



Tel: +44 20 7893 3300  
Fax: +44 20 7487 3686  
@: abuchanan@bdoifra.com  
www.bdointernational.com

BDO IFR Advisory Limited  
55 Baker Street  
London W1U 7EU  
United Kingdom

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XG

28 October 2015

Dear Sir

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

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network<sup>1</sup>, this letter summarises views of member firms that provided comments on the ED.

We support the IASB in its issue of proposals to clarify certain aspects of IFRS 15, which are principally as a result of discussions at the IASB/FASB Transition Resource Group for Revenue (the TRG). In general, we consider that the IASB has identified appropriate topics for which amended guidance is needed. However, we are disappointed that the IASB's and the FASB's projects have resulted in proposals being issued by the two Boards at different times, and that if each of the Boards' proposals were to be finalised as drafted, the IASB and the FASB would not maintain convergence between IFRS 15 and equivalent US GAAP.

The issue of a new IFRS for revenue recognition that is fully converged with equivalent US GAAP, was a substantial achievement for both the IASB and the FASB. There are significant practical advantages from fully converged guidance, in particular the avoidance of potentially lengthy debates about whether different (subtly or not) guidance means that there is an intentional (or unintended) difference in amounts that will be reported in financial statements for similar transactions and events. For this reason, and to avoid entities that report in accordance with IFRS being tempted to look to equivalent (but different and more detailed) US GAAP guidance for certain transactions, we strongly encourage the IASB to work with the FASB with the aim of issuing an updated IFRS 15 and US GAAP that remain fully converged.

We acknowledge that the IASB may feel that in some cases it cannot reach exactly the same conclusions as the FASB when amending IFRS 15 (just as the FASB might feel it is unable to reach the same conclusions as the IASB). In those cases, it is important that the IASB makes it clear why the changes made to IFRS 15 are different from the equivalent US GAAP (including why it considers that it is unable to reach a converged solution, or why it considers this to be an inappropriate approach) and, critically, gives clear guidance and analysis about whether

<sup>1</sup> Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network. BDO is the brand name for the BDO network and for each of the BDO member firms. BDO IFR Advisory Limited, registered in England No 7295966 Registered office: c/o Hackwood Secretaries Limited, One Silk Street, London, EC2Y 8HQ © 2015 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

and how those differences either will, are intended to, or have the potential to result in the same or a different accounting conclusion being reached for similar transactions and events.

Going forward, we encourage the IASB to discuss emerging issues with the FASB with a view to retaining as complete a level of convergence as possible. This should cover both the period during which the TRG might remain in existence and afterwards, when there may be a need to consider how the IFRS Interpretations Committee and the EITF might liaise.

For the TRG, we support its continued existence up to at least the point at which the new revenue standard becomes effective, and note that although some larger IFRS reporters have started or are relatively advanced in their IFRS 15 conversion projects, others have yet to carry out substantive work and in future may identify issues in IFRS 15 for which a public discussion would be helpful. In that context, we would also encourage the IASB and the FASB at least to 'pencil in' future meeting dates for the TRG, as this would avoid a disincentive to submit issues that would arise if a constituent felt that although issue(s) could be submitted, there would be no clarity about when they might be addressed.

Our responses to the questions in the ED are set out in the attached Appendix. These should be read in the context of our comments above, such that to the extent possible we have a strong preference for IFRS 15 to remain fully converged with equivalent US GAAP.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully



Andrew Buchanan

*Global Head of IFRS*

## 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?*

We agree that the proposed amendments are useful clarifications to the identification of performance obligations under IFRS 15.

However, we consider that the drafting of new Example 10 Case B needs to be clarified. In particular, paragraph IE48A notes that, for the device to be supplied:

*'The specifications are unique to the customer based on a custom design that was developed under the terms of a separate contract'*.

This appears inconsistent with the analysis in paragraph IE48B, which states that the customer's ability to benefit from the goods or services, either on their own or together with other readily available resources:

*'...is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customers'*.

While this may be the case for the contract management activities, it would appear not to be the case for the device itself because this is built to a design that is unique to the customer. This implies that at least some of the contract management activities will also be bespoke. Consequently it would appear that some analysis is needed to clarify how it is determined that the bespoke device, and any associated bespoke services, are capable of being distinct in accordance with IFRS 15.27(a) and, if they are, how they are distinct in the context of the contract (IFRS 15.27(b)).

We also note that it is concluded in paragraph IE48D that:

*'The entity accounts for all of the goods and services promised in the contract as a single performance obligation.'*

It is not clear why this is the case. We can see that the goods and services provided in the overall process of manufacturing and supplying each unit of the device are not distinct. However it is not clear why each unit is not regarded as distinct, unless the customer is unable to use the units until all of the multiple units specified in the contract have been delivered, installed and initialised.

The question of whether each unit is distinct is important, because for identical (or near identical) highly specialised and bespoke products, in this case each device, the costs associated with production can be substantially higher for the first few units in comparison with units produced later in the production process (so-called 'learning curve' costs).

*Immaterial goods or services*

We acknowledge the IASB's discussion in paragraphs BC17 to BC21. However, consistent with our view that the IFRS and US GAAP guidance should be kept as similar as possible, we encourage the Board to reconsider its decision not to incorporate the permission not to identify promised goods or services that are immaterial in the context of the contract.

We acknowledge that IFRS does not currently contain equivalent language to the guidance issued by the SEC Staff in respect of inconsequential or perfunctory performance obligations. However, the guidance proposed by the FASB goes further than a clarification, because it permits materiality to be assessed at contract level. If IFRS 15 does not include the same guidance that is to be included in the US GAAP equivalent, we believe that questions would arise about whether the IFRS and US GAAP guidance is intended to result in the same accounting approach.

## **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 agree with the amendments made to paragraphs B34-B38 of IFRS 15 and the Examples 45-48A.

However, we assume that both of the two requirements to determine the nature of a promise in paragraph B34A would need fulfilled. If this is the case, we would propose to connect the two criteria using the word 'and'.

### *Illustrative examples*

#### **Example 46**

Paragraph IE238 notes that:

*'...The entity does not consider the indicators in paragraph B37...'*

This implies that the entity is not permitted to consider the indicators. We assume that the entity does not consider the indicators because the analysis already carried out indicates clearly that it is a principal and therefore the indicators in B37 do not need to be applied as they would not result in a different answer. We suggest that the language in IE238 is amended to read:

*'...The entity does not need to consider the indicators in paragraph B37...'*

#### **Example 46A**

Paragraph IE238E notes that:

*'...The terms of the entity's contract with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf.'*

It would be helpful to add narrative that notes that the service provider cannot decide to provide the services to another entity, and to link this to the entity having obtained control of the services before they are provided to the customer. This could then be linked to the new proposed paragraph B35A(b).

In addition, it is not clear why the analysis in paragraph IE238E is not conclusive, and why it is necessary to consider the indicators in paragraph B37.

Example 48A

Paragraph IE248E(c) states that:

‘the entity does not have discretion in setting the price for the database access with the customer because the database provider sets the price.’

However, the fact pattern as set out in paragraph IE248A does not make this clear. Although the database provider sets the price for the licence, it is the entity that carries out the overall invoicing of the customer and collects payment on behalf of the third-party database provider. In principle, there would appear to be nothing to stop the entity adding a mark-up to the licence cost, as part of its overall invoicing.

It would be helpful to clarify this point. We suggest that the fact pattern makes it clear that the entity is prohibited from adding a mark up to the amount charged by the third-party database provider. It would also be helpful to clarify, assuming it is the case in this example, that even if the entity did add a mark up, this would not affect the principal / agent analysis because the entity never controls the licence for the database.

### **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?*

We generally agree with the proposed amendments to the Appendix B and the illustrative Examples of IFRS 15.

However, we are not certain that the Illustrative Examples provide sufficient guidance to illustrate the application of the accounting for licenses under IFRS 15, as they illustrate more extreme cases where the conclusion reached is straightforward and clear from the guidance provided in the Standard. We suggest adding additional illustrative examples that were proposed by the FASB in its Proposed Accounting Standards Update issued in May 2015. In doing so, the IASB would further clarify the application of the accounting for licenses under IFRS 15 and would assist in reducing the level of debate about the extent to which different conclusions might be reached under IFRS and US GAAP.

#### *Illustrative examples*

##### **Example 55**

It is not clear why the references to paragraphs 27(a) and (b) have been deleted. We suggest that these are reinstated in order to make it clear that although the licence is distinct from the updates (meaning that the test in 27(a) is met), the fact that the updates are integral to the customer's ability to derive benefit from the licence means that 27(b) is not, with the licence not being distinct in the context of the contract. We also suggest that additional focus is placed explicitly on the very limited ability of the customer to derive benefit from the licence as it is delivered on inception of the arrangement, and the wider ability to derive benefit with the updates.

Example 57

It is not clear from the fact pattern in paragraph IE289 whether the equipment is bespoke and only available from the franchisor, or whether it is more fungible and available from a range of suppliers. We assume that the latter is intended, with the equipment being capable of being used with other products (meaning that it is distinct within the context of the contract), and suggest that this is made clear.



**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?*

We agree with the proposal to provide additional practical expedients on transition to IFRS 15.

However, while we understand the IASB's rationale for proposing a different measurement date for modified contracts compared with the FASB, we do not see any compelling reason why a GAAP difference should be introduced. We encourage the IASB to give further consideration to this point and, as with other amendments that are proposed to be made to IFRS 15, seek to ensure that a solution is reached that is as converged as possible with equivalent US GAAP.

We also encourage the IASB to give due consideration to the outcome of discussions at the joint IASB/FASB TRG about the notion of what constitutes a completed contract, as there were differing views expressed at the July 2015 meeting.

**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.*

We agree, subject to consideration of convergence with equivalent US GAAP.