



Liberté - Égalité - Fraternité

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Mr Roger MARSHALL

Acting Chairman

EFRAG Board

35 Square de Meeûs

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N° 79

Re: Exposure Draft ED 2015/6- Clarifications to IFRS 15 – EFRAG draft comment letter.

Dear Mr Marshall,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned draft comment letter on the Exposure Draft ED 2015/6 “Clarifications to IFRS”. This view results from the ANC’s due process, involving all interested stakeholders.

You will find our detailed comments and answers to the questions of the ED in the attached appendix. The ANC agrees with most of the EFRAG’s comments and considers that discussions on open issues should be finalized and aligned between FASB and IASB if possible before the end of the year. The ANC regrets that there is no more a full convergence between the two standards (IFRS15 and Topic 606) following the EDs on clarifications as the FASB decided to provide more detailed and on some occasions rule-based guidance or practical expedients. Accordingly, the risk is that interpretation and application of the standard may finally differ from one party to another.

The ANC considers that there is a risk that the issues addressed by the TRG are discussed with a rule-based focus that is contrary to the principle-based IFRS Framework. The ANC’s view is that the temporary nature of TRG should be reaffirmed and that new implementation issues arising on IFRS 15 should follow the normal due process with the IFRS IC as soon as practicable, i.e. when the initial application issues raised, as well as the urgency for their resolution, has been addressed. When implementation issues are handled by the IFRS IC and since it is important that the principles in the standards remain converged, a new process within the IFRS IC needs to be developed so as to confront and share detailed views from time to time with the EITF or the FASB, in order to avoid, to the extent possible, diverging responses. Also, ASAF meetings could be a good forum to monitor this type of discussion.

To summarize, the ANC supports your comment letter to the IASB, with some exceptions on the conclusion where the IASB is encouraged to continue discussing emerging issues together with the FASB in order to reach a converged solution.

If you want to further discuss, please do not hesitate to contact us.

Yours sincerely,

Patrick de CAMBOURG

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?

The ANC agrees with the proposed illustrative examples except for Example 10- case B. According to our understanding, this illustrative example does not help more in identifying when goods and services are distinct or not. The ANC considers that this example is not in line with the principles set in IFRS 15 on the identification of performance obligations. Moreover, the IASB should clarify in which precise situations this example would apply because the current fact pattern covers many possible situations. Besides, the IASB should go further with this example in order to consider a fact pattern where the customer decides to buy more units. . Accordingly, the ANC agrees with the comments made by EFRAG to further consider text clarifications jointly with FASB and to explain the reasons of this new example in the Basis for Conclusions.

Regarding immaterial goods and services and shipping and handling activities, the ANC is of the view that the FASB's position is very rule-based and agrees that they should not be included in the standard. Applying the concept of materiality should result in the same conclusion as in the proposed FASB's amendment.

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?

The ANC agrees with the proposed amendments even if our constituents consider that these changes are minor and have not proved to be helpful to identify whether an entity is a principal or an agent in the context of a given contract.

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 ANC supports the IASB proposed amendments but regrets that these clarifications are different from the ones proposed by the FASB. The FASB's proposal is much more detailed, and from the ANC standpoint it is coming back to a rule-based text. While the ANC is convinced that the outcome of the analysis should result in the same accounting treatment in most situations, it is supportive of the IASB proposal whose wording is principle-based. As emphasized in paragraph BC70 of the ED, the alternative approach proposed by the FASB may result in some licences of symbolic IP being classified as a right to access IP (with related revenue being recognised over time) whereas the approach proposed by the IASB may result in the same licences being classified as a right to use IP (with related revenue being recognised at a point in time). This divergence would occur, for instance, with "dead brands" where there is no expectation that the entity will undertake activities after making the IP available to the customers. This topic illustrates the limits of a rule-based approach.

Regarding the royalties guidance, the ANC agrees with paragraph B63A which would allow an entity not to split a royalty into two or more elements when a licence of IP is the predominant item to which the royalty relates. However, the ANC is concerned about the identification in practice of the existence of a "predominant" item since no guidance is provided in the ED to make such assessment.

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?

The ANC agrees with the proposed amendment to introduce two practical expedients upon transition and also agrees with the EFRAG's recommendation to clarify the definition of "completed contracts". The ANC nonetheless notices that the IASB recently decided not to align the definition of a completed contract with the proposed modification made by the FASB. This will result in another divergence between IFRS 15 and Topic 606 if the FASB decision is confirmed after the due process. On this particular point, we suggest that this subject should be discussed in the next TRG meeting of November to try to find an alignment between the two definitions.

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.

The ANC is of the view that the additional amendments planned by the FASB are not required. The current IFRS 15 allows constituents to exercise their judgement in the same framework as of today. There is no specific change on these subjects (collectability, non-cash consideration and presentation of sales taxes) compared to IAS18.

We consider that the FASB proposals are in general rule-based rather than principle-based. Thus, we do not support them even if they could lead to potential divergent interpretations and enforcement in the future.

Question to constituents

EFRAG would like to gather views from constituents as to whether the TRG should or should not continue to examine additional issues after the publication of the amendments proposed in the Exposure Draft. EFRAG's tentative view is that the TRG provides a useful joint forum between the IASB and the FASB for discussion of issues. Do you consider that the TRG should continue meet in order to consider issues? Please explain your answer.

The ANC considers that the issues addressed by the TRG have been discussed with rule-based focus, which is contrary to the principle-based IFRS Framework. Taking into account that this standard should be stabilised in order to allow proper implementation process by the preparers before January 1st 2018, the ANC is not convinced of the usefulness of additional TRG's meeting beyond 2015.

Thus, we recommend the IASB to come back to its normal due process in terms of interpretation through IFRIC's submissions when dealing with new implementation difficulties.