

13 November 2015

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear Hans

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

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB's Exposure Draft (ED) *Clarifications to IFRS 15*. In providing this feedback, the AOSSG sought inputs from its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asia-Oceania region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective experiences of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of inputs that individual member standard-setters may wish to submit. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Revenue Recognition Working Group.

In principle, AOSSG members believe that the IASB should apply a relatively high hurdle when considering amendments to the Standard, because making too many changes after the publication but before the effective date of the Standard may cause confusion rather than clarification for preparers and auditors who have started preparing for implementing the Standard.

However, AOSSG members have mixed views on the degree of changes that is considered appropriate. Some members believe that making amendments after the publication of the Standard is not an ideal approach to setting standards and should be significantly discouraged, primarily because it may discourage entities from undertaking the work needed to implement the Standard, and the incremental benefits of making further changes are not sufficiently understood. There is also a view that to minimise further amendments to a Standard prior to the IASB's post-implementation review of the standard, the joint Transition Resource Group should be wound up, because otherwise it will be difficult for the IASB to avoid making further amendments to IFRS 15 before the effective date. On the other hand, some other members believe that the proposed amendments are necessary to ensure that the Standard is well understood and is practical for implementation/application.

In addition, AOSSG members generally appreciate that the proposed amendments were considered jointly between the IASB and the FASB (the "Boards"), as it would promote global comparability of financial information. However, there are some areas where the proposed changes by the Boards follow different approaches and different words.

AOSSG members understand why the Boards ended up in different proposals, and share some sympathy with that. At the same time however, because IFRS 15 and Topic 606 are generally regarded as the 'converged Standards', the AOSSG encourages the Boards to continue to work together before issuing further amendments to the Standards so as to minimise the differences in financial information resulting from the two Standards. The AOSSG also encourages the Boards to sufficiently communicate whether the proposed changes are intended to lead to different financial reporting outcomes when there are differences in words to avoid unintended consequences in practice. In this connection, the AOSSG highly recommends that the IASB includes in its finalised pronouncement an overview of whether the amendments will result in the same accounting outcomes as the FASB's amendments and, accordingly, whether convergence is maintained. This can be achieved, for example, by updating Appendix A in the Basis for Conclusion of IFRS 15.

Furthermore, some AOSSG members reiterate the importance of aligning the effective date of the proposed amendments with the revised effective date of IFRS 15 to avoid implementation uncertainty and/or phased implementation. These members urge the IASB to finalise the proposed amendments expeditiously to prevent further deferral of the effective date of IFRS 15.

Detailed comments to specific questions are stated in the Appendix to the letter.

The AOSSG also submits a copy of this letter to the FASB. The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,



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AOSSG Chair



Tomo Sekiguchi  
AOSSG Revenue Recognition Working Group Leader

cc: Mr Russell Golden, Chairman of the US Financial Accounting Standards Board

## APPENDIX – Detailed comments from the AOSSG on Specific Questions in the ED

### 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?**

1. AOSSG members have mixed views on the proposed amendments, reflecting the difference of views as to whether, and in what circumstances, changes after the publication but before the effective date of the Standard would be necessary or appropriate.
2. Some AOSSG members who are of the view that such changes should be significantly discouraged generally agree with the proposed amendments, because they believe that changes to the Standard should be minimal and the proposed changes to Illustrative Examples are sufficient to communicate the intent of IFRS 15.
3. On the other hand, some other AOSSG members do not consider the proposed amendments (i.e. adding new examples and amending some existing examples) would be sufficient for the Standard to be useful. In particular, these members consider that clearer guidance on the principle of 'distinct within the context of the contract' should be provided. The following paragraphs explain these members’ comments in more detail.

#### **Application of the concept of ‘distinct’ (corresponding to paragraph 29 of IFRS 15)**

4. Some AOSSG members prefer the language and structure of paragraph 606-10-25-21 as proposed in the FASB’s ED, because they believe that the FASB’s proposal would provide a clearer and direct guidance on when to bundle goods and services under a contract when these goods and services are capable of being distinct.

5. AOSSG members also provide additional suggestions, including the following:
- (a) It would be easier for entities to understand the notion of ‘separately identifiable’ if the underlying concept of the term explained in paragraphs BC10 and BC11 are stated in paragraph 29 of the Standard.
  - (b) It would be helpful to clarify in paragraph 29(c) of IFRS 15 that ‘interdependency’ is necessary in concluding that the promises in a contract are highly dependent on or interrelated with each other. This is because ‘one-way dependency’ could arguably fit into the concepts underlying the assessment.
  - (c) It would be helpful if the proposed changes to the following Illustrative Examples are clarified, because the rationales given in the examples are not sufficiently clear.
    - (i) Example 10, Case B – Significant integration service (multiple units): This example could lead some entities to interpret that every manufacturer of a series of customised goods should conclude that it is providing a significant integration service. The examples would be more helpful if it is redrafted so that the analysis is linked explicitly to the principles and indicators in the Standard.
    - (ii) Example 11, Case E – Promises are separately identifiable (consumables): It is unclear why the rationale in Example 55 (especially, the description that the customer generally would not separately acquire the initial licence because the updates are integral to its ability to use the entity’s constantly evolving technology) is not considered to be relevant in this example, when the customer similarly would generally not separately acquire the equipment that could not be functioned without the specialised consumables. The IASB could consider clarifying that an entity should consider the nature of the entity’s overall promise in the contract (e.g., supply of equipment and consumables versus 3-year supply of underlying outputs), and not just the individual promises, in the ‘separately identifiable’ assessment.
  - (d) It would be helpful if an Illustrative Example is provided for a contract for the construction and sales of real estate as some have read the new Example 10 Case B could result in unintended consequence on some contracts with customers involving project management where promised goods or services could potentially be inappropriately combined as a single performance obligation. For example, in a multi-unit residential development, it is common for the developer to incorporate various recreational amenities (e.g., swimming pool) within the residential complex which are accessible only to the residents. Although the recreational amenities complement the residential units, there is no transformative relationship between the promised goods or services, as the recreational amenities are not integrated with the residential units into a bundle of combined output, and they are not highly dependent on or highly interrelated with one another. Though complementing, the recreational amenities do not significantly modify or customise the residential units. However, some might read paragraph IE48C in Example 10 Case B and conclude that the goods or services in the contract are not separately identifiable *in all situations* where an entity is responsible for the overall management of the contract to produce the full complement of items for which the customer has contracted.

- (e) It would be helpful to use the consistent wording in the Illustrative Examples. For example, the title before the proposed paragraph IE48A uses the term “multiple items” but the proposed paragraph IE48A uses the term “multiple units”. The use of a consistent wording would help avoid any divergent views that may arise as to whether “multiple items” and “multiple units” have the same meaning. Some believe “multiple items” could mean many dissimilar devices whereas “multiple units” could mean many identical devices.

**Promised goods or services (corresponding to paragraph 24 of IFRS 15)**

6. Some AOSSG members prefer the proposal in the FASB’s ED to clarify that an entity is not required to identify promised goods or services that are *immaterial* in the context of the contract. They believe that, unless otherwise specified in the Standard, the application of general materiality concepts is always cumulative, and it would be difficult for entities to justify that they are not required to identify promised goods or services that are immaterial in the context of the contract (as there is still potential that they could be material in aggregate within the context of financial statements.)
7. There is a view that relevant Illustrative Examples are confusing in terms of distinguishing when an entity’s activities are considered separate goods or services promised in a contract (e.g., activities to develop software updates in Illustrative Example 11) and when an entity’s activities are considered merely part of its promise to grant a licence (e.g., activities to create new comic strip characters or images in Illustrative Example 58). In both cases, the activities create outputs that are developed, but are separate, from another asset that had been transferred to the customer. The application of paragraph 25 of IFRS 15, in itself, might not consistently lead to the conclusions articulated in those examples. Thus, it would be helpful if the IASB provides additional clarifying guidance in IFRS 15 to guide this assessment.

**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?**

8. The AOSSG appreciates that the IASB and the FASB have put forward a consistent proposal to revise the guidance of determining whether an entity is a principal or an agent. As the determination of whether an entity is a principal or an agent would have significant effects on the entity's revenue amount, it is highly desirable to maintain the level of convergence when finalising the amendments to the standard.
9. In addition, many AOSSG members support the proposed changes in the ED, particularly the proposal to clarify the linkage between the notion of 'control' and determination of whether an entity is a principal or an agent. Many members also support the proposal to cast the indicators of control in a 'positive way' and consider this to be an improvement over the existing Standard.
10. However, some AOSSG members believe that further improvements should be explored taking into account the importance of the principal versus agent determination. Specific suggestions include the following:

(a) Interaction between paragraph B35A(c) and paragraph B37

It is difficult to understand the interaction between paragraph B35A (that explains when an entity obtains control of either a good or service, a right to service, the specified good or service to the customer) and paragraph B37 (that provides indicators for an entity to determine if it controls the specified good or service). Considering the objectives of the paragraphs, it would be more appropriate to relocate the essence of the second and third sentences of paragraph B35A (c) to paragraph B37.

(b) Clarification of the meaning of the phrase 'significant service of integrating goods or services' used in paragraph B35A(c)

The phrase 'significant service of integrating goods or services' is used both in paragraph B35A(c) of the ED and paragraph 29 of IFRS 15. However, whether they are meant to be the same meaning is not sufficiently explained. In the same vein, it is also unclear whether paragraph B35A(c) should apply to goods or services that are not separately identifiable under circumstances other than paragraph 29(c) of IFRS 15, as suggested by the literal reading of paragraphs BC14(a) and BC50(b) of the ED. Considering the importance of the explanation in paragraph B35A(c), it would be helpful if the IASB clarifies its intention.

(c) Emphasis of the 'control' notion

The proposed indicators in paragraph B37 of the ED still seem to have been derived from 'risks and rewards' concept that existed in the previous revenue Standards (including IAS 18 Revenue). Thus, it would be helpful if the IASB emphasizes the importance of meeting the 'control' notion in paragraph B37 by providing additional indicators or elaborating explanations thereof, so as to make a clearer linkage between the key



principle (the ‘control’ notion) and related guidance (paragraph B37 and other paragraphs) of IFRS 15.

(d) Introduction of a rebuttable presumption

As the determination of whether an entity is a principal or an agent is often equivocal, it may be helpful if the IASB introduces the rebuttable presumption such that an entity is considered to be an agent, unless the entity is able to demonstrate that it controls the specified good or service.

11. In addition, some AOSSG members think that the Illustrative Examples relating to paragraph B37 of the ED should be improved. Specific suggestions include the following:
  - (a) The IASB should provide Illustrative Examples with more complex fact patterns that can address those situations that preparers are struggling with, especially for how the principal-agent principle should be applied when the inventory risk of the principal could be mitigated (e.g., by having the right of return to seller) and the case in which a wholesaler that is acting as both a principal and an agent has the flexibility in setting prices.
  - (b) The IASB should consider providing explanations in relevant Illustrative Examples (Examples 45 to 48A) in a more consistent way. Some examples support the principal-agent conclusion solely based on whether an entity has the ability to direct the use of goods or services from other services before they are transferred to the customers whereas other examples explain the conclusion by reference to two factors of ‘control’ notion more extensively.
12. Furthermore, there is a view that it is unclear how a right should be distinguished from its underlying good or service when an entity determines promises in a contract. For example, it is not obvious why the promise stated in Illustrative Example 48 is the right to a meal (and not the underlying meal itself), when it does not appear that the entity has arranged for something more than the underlying meal to be provided to the customer. It could be inferred from this example that, whenever another party is involved in providing goods or services to the customer, the promised good or service could be argued as being the right instead of the underlying goods or services, which may not reflect the IASB’s intention.
13. There is also a view that inconsistent accounting outcomes could result from the concept of a right being the promise. For example, faithful representation would result if the airline in Illustrative Example 47 recognises revenue when it provides the underlying flight service to the end customer, instead of the right to the intermediary entity. However, this outcome may not align well with the conceptual argument that the intermediary entity has obtained control of the right from the airline because the airline does not recognise revenue on that transfer. Thus, it would be helpful if the IASB clarifies the principles underlying the concept of a right being the promised good or service.



### 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?**

14. AOSSG members generally agree with the IASB’s proposal to amend IFRS 15 to clarify the requirements regarding licensing. Many AOSSG members feel that the FASB’s proposal would be more operational but is rule-based and may give rise to inconsistency with the underlying principles of the Standard. Nevertheless, the AOSSG encourages the IASB to work together with the FASB so that the Boards maintain consistency of the requirements as much as possible.

#### **Determining when an entity’s activities significantly affect the intellectual property**

15. As for clarifying when an entity’s activities significantly affect the intellectual property to which the customer has rights, AOSSG members generally agree with the IASB’s proposal to add paragraph B59A of IFRS 15 and to delete paragraph B57 because the proposed amendments would help an entity to clearly understand the IASB’s intention stated in paragraphs BC63 and BC66 of the ED.

16. Nevertheless, some AOSSG members think that paragraph B56 and the related guidance of IFRS 15 on the nature of an entity’s promise in granting a licence should be applied to a non-distinct licence that is a predominant item of a performance obligation that includes that licence. This is firstly because, it addresses possible tension between the requirement to apply the general revenue recognition model and the IASB’s thinking in paragraph BC85 of the ED as well as paragraph BC407 of IFRS 15. Secondly, the reasons for not strictly relying

on the general model in the case of a distinct licence are arguably applicable to a non-distinct licence that is a predominant item of a performance obligation.

### **Sales-based or usage-based royalties**

17. AOSSG members generally agree with the proposal to add paragraphs B63A and B63B of the ED, because it would help to clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a licence of intellectual property, while maintaining the consistency between IFRS 15 and Topic 606.

### **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?**

18. AOSSG members do not oppose to the proposed amendments to the transition requirements of IFRS 15 as those amendments would assist entities with implementing the Standard. In addition, some members believe that it is important to ensure that the first-time adopters of IFRS could also avail themselves of the proposed expedient for contract modifications because the potential challenges on transition to IFRS 15 would be as relevant to first-time adopters as they are to existing IFRS preparers.
19. However, many members still have doubts on whether entities would choose to apply the full retrospective method even having the proposed changes due to its complexity.
20. With regards to the accounting for completed contracts on transition to IFRS 15 which the IASB discussed in its September 2015 board meeting, some members recommend that the IASB consider incorporating analysis provided in Agenda Paper into the Standard, given that the IASB acknowledged that it could help educate and inform practice. If the analysis is not incorporated into somewhere in the Standard, some stakeholders may not be aware of such helpful guidance as they would not have followed the IASB discussion so closely.

## 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.**

21. In principle, AOSSG members believe that it is inappropriate to introduce amendments to IFRS 15 solely for the sake of convergence, and without regard to whether the amendments would improve the quality of the Standard. Please see the following for specific suggestions on respective issues.

### **Collectability (paragraph 9(e) of IFRS 15)**

22. Some AOSSG members believe that, similar to the FASB’s proposal, the explanation of paragraph BC46 of IFRS 15 should be included in the Standard, rather than keeping it as part of the Basis for Conclusions. Paragraph BC46 provides valuable guidance for stakeholders to properly understand how to assess the requirement.

### **Measuring non-cash consideration**

23. Some AOSSG members suggest that the IASB provides clarifications on how to measure non-cash consideration for the following reasons:

- (a) A measurement date of non-cash consideration is still unclear because Illustrative Example 31 could potentially be interpreted as one of the following dates: (i) at contract inception; (ii) when the non-cash consideration is received or (iii) when the related performance obligation is satisfied.
- (b) Given that IFRS 15 and Topic 606 are substantially converged, it would be inevitable that entities might seek guidance from Topic 606 when requirements of IFRS 15 are silent. Yet, the FASB’s proposal of measuring non-cash consideration at contract inception may be inconsistent with Illustrative Example 31 of IFRS 15, and may not align well with the notion of entitlement in exchange for goods or services transferred to the customer, which is the core principle of IFRS 15. To address this issue, the AOSSG highly recommends that the IASB includes in its finalised pronouncement an overview of whether the amendments will result in the same accounting outcomes as the FASB’s amendments and, accordingly, whether convergence is maintained. This can be achieved, for example, by updating Appendix A in the Basis for Conclusion of IFRS 15.
- (c) The concept of ‘measurement date’ at contract inception is not specified in other Standards of IFRSs; thus, interpretation of this concept in IFRS 15 could have unintended consequences when interacting with other Standards, such as IAS 21 *The Effects of Changes in Foreign Exchange Rates*.