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Berlin, 23 October 2015

Dear Roger,

IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Draft Comment Letter on the IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15* (herein referred to as 'ED'). We appreciate the opportunity to respond to EFRAG's Draft Comment Letter (herein referred to as 'DCL').

We have closely followed the technical discussions and other activities of the Transition Resource Group for Revenue Recognition (herein referred to as 'TRG') and we understand the IASB's decision to propose targeted amendments to IFRS 15. Our main comments can be summarised as follows:

- a) Having considered the wider implications of amending IFRS 15 at this time we agree with the IASB's overall approach of limiting the amendments to clarifications rather than changing the requirements at this stage, thereby creating the risk of unintended consequences and of disrupting the process of implementing the Standard.
- b) We agree with most of the views set out in the DCL. Additionally, we think that the clarifications could be improved further as regards the guidance on principal versus agent considerations and the practical expedients on transition. Furthermore, we see the need for additional clarifications regarding the interaction of IFRS 15 and the accounting standards on financial instruments.

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- c) We do not see the benefits of retaining converged requirements with Topic 606 being greater than any potential costs of amending the requirements, if those proposed amendments are not essential for clarifying the Standard. We therefore welcome the IASB's independent evaluation of all the FASB's additional or different proposals and agree with the conclusion not to introduce any other of the proposed additional changes to IFRS 15.
- d) In the course of the TRG's and the Boards' discussions about potential implementation issues a significant amount of staff papers, detailed analysis and memos were prepared that can be followed by the TRG submission log. Given that this material never went through any sort of public due process, we encourage the IASB to make an explicit statement that any preliminary interpretation and conclusion reached in that material shall be considered non-authoritative.

For our detailed comments on the questions raised in the ED, we refer to the comment letter we submitted to the IASB, which is attached to this letter. If you would like to discuss our comments further, please do not hesitate to contact Sven Morich or me.

Yours sincerely,

Andreas Barckow

President



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Berlin, 22 October 2015

Dear Hans,

IASB Exposure Draft ED/2015/6 Clarifications to IFRS 15

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

We have closely followed the technical discussions and other activities of the Transition Resource Group for Revenue Recognition (herein referred to as 'TRG') and we understand the IASB's decision to propose targeted amendments to IFRS 15. We agree with most of the views set out in the assessments and proposals in the ED which include the examples illustrating the guidance on identifying performance obligations, an improved guidance on licences and practical expedients on transition. In addition we note that the ED proposes clarifications to the guidance on principal versus agent considerations where we think further improvements might be needed.

We share your observations that amendments to a recently issued standard create a risk of unintended consequences and may place an unwarranted burden on some stakeholders. Amendments could also be disruptive to the implementation process that is already underway and potentially generate undue costs if entities have to revisit the implementation work that they have already performed.

Having considered the wider implications of amending IFRS 15 at this time we agree with the IASB overall approach to limit the amendments to clarifications rather than changing the requirements at this stage and creating the risk of unintended consequences and of disrupting the process of implementing the Standard. We think that stakeholder concerns can be addressed adequately by providing greater clarity about how to apply the requirements within

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the Standard. Consequently, the IASB is right to apply a high hurdle when considering whether to amend the Standard and, thus, to minimise changes to the extent possible.

Furthermore, we do not view the benefits of retaining converged requirements with Topic 606 as greater than any potential costs of amending the requirements if those proposed amendments are not essential to clarifying the Standard. We therefore welcome the IASB's independent evaluation of all the FASB's additional or different proposals and agree with the conclusion not to introduce additional further changes to IFRS 15.

In the course of the TRG's and the Boards' discussions about potential implementation issues a significant amount of staff papers, detailed analysis and memos were prepared that can be followed by the TRG submission log. We acknowledge that the IASB, in some of its official meeting updates and in the Basis for Conclusions to the ED, is referring to parts of this material as being educational to stakeholders. This is even the case for issues that did not lead to standard setting activities. Given that this material never went through any sort of public due process, we encourage the IASB to make an explicit statement that any preliminary interpretation and conclusion reached in that material shall be considered non-authoritative.

It is expected that questions relating to new requirements will arise during the initial period after a new Standard is issued, which are generally resolved as stakeholders gain a better understanding of the new requirements. If, as a result of the Standard's post implementation review, a significant change to the requirements is deemed necessary, the IASB needs to amend IFRS 15.

We agree with the IASB's conclusion that although intended to provide clarity, the proposed amendments may have a negative impact on some entities that would wish to apply the amendments at the same time as they first apply IFRS 15. In this regard the deferral of the effective date by one year will provide additional time to implement any amendments to the new Standard and will avoid reporting changes to revenue shortly after its first implementation.

We acknowledge that the IASB is not requesting comments on any matters in IFRS 15 that are not addressed in the ED. Nonetheless, we would like to bring an issue to the IASB's attention that was flagged to us at the first meeting of our preparer implementation forum on revenue recognition and that we believe does require clarification. The issue concerns the wording of a consequential amendment of IFRS 15 to the financial instruments standards as regards the initial measurement of trade receivables that have led to an inconsistency between the use of the concept of 'transaction price' in IFRS 15 and the consequential amendments made to paragraph 44A of IAS 39 *Financial Instruments: Recognition and Measurement* and paragraph 5.1.3 of IFRS 9 *Financial Instruments*. The inconsistency becomes apparent in those cases where the pattern for the rights to receive cash flows differs from the revenue recognition



pattern determined under IFRS 15, for example in multiple element arrangements or contracts with defined payment terms (such as in Example 40 of IFRS 15 that deals with volume discounts).

For more details on the analysis we refer to our responses to the ED's questions in the Appendix of this letter. If you would like to discuss our comments further, please do not hesitate to contact Sven Morich or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Answers to the questions of the Exposure Draft

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?

Overall Conclusion

We agree with the proposed amendments to the Illustrative Examples accompanying IFRS 15 relating to identifying performance obligations.

We also agree with the IASB not to 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.

Comments on the IASB’s proposals

We acknowledge that the IASB considered issues relating to the criterion in IFRS 15.27(b) regarding when a promised good or service is separately identifiable (ie distinct within the context of a contract) and the supporting factors in IFRS 15.29. In the light of those discussions and the feedback received, we agree with the IASB’s proposal to add some new examples, and to amend some of the existing examples that accompany IFRS 15, to clarify how an entity should apply the requirements on identifying performance obligations.

We share the IASB’s view that, given the nature of the issues raised, amendments to the Standard are not required.

In reaching its decision, the IASB observed that the concept of ‘distinct within the context of the contract’ is new and, thus, it is expected that questions will arise as practice develops. Applying the principle in paragraph 27(b) requires judgement, taking into account facts and circumstances. Amendments to the requirements in IFRS 15 would not affect the need to apply judgement in determining whether promised goods or services are distinct.

Comments on the FASB’s additional proposals

i. Promised goods or services

Some stakeholders held a view that IFRS 15 might require an entity to identify significantly more performance obligations than would be the case under previous revenue Standards.

In response to these concerns, the FASB has proposed an amendment that would permit an entity not to identify promised goods or services that are immaterial in the context of the contract to exempt an entity from accounting for performance obligations that the entity might regard as being ‘perfunctory or inconsequential’ (notion included in the SEC Staff Accounting Bulletin 13.A)

We understand that the concerns raised primarily relate to potential changes to practice under US GAAP. The previous IFRSs on revenue did not contain similar language to the guidance issued by the SEC staff. We therefore share the IASB’s view that the concerns raised relate to the application of materiality concepts rather than the application of the requirements in IFRS 15. In assessing promised goods or services and identifying performance obligations, entities need to consider the overall objective of IFRS 15 as well as materiality considerations.

ii. Shipping and handling activities

The FASB has proposed an amendment to Topic 606 to state explicitly the Boards’ view that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities. In addition, the FASB has proposed to permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfilment activities.

We agree with the IASB not proposing a similar amendment on the basis that an accounting policy election for shipping and handling activities would:

- a) create an exception to the revenue recognition model. IFRS 15.22 requires an entity to assess the goods or services promised in a contract with a customer in order to identify performance obligations. The introduction of a policy election would override this requirement; and



- b) potentially reduce comparability between entities. A policy election is applicable to all entities. Consequently, it is possible that entities with significant shipping operations could make different policy elections.

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?

Overall Conclusion

We agree with most of the proposed amendments to IFRS 15 regarding principal versus agent considerations. However, we are concerned that the changes proposed to the risk indicators in IFRS 15.B37 could give rise to further implementation questions, mainly because they contain language that was developed for in risk-and-rewards context (rather than from a control principle's view). We therefore encourage the IASB, when finalising the amendments, to more clearly underpin why and how the indicators are in line with the control concept in IFRS 15, especially as regards those indicators that presumably have nothing to do with control (such as considering credit risk).

Comments on the IASB's proposals

- i. *Principle for determining whether an entity is a principal or an agent and applying control to intangible goods or services*

We would like to emphasise that control as defined in IFRS 15.33 is the determining factor when assessing whether an entity is a principal or an agent.



We therefore support the application of the general control principle and agree with the IASB's decision to refer to the 'specified good or service' transferred to the customer, rather than the 'performance obligation' throughout the guidance on principal versus agent considerations. This is because use of the term 'performance obligation' would have been confusing if an entity is an agent. An agent's performance obligation is to *arrange* for goods or services to be provided by another party; whereas the nature of a principal's promise is a performance obligation to *provide* the specified goods or services itself.

In order for an entity to conclude that it is providing the specified good or service to the customer, it must first control that good or service. If an entity controls the specified good or service before that good or service is transferred to the customer, it is the principal in the transaction with the customer.

At least some of the difficulty that stakeholders did raise about the application of the control principle, in particular to intangible goods and services, is linked to challenges in identifying the specified good or service to be provided to the customer.

We share the IASB's observation that when the specified good or service to be provided to the customer is a right to goods or services to be provided in the future by another party, the entity would determine whether its performance obligation is a promise to provide a right to goods or services or whether it is arranging for the other party to provide that right.

In this context we welcome the clarified thought process in the proposed additional paragraph IFRS 15.B34A to be applied when assessing whether an entity is a principal or an agent by specifically requiring an entity to identify the specified good or service before applying the control principle to that specified good or service. The proposed additional paragraph provides a better framework to be applied when assessing whether an entity is a principal or an agent and emphasises the importance of appropriately identifying the specified good or service (which could be a right to a good or service to be provided by another party) that will be transferred to the customer.

Even though IFRS 15.B34A, in many respects, simply points to other relevant parts of the requirements in IFRS 15, we believe the inclusion of that additional paragraph to be essential for clarifying the requirements in IFRS 15. Further clarity about the thought process to be applied is also achieved by amending the Illustrative Examples. Since a contract with a customer could include more than one specified good or service, the proposed amendment would also clarify that an entity could be a principal for one or more specified goods or services in a contract and an agent for others.

We acknowledge the explanation in IFRS 15.B35A to clarify the assessment of control of a service by explaining three categories in which a principal can control a service to be provided by another party. We particularly support the proposed Example 46A accompanying IFRS 15

which illustrates the most difficult category in which an entity engages (ie directs) another party to provide the service to the customer on the entity's behalf in satisfying the entity's performance obligation.

ii. The relationship between control and the indicators in paragraph B37

The questions regarding the relationship between the assessment of control and the indicators of control in paragraph IFRS 15.B37 arise because the indicators are carried forward from IAS 18 Revenue Recognition. IAS 18 had a principle for this assessment (based on risks and rewards) that was different from the control principle in IFRS 15.

We understand that the indicators were included to support an entity's assessment of whether it controls a specified good or service before transfer in scenarios for which that assessment might be difficult. We share the view that the indicators do not override the assessment of control and do not constitute a separate or additional evaluation. Instead, the risk and reward evaluation forms part (but is not the only approach) of the control assessment.

We acknowledge the Board's intention to amend the indicators in IFRS 15.B37 to more clearly establish a link between the control principle and the indicators. However we think that purely reframing the indicators as indicators of when an entity controls a specified good or service before transfer, rather than as indicators that an entity does not control the specified good or service before transfer does not fit this purpose. We see the risk of new questions arising with respect to the added explanatory text to the indicators.

The proposed new paragraph IFRS 15.B37A again highlights that the indicators are not an exhaustive list and merely support the assessment of control. They do not replace or override that assessment. Different indicators might provide more persuasive evidence to support the assessment of control in different scenarios.

Even with the added guidance to explain how each indicator supports the assessment we therefore think it will remain difficult for preparers and users to evaluate, in which scenarios the conclusions about principal versus agent under IFRS 15 could be different from those reached under the previous revenue recognition Standards.

We therefore encourage the IASB, when finalising the amendments, to more clearly underpin why and how the indicators are in line with the control concept in IFRS 15, especially as regards those indicators that presumably have nothing to do with control (such as considering credit risk). The IASB concluded that it would be beneficial to propose amendments that would retain converged requirements and guidance on principal versus agent considerations. We do not think that aligning the wording of the proposed amendments with the wording of those expected to be proposed by the FASB is necessary.

iii. Estimating revenue as a principal

Some constituents did ask how an entity that is a principal would estimate the amount of revenue to recognise if it were not aware of the amounts being charged to customers by an intermediary that is an agent. We agree with the IASB that this question is largely unrelated to the guidance on principal versus agent considerations in IFRS15.B34–B38, but rather relates to applying the requirements in IFRS 15.46–90 on determining the consideration to which an entity is entitled. We think that the issue does not require any clarifications or additional guidance because the issue is expected to arise only in a narrow set of circumstances.

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?

Overall Conclusion

We agree with the IASB's decision to clarify the approach for determining the nature of an entity's promise in providing a licence, rather than changing that approach. We also support clarifying the application of the royalties constraint.

We do not support the alternative or more extensive amendments to the licensing guidance proposed by the FASB.

Comments on the IASB's proposals

i. Determining the nature of the entity's promise in granting a licence of intellectual property

As currently worded, IFRS 15.B57 explains that determining whether an entity's promise to grant a licence provides a customer with a right to access or a right to use an entity's intellectual property is based on whether the customer can direct the use of, and obtain substantially all of the remaining benefits from, a licence at the point in time at which the licence is granted.



We agree with the criteria specified in IFRS 15.B58 for this determination, arguing that a customer can direct the use of, and obtain substantially all the benefits from, the intellectual property, if the intellectual property to which the customer has rights is not significantly affected by activities of the entity. However, we understand that stakeholders have indicated that it is unclear whether the reference in IFRS 15 to changes in the intellectual property solely refers to changes in the form or functionality of the intellectual property, or also includes changes in the value of the intellectual property.

As this has resulted in different interpretations about how to apply the criteria IFRS 15.B58(a) it is reasonable that the IASB has decided to clarify the requirements of this paragraph by providing additional guidance on when activities change the intellectual property to which the customer has rights. We therefore agree with

- a) the proposal in IFRS 15.B59A to clarify that the assessment of whether the entity's activities change the intellectual property to which the customer has rights is based on whether those activities affect the intellectual property's ability to provide benefit to the customer (ie the 'utility' of the intellectual property)
- b) the deletion of IFRS 15.B57 as that paragraph has contributed to the confusion about whether change solely refers to changes in the form or functionality of intellectual property or also includes changes in the value of intellectual property.

ii. Alternative approach proposed by the FASB

We acknowledge that the FASB has proposed an alternative approach to determine whether a licence constitutes a right to access or a right to use based on the nature of the intellectual property. The FASB's approach looks to the nature of the intellectual property for determining whether activities significantly affect the intellectual property to which the customer has rights. The FASB has proposed that intellectual property is either:

- a) functional intellectual property (intellectual property with significant stand-alone functionality); or
- b) symbolic intellectual property (intellectual property that does not have significant stand-alone functionality).

We do not agree with the FASB's proposals as they have the potential to result in some licences of symbolic intellectual property being classified as a right to access intellectual property, even though there is no expectation that the entity will undertake activities after making the intellectual property available to the customer.

We expect the outcomes under this alternative approach to differ from those under the approach within IFRS 15 in cases where the licensors does not continue to be involved with their symbolic intellectual property throughout its economic life.

iii. Consideration in the form of sales-based or usage-based royalties

IFRS 15.B63 requires that an entity recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property not before the customer's subsequent sales or usage occurs and the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied ('royalties constraint').

We acknowledge that stakeholders have indicated that it is unclear when a sales-based or usage-based royalty is 'promised in exchange for a licence'. We do not share the view of some stakeholders that the royalties constraint applies whenever the royalty relates to a licence of intellectual property, regardless of whether the royalty is also consideration for other goods or services in the contract. We therefore agree with the IASB's proposal in IFRS 15.B63A that the royalties constraint should apply whenever the predominant item to which the royalty relates is a licence of intellectual property.

Stakeholders have also indicated that it is unclear whether a single sales-based or usage-based royalty should be split into a portion to which the royalties constraint would apply and a portion to which it would not, for example, when the royalty relates to a licence and another good or service that is not a licence. We agree with the IASB's proposal in IFRS 15.B63B that an entity should not split a single royalty into a portion subject to the royalties constraint and a portion that is not. Instead it should be subject to the requirements applicable to variable consideration, including the constraint on variable consideration. This is because it would be more complex to account for part of a royalty under the royalties constraint and another part under the general requirements for variable consideration; and doing so would not provide any additional useful information to users of financial statements (Splitting a royalty would result in an entity recognising an amount at contract inception that would reflect neither the amount to which the entity expects to be entitled based on its performance, nor the amount to which the entity has become legally entitled during the period.)

Comments on the FASB's additional proposals

i. Contractual restrictions in a licence and the identification of performance obligations

Some stakeholders suggested that it was unclear whether particular types of contractual restrictions would affect the identification of the promised goods or services in the contract. In



response to stakeholder concerns, the FASB has proposed additional guidance to confirm that contractual restrictions of the nature described in IFRS 15.B62 are attributes of the licence.

Having considered the wider implications of amending IFRS 15 at this time we agree with the IASB's decision that a clarification about the effect of contractual restrictions in licensing arrangements on the identification of the promised goods or services in the contract was not necessary. This is because, in our view, there is adequate guidance in IFRS 15 and the accompanying Basis for Conclusions.

ii. When to consider the nature of the entity's promise in granting a licence

IFRS 15.B55 requires that an entity apply the general revenue recognition model to determine whether a performance obligation that contains a licence that is not distinct is satisfied at a point in time or over time. Since the issuance of IFRS 15, some stakeholders have questioned when the licensing guidance on determining the nature of an entity's promise applies to a performance obligation that contains a licence and other goods or services.

The FASB has proposed amendments that explicitly state that an entity should consider the nature of its promise in granting a licence when applying the general revenue recognition model to a combined performance obligation that includes a licence and other goods or services.

Again, having considered the wider implications of amending IFRS 15 at this time, we agree with the IASB's decision that a clarification in this respect is not necessary. IFRS 15 and the explanatory material in the Basis for Conclusions provide adequate guidance to account for a licence that is combined with another good or service.

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?

Overall Conclusion

We agree with the proposed amendments to the transition requirements of IFRS 15 to permit an entity to use hindsight in a contract that has been modified and not to apply IFRS 15 retrospectively to completed contracts.

However, we do not agree with the IASB's proposal in IFRS 15.C7A, read in conjunction with BC112 of IFRS 15, to require entities electing the modified retrospective method to apply the expedient at the beginning of the earliest period presented. In order to provide a meaningful relief we believe that entities electing the modified retrospective method should be allowed to wait until the date of initial application before finalising the accounting for previous modifications.

Comments on the IASB's proposals

i. Modified contracts

Stakeholders have raised concerns relating to potential challenges in applying the transition requirements in IFRS 15 to contracts that have been modified before the date of initial application.

As far as the full retrospective method is concerned we agree with the IASB's decision to propose a practical expedient on transition that would allow an entity to reflect the aggregate effect of all of the modifications that occurred between contract inception and the earliest date

presented when identifying performance obligations and determining the transaction price, rather than accounting for the effects of each modification separately.

We think that this approach would provide some cost relief, yet resulting in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

Regarding the expedient for entities electing the modified retrospective method we note that the proposed amendment in IFRS 15.C7A does not refer to a specified adjustment date. However, we note that BC112 of the ED is meant to clarify the IASB's intention that all entities should apply the expedient at the beginning of the earliest period presented.

We do not agree with this part of the proposal. We do not think that *all* entities should apply the expedient at the beginning of the earliest period presented but entities electing the modified retrospective method should be given the opportunity to wait until the date of initial application before finalising the accounting for previous modifications.

The FASB decided to propose that entities should apply the expedient at the beginning of the earliest period presented in accordance with Topic 606. We would like to point out that for entities electing the full retrospective method, this would be on the same basis as the IASB's decisions. However, for entities electing the modified retrospective method, this would be the date of initial application of Topic 606.

ii. Completed contracts

Stakeholders have also raised concerns relating to potential challenges in applying the transition requirements in IFRS 15 to contracts for which the entity has transferred all of the goods or services identified in accordance with IAS 11 Construction Contracts or IAS 18 (ie completed contracts as defined in IFRS 15).

We agree with the IASB's analysis of the proposed amendments to introduce a further possible practical expedient to permit an entity electing the full retrospective method not to apply the Standard to contracts that are completed contracts as of the beginning of the earliest period presented:

- a) On the one hand reducing the population of contracts to which IFRS 15 applies (the consequence of applying this practical expedient) could significantly reduce the effort and cost of initial application. In addition, a similar expedient is currently given to first-time adopters in IFRS 1.D35.
- b) On the other hand the expedient could affect the comparability of financial information under the full retrospective method.



Contrary to the FASB's position, who decided not to propose a similar expedient to the transition guidance (because it concluded that application of such an expedient would not faithfully depict a full retrospective application of Topic 606,) we agree with the IASB's overall conclusion that the lack of comparability would be outweighed by the benefit provided by the reduced transition costs.

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.

Overall Conclusion

We agree with the IASB not proposing amendments to IFRS 15 with respect to collectability, measuring non-cash consideration and the presentation of sales taxes. Considering the wider implications of amending IFRS 15 at this time, we conclude that the existing guidance in IFRS 15 and the explanatory material in the Basis for Conclusions are sufficient.

Nonetheless, we would like to bring an issue to the IASB's attention that we believe does require clarification. The issue concerns the wording of a consequential amendment of IFRS 15 to the financial instruments standards as regards the initial measurement of trade receivables that have led to a the concept of 'transaction price' in IFRS 15 and the consequential amendments made to paragraph 44A of IAS 39 *Financial Instruments: Recognition and Measurement* and paragraph 5.1.3 of IFRS 9 *Financial Instruments*.

Comments on the FASB's additional proposals

i. Collectability and contract termination

We notice that the Boards discussed an implementation question raised by stakeholders about how to apply the collectability criterion in IFRS 15.9(e) in instances in which the entity has received non-refundable consideration from a customer with poor credit quality. The discussion informed the Boards that there are potentially different interpretations of how to apply the collectability guidance in paragraph 9(e) when it is not probable that the total consideration promised in the contract is collectable. Some stakeholders interpret this guidance to mean that an entity should assess the probability of collecting all of the consideration promised in the contract.

The discussion also informed the Boards about different interpretations of when to recognise revenue in accordance with IFRS 15.15 for non-refundable consideration received from the

customer when the contract does not meet the criteria in IFRS 15.9. There is potential diversity in stakeholders' understanding of when a contract is terminated. The assessment of when a contract is terminated affects when an entity recognises revenue in a contract that does not meet Step 1 of the revenue recognition model.

The FASB decided to propose:

- a) amendments to the implementation guidance and Illustrations in Topic 606 that clarify how an entity should assess collectability (confirming that the collectability assessment may be based on a portion of the consideration promised in the contract to which it will be entitled in exchange for the goods or services that will be transferred to the customer);
- b) amendments that clarify when a contract is terminated in accordance with paragraph 606-10-25-7 (IFRS 15.15).

It is our understanding that contracts would meet the criteria in IFRS 15.9(e), ie would be valid and genuine if the entity has the ability to protect itself from credit risk. We share the IASB's expectation that practice will develop consistently with this intention. We also would not have expected any possible clarifications to IFRS 15.9(e) to result in practical differences in reporting outcomes.

We also think that the existing guidance in IFRS 15 is sufficient for an entity to conclude that a contract is terminated when it stops providing goods or services to the customer without any additional clarification.

ii. Non-cash consideration

We note that the Boards discussed the implementation questions raised by stakeholders in connection with applying IFRS 15 to contracts that involve non-cash consideration regarding the date at which the fair value of non-cash consideration should be measured in determining the transaction price and how the constraint on variable consideration should be applied to transactions for which the fair value of non-cash consideration might vary due to both the form of the consideration and for reasons other than the form of consideration.

The FASB decided to propose:

- a) an amendment to the guidance in Topic 606 requiring that non-cash consideration should be measured at contract inception;
- b) an amendment clarifying that the constraint on variable consideration applies only to variability that arises for reasons other than the form of the consideration.



Like the IASB we acknowledge that the use of a measurement date other than contract inception would not be precluded under IFRS. Consequently, it is possible that diversity between IFRS and US GAAP entities could arise in practice.

Unlike US GAAP, existing IFRS does not contain any specific requirements about the measurement date for non-cash consideration for revenue transactions. Therefore, we do not expect any new diversity to arise because of this issue. In addition we share the IASB's arguments that:

- a) discussions with some stakeholders highlighted that any practical effect of different measurement dates would arise in only limited circumstances.
- b) if significant, an entity would be required to disclose the accounting policy applied.

iii. Presentation of sales taxes

Entities are required to identify and assess sales taxes to determine whether to include or exclude those taxes from the transaction price, as IFRS 15.47 specifies that amounts collected on behalf of third parties are excluded from the determination of the transaction price. We acknowledge that some US stakeholders have expressed concerns about the cost and complexity of this assessment because the tax laws in some jurisdictions are unclear about which party to the transaction is primarily obligated for payment of the taxes.

The FASB decided to propose a practical expedient that permits an entity to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from customers (for example, sales, use, value added and some excise taxes). The scope of the election is expected to be based on guidance in previous revenue Standards under US GAAP.

We think that the IASB is right in not proposing to add a similar practical expedient to IFRS 15 because it would reduce the comparability of revenue between entities and it would create an exception to the revenue recognition model. Furthermore the previous revenue recognition Standards under IFRS contained requirements applicable to sales tax similar to those in IFRS 15. Therefore assessing whether sales taxes are collected on behalf of a third party is not a new requirement for IFRS preparers.

Interaction of IFRS 15 with IAS 39 and IFRS 9

We understand the IASB is not requesting comments on matters in IFRS 15 that are not addressed in the ED. Nonetheless, we would like to bring an issue to the IASB's attention that we believe does require clarification. The issue concerns the wording of a consequential



amendment of IFRS 15 to the financial instruments standards as regards the initial measurement of trade receivables that have led to an inconsistency between the use of the concept of 'transaction price' in IFRS 15 and the consequential amendments made to paragraph 44A of IAS 39 *Financial Instruments: Recognition and Measurement* and paragraph 5.1.3 of IFRS 9 *Financial Instruments*. These amendments require trade receivables that do not have a significant financing component to be measured at their transaction price (as defined in IFRS 15).

The measurement of receivables should reflect unconditional rights to cash flows and might differ from the transaction price, the latter being a measurement basis for revenue and performance, not for cash flows. This particularly matters when the pattern for the rights to receive cash flows differs from the revenue recognition pattern according to IFRS 15, for example in multiple element arrangements or contracts with defined payment terms.

The inconsistency becomes apparent when looking into Example 40 of IFRS 15 that deals with volume discounts. If the IASB thinks that the example is right and in conformity with the principles of IFRS 15 (The example states a receivable of CU 15.000 upon the first shipment to the customer whereas the corresponding portion of the transaction price is CU 12.500), it should clarify the wording of the consequential amendments to the financial instruments standards in this regard.

The reference in paragraph 5.1.3 of IFRS 9 to the transaction price determined under IFRS 15 at initial recognition of a trade receivable could also give rise to a further clarification need as the regards the subsequent measurement of the receivable: Under the simplified approach for trade receivables and contract assets (without significant financing component) in paragraph 5.5.15 of IFRS 9, an entity shall always measure the loss allowance at an amount equal to *lifetime expected* credit losses. According to IFRS 15.47, the transaction price is the amount of consideration to which an entity *expects to be entitled* in exchange for transferring promised goods or services to a customer (emphasis added).

Paragraph 185 of the Basis for Conclusions (BC) to IFRS 15 reaffirms that the objective for determining the transaction price at the end of each reporting period is to predict the total amount of consideration to which the entity will be entitled from the contract. We also understand from paragraphs 259 to 265 of the BC that in developing IFRS 15, the Boards decided that the transaction price should not be adjusted for the effects of the customer's credit risk. Since the measurement bases of both, IFRS 15 and IFRS 9, are based on *expectations*, we feel there is a need to clarify when and how credit risk shall be considered in the measurement process of a trade receivable.