in exchange for a licence (the royalties constraint).

To clarify when an entity's activities significantly affect the intellectual property to which the customer has rights, the IASB is proposing to add paragraph B59A and delete paragraph B57 of IFRS 15, and amend Examples 54 and 56–61 accompanying IFRS 15. The IASB is also proposing to add paragraphs B63A and B63B to clarify the application of the royalties constraint. The reasons for the IASB's decisions are explained in paragraphs BC57–BC86.

The FASB has proposed more extensive amendments to the licensing guidance and the accompanying Illustrations, including proposing an alternative approach for determining the nature of an entity's promise in granting a licence.

Do you agree with the proposed amendments to IFRS 15 regarding licensing? Why or why not? If not, what alternative clarification, if any, would you propose and why?

The TRG discussion with respect to licenses appears to have resulted in a consistent view that the licenses guidance (as issued) lacks clarity and may result in different outcomes for similar arrangements. C1 members support that view and support the IASB's efforts to clarify this guidance. However, C1 members note the Board's observation in BC 70 of the ED which acknowledges that the different approaches taken by the IASB and the FASB may lead to different outcomes. C1 members have concerns with the lack of comparability that will likely result among IFRS preparers and between IFRS and GAAP preparers. C1 members question whether such results will provide useful information to investors and observe that a key objective of the standard has been diminished – convergence. C1 members believe that the IASB should reconsider their approach or – at a minimum – provide additional insight in the Basis for Conclusion to explain why the Board chose not to make amendments similar to those proposed by the FASB.

However, if the Board chooses to affirm the amendments proposed in this ED, C1 members believe that further clarifications to the licenses and sales-based and usage-based royalties guidance is necessary to promote consistent application among IFRS-preparers, including:

- Paragraph IE294 in Example 57 and paragraph IE297 in Example 58 appears to include a requirement that any license where the customer is required to implement updates or changes that result from the entity's activities is a license for a "right to access." If this is true, then C1 members suggest incorporating this requirement into paragraph B58 of the guidance rather than solely retaining it in the illustrative examples. C1 members also note that this concept is contemplated in the alternative model proposed by the FASB. In the FASB's proposed model, the customer's practical or contractual requirement to use the updated intellectual property results in a conclusion that the entity has granted a right to access the entity's intellectual property. If the IASB doesn't believe this is a criterion that results in a conclusion that a license provides a right to access, C1 members encourage the IASB to clarify the relevance of the fact in the example.
- C1 members also believe that it is unclear how the guidance on sales-based and usage-based royalties in B63 would apply in the following scenarios:
  - An arrangement in which the entity has provided a right to access the intellectual property (and, therefore, recognizes revenue over time) and the royalty rate declines over time.

- A bundled arrangement in which the license is a predominant item and control of the other promised goods and services does not transfer until after inception of the license. Should the entity refrain from recognizing any portion of the royalty until the other goods and services are transferred?
  - An arrangement in which the sales-based royalty is subject to claw back if sales do not reach specified volumes.
- C1 members are concerned that unintended consequences could arise from the wording in paragraph IE308 - Example 60 which states that "...the entity will recognize revenue from the sales-based royalty, the only consideration to which the entity is entitled under the contract, in accordance with paragraph B63." Some have interpreted this to mean that the entity should always recognize a royalty as the sale or usage occurs at the stated rate in effect at the time the sale or usage occurs. However, it is unclear whether this was the Board's intent. C1 members note that some royalty rates may change over time.

In addition, C1 members understand that the FASB conducted outreach to US stakeholders to determine whether the approach proposed by the IASB or the FASB would be more operational and result in greater consistency. C1 members encourage the Board to conduct similar outreach to inform how the Board should finalize the proposed amendments and include a discussion on the nature of their outreach in the Basis for Conclusions.

#### Question 4 – Practical expedients on transition

The IASB is proposing the following two additional practical expedients on transition to IFRS 15:

- (a) to permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price.
- (b) to permit an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts (as defined in paragraph C2) at the beginning of the earliest period presented.

The reasons for the IASB's decisions are explained in paragraphs BC109–BC115. The FASB is also expected to propose a practical expedient on transition for modified contracts.

Do you agree with the proposed amendments to the transition requirements of IFRS 15? Why or why not? If not, what alternative, if any, would you propose and why?

Committee 1 members agree with the proposed amendments because they will reduce some of the effort and cost of initial application, but are still intended to result in information that closely aligns with the financial information available under IFRS 15. However, C1 members are concerned about the different interpretations of the term 'completed contracts' in IFRS 15 as evidenced by divergent views expressed during the July 2015 TRG meeting. The definition of 'completed contracts' in IFRS 15 includes contracts for which the entity has **transferred** all of the goods and services identified in accordance with existing revenue guidance. However, the existing guidance is a risk and rewards model, which doesn't contemplate the transfer of control. Therefore, C1 members recommend that the IASB consider clarifying the definition of 'completed contracts' during its re-deliberations of this Exposure Draft. A lack of clarity may lead to diversity in practice.

**Question 5 – Other topics**

The FASB is expected to propose amendments to the new revenue Standard with respect to collectability, measuring non-cash consideration and the presentation of sales taxes. The IASB decided not to propose amendments to IFRS 15 with respect to those topics. The reasons for the IASB's decisions are explained in paragraphs BC87–BC108.

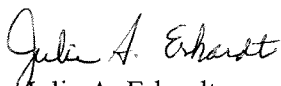
Do you agree that amendments to IFRS 15 are not required on those topics? Why or why not? If not, what amendment would you propose and why? If you would propose to amend IFRS 15, please provide information to explain why the requirements of IFRS 15 are not clear.

Committee 1 members agree with the IASB's decision not to propose amendments to IFRS 15 with respect to the aforementioned topics. The Board has cited the rationale for not aligning with the FASB on these topics and C1 members believe those explanations are reasonable and provide useful insights to stakeholders about the Board's views on IFRS 15.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

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