

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

29 October 2015

Dear Board Member,

**Re: ED/2015/6 Clarification to IFRS 15**

BUSINESSEUROPE is pleased to take this opportunity to respond to the Exposure Draft (ED) Clarifications to IFRS 15.

When the standards were first published, we were content that IFRS 15 and Topic 606 would create common revenue recognition accounting guidance. Accounting for Revenue is an important aspect of financial reporting and such convergence was very welcome.

However, BUSINESSEUROPE regrets that the recent amendments proposed to Topic 606 by the FASB and the amendments considered by the IASB to IFRS 15 in this ED are not identical.

Although the FASB stated in its clarification ED that "it expects that the proposed amendments would maintain or enhance the convergence that was achieved with the issuance of Topic 606 and IFRS 15 by reducing the risk of significant diversity in practice", we are concerned that, on the contrary, certain proposals will lead in fact to divergence.

We consider that the different wording, guidance, practical expedients and policy elections will result in real difficulties for preparers in their relationship with auditors and regulators.

In particular, the proposal to provide an election for US preparers to account for shipping and handling as fulfilment activities in situations where those activities are performance obligations create an explicit rule not available to IFRS preparers.



We do not judge whether the proposed rule and policy election under US GAAP would be a simplification in practice, but we think that they do represent a clear difference from the current text of the guidance, which requires analysis according to the principles of the standard, and determination and treatment with due regard for materiality. This proposal therefore creates, in our view, a risk of divergence between the application of the guidance by US preparers and preparers using IFRS.

Our detailed comments and responses to the question in the ED are set out in the appendix to this letter.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin  
Deputy Director General

## **APPENDIX**

### **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?

BUSINESSEUROPE agrees with the IASB's decision not to modify the mandatory part of the Standard in this regard, and to revise the existing Illustrative Examples and include additional illustrations in the non-mandatory part of the Standard.

In our view, with the exception of Illustrative Example 10-Goods and services are not distinct – Case B-Significant integration service (multiple items), the amended wording of the existing and the new Illustrative Examples will probably make clearer the assessment of whether a good or service is distinct, which is one of the most relevant considerations in the IFRS 15 revenue recognition model.

However, we consider that Example 10– Case B does not fit well with the principles for separating performance obligations. We would suggest not retaining this example in the final standard.

### **Additional comments on materiality and shipping and handling:**

The FASB proposal also includes a provision (Paragraph 606-10-25-16A) specifying that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. We agree with the IASB view not to include this practical expedient in IFRS 15 as we consider that the same conclusion could be reached by applying the general principle of materiality.

The FASB proposal includes a provision (Paragraph 606-10-25-18A) which permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. We consider that this policy election is not necessary as in many cases shipping and handling activities would be considered not material

and would be covered by the election proposed in Paragraph 606-10-25-16A: namely, an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract.

In addition, introducing a policy election for US preparers to account for shipping and handling as an activity to fulfill a promise to transfer a good (when the shipping and handling activities are performed after a customer has obtained control of the good) rather than as a performance obligation, regardless of the materiality, means introducing a rule that will give rise to divergence between US GAAP and IFRS. Thus this policy election seems contrary to the objective set in this ED to maintain or enhance the convergence that was achieved with the issuance of Update 2014-09 and IFRS 15 by reducing the risk of significant diversity in practice.

We do not judge whether the proposed rule and policy election under US GAAP would be a simplification in practice, but we think that they do represent a clear difference from the current text of the guidance, which requires analysis according to the principles of the standard, and determination and treatment with due regard for materiality. This proposal therefore creates, in our view, a risk of divergence between the application of the guidance by US preparers and preparers using IFRS.

Therefore we respectfully urge the IASB to work with the FASB to eliminate this potential difference either by having the FASB not move forward with its proposal on "handling and shipping" or alternatively, by allowing IFRS stakeholders to benefit from this practical expedient.

**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?

We are not convinced that the proposals have clarified the issues that were discussed at the TRG. In particular, the difficulties of determining who is an agent and who is a principal for services and transactions related to assets still remain.



Nevertheless, BUSINESSEUROPE accepts the IASB's proposed amendments mainly because they do not create divergence from the amendments proposed by the FASB.

In addition, we have a general concern in relation to the proposed new Lease standard. We have several times raised the question of the frontier between a lease and a service. As the standard has not yet been issued, we have not had an opportunity to test the new lease definition. There are links between the Lease standard and the Revenue standard in the issues of agent vs. principal, the application of the "control" criteria for the recognition of a lease and the distinction between services and leases. This is true in particular for the accounting for the lessors' revenue and ancillary services relating to the same asset. Consistency of these concepts between both standards is key, but no in-depth analysis has been performed and this could bring new implementation issues in the future.

**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?

BUSINESSEUROPE regrets that the Boards were not able to reach a consensus over the amendments related to licences. The discussions at the TRG underlined the difficulty in practice of differentiating between a "right to use IP" and a "right to access IP". To solve this issue the FASB has introduced the distinction "functional" vs. "symbolic" licences, whereas the IASB proposes a more principle-based solution. Although BC70 states that "The FASB also observed that it expects the outcomes under this alternative approach to differ from those under the approach from IFRS 15 in relatively few cases", we are concerned that there might rather more cases where differences could arise.

We regret that the difference between the Boards is presented as a difference without much impact when, in fact, it hides a conceptual difference which is probably significant.

**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?

BUSINESSEUROPE agrees with the IASB's proposal to include two practical expedients upon transition. However we recommend that the meaning of "completed contracts" be clarified.

**Question 5:**

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.

Although we agree in principle with the IASB we are nevertheless concerned by the use of different guidance for "substantially the same"<sup>1</sup> standards.

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<sup>1</sup> IFRS 15.IN9