

**International Financial Reporting Standard**

# Clarifications to IFRS 15

**April 2016**

**BASIS FOR CONCLUSIONS – AMENDMENTS**

**[IFRS 15]**

**[Related to AASB 2016-3]**

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## Amendments to the Basis for Conclusions on IFRS 15 Revenue from Contracts with Customers

Paragraphs BC1A, and paragraphs BC27A–BC27H and their related headings are added. New text is underlined.

### Introduction

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BC1A In April 2016, the IASB issued *Clarifications to IFRS 15 Revenue from Contracts with Customers*. The objective of these amendments is to clarify the IASB's intentions when developing the requirements in IFRS 15 but not to change the underlying principles of IFRS 15. Further details are contained in paragraphs BC27A–BC27H. In some cases, the boards made the same amendments to IFRS 15 and Topic 606. In other cases, the boards did not make the same amendments to the standards. The FASB also amended Topic 606 for issues for which the IASB concluded that it was not necessary to amend IFRS 15. The IASB added a further practical expedient to the transition requirements, which the FASB decided not to provide. Accordingly, Appendix A *Comparison of IFRS 15 and Topic 606* to this Basis for Conclusions has been updated to reflect the differences between the amendments to IFRS 15 and the amendments to Topic 606.

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### **Clarifications to IFRS 15 (amendments issued in April 2016)**

BC27A After issuing IFRS 15 and Topic 606 in May 2014, the boards formed the Transition Resource Group (TRG) for Revenue Recognition to support implementation of these standards. One of the objectives of the TRG is to inform the boards about implementation issues to help the boards determine what, if any, action should be undertaken to address those issues. The substantial majority of the submissions from stakeholders regarding the implementation of IFRS 15, as discussed by the TRG, were determined to be sufficiently addressed by the requirements in IFRS 15. However, the TRG's discussions on five topics indicated potential differences of views on how to implement the requirements and, therefore, were considered by the boards. Those topics were:

- (a) identifying performance obligations;
- (b) principal versus agent considerations;
- (c) licensing;
- (d) collectability; and
- (e) measuring non-cash consideration.

BC27B The boards also received requests from some stakeholders for practical expedients in respect of the following:

- (a) accounting for contract modifications that occurred before transition to IFRS 15;
- (b) for entities electing to use the full retrospective transition method, accounting for a contract completed under previous revenue Standards before transition to IFRS 15; and
- (c) assessing whether a sales tax (or a similar tax) is collected on behalf of a third party.

BC27C The boards discussed the five topics and the possible practical expedients, and each board decided to make amendments to clarify the requirements in IFRS 15 and Topic 606 respectively. As a result, the IASB issued *Clarifications to IFRS 15* in April 2016 making targeted amendments to IFRS 15 with respect to three of the five topics considered—identifying performance obligations, principal versus agent considerations and licensing. The IASB concluded that it was not necessary to amend IFRS 15 with respect to the other two topics—collectability and measuring non-cash consideration. In respect of the practical expedients, the IASB provided transition relief for modified contracts and completed contracts.

BC27D In reaching its conclusions to make clarifying amendments and provide transition relief to IFRS 15, the IASB considered the need to balance being responsive to issues raised to help entities implement IFRS 15 but, at the same time, not creating a level of uncertainty about IFRS 15 to the extent that the IASB's actions might be disruptive to the implementation process. The IASB noted that, when new Standards are issued, there are always initial questions that arise. Those questions are generally resolved as entities, auditors and others work through them over time, and gain a better understanding of the new requirements. The IASB also considered the effect of any differences between its decisions and those made by the FASB.

BC27E With these wider considerations in mind, the IASB decided to apply a high hurdle when considering whether to amend IFRS 15 and, thus, to minimise changes to the extent possible. On this basis, the IASB made clarifying amendments to IFRS 15 only when (a) it considered those amendments to be essential to clarifying the IASB's intentions when developing the requirements in IFRS 15; or (b) it viewed the benefits of retaining converged requirements as greater than any potential costs of amending the requirements.

BC27F The FASB decided to make more extensive amendments to Topic 606, as explained in paragraph BC27G. The FASB issued amendments to the application guidance in Topic 606 on principal versus agent considerations, *Accounting Standards Update (ASU) 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, in March 2016. The FASB is expected to issue two further ASUs:

- (a) one ASU for its amendments to the requirements with respect to identifying performance obligations and the application guidance on licensing; and
- (b) another ASU for its amendments to the requirements in Topic 606 with respect to the other topics and the practical expedients.

**BC27G** The FASB’s amendments to Topic 606 are the same as the IASB’s amendments to IFRS 15 with respect to (a) the requirements on identifying performance obligations relating to the determination of whether an entity’s promise to transfer a good or service to a customer is distinct within the context of the contract; and (b) the application guidance on principal versus agent considerations. The FASB made further amendments regarding some other requirements on identifying performance obligations. In relation to licensing, the boards made the same clarifying amendments for sales-based and usage-based royalties. The boards decided to make different amendments to the application guidance relating to identifying the nature of an entity’s promise in granting a licence. The FASB also decided to amend Topic 606 for other issues relating to licensing for which the IASB decided not to make any amendments to IFRS 15. The FASB has also decided (a) to amend Topic 606 with respect to collectability and measuring non-cash consideration and (b) to provide an accounting policy election to present all sales taxes on a net basis. The FASB decided to provide similar transition relief to that provided in IFRS 15 for contract modifications. However, with respect to completed contracts, the FASB decided to (a) amend the definition of a completed contract; and (b) provide transition relief, similar to the relief provided by the IASB, only for entities that apply Topic 606 in accordance with paragraph 606-10-65-1(d)(2) (equivalent to paragraph C3(b) of IFRS 15).

**BC27H** Because of the different decisions of the boards, Appendix A *Comparison of IFRS 15 and Topic 606* to this Basis for Conclusions has been updated. The IASB’s considerations together with an overview of the FASB’s considerations (based on both the amendments to Topic 606 issued and decisions made by the FASB until March 2016) in reaching their respective decisions are explained in the following paragraphs.

**Topics for which both the IASB and FASB decided to amend IFRS 15 and Topic 606**

<b>Topic</b>	<b>Reference</b>
<u>Identifying performance obligations</u>	<u>paragraphs BC116A–BC116U</u>
<u>Principal versus agent considerations</u>	<u>paragraphs BC385A–BC385Z</u>
<u>Licensing</u>	<u>paragraphs BC414A–BC414Y</u> <u>paragraphs BC421A–BC421J</u>
<u>Practical expedients on transition</u>	<u>paragraphs BC445A–BC445B</u> <u>paragraphs BC445J–BC445R</u>

**Topics for which the IASB decided not to amend IFRS 15 but the FASB decided to amend Topic 606**

<b>Topic</b>	<b>Reference</b>
Collectability	paragraphs BC46A–BC46H
Presentation of sales taxes (determining the transaction price)	paragraphs BC188A–BC188D
Non-cash consideration	paragraphs BC254A–BC254H
Definition of a completed contract	paragraphs BC445C–BC445I

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Paragraphs BC46A–BC46H and their related headings are added. New text is underlined.

*Clarifications to IFRS 15 (amendments issued in April 2016)—topics for which the IASB decided not to amend IFRS 15*

**BC46A** The TRG discussed an implementation question raised by stakeholders about how to apply the collectability criterion in paragraph 9(e) of IFRS 15 in instances in which the entity has received non-refundable consideration from a customer assessed as having poor credit quality. The discussion informed the boards that there are potentially different interpretations of:

- (a) how to apply the collectability criterion in paragraph 9(e) when it is not probable that the total consideration promised in the contract is collectable; and
- (b) when to recognise the non-refundable consideration received from the customer as revenue in accordance with paragraph 15 of IFRS 15 when the contract does not meet the criteria in paragraph 9 of IFRS 15.

**Assessing collectability**

**BC46B** Paragraph 9(e) requires an entity to assess whether it is probable that it will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. This assessment forms part of Step 1 of IFRS 15 *Identify the contract(s) with a customer*. The TRG's discussions informed the boards that some stakeholders interpreted this requirement to mean that an entity should assess the probability of collecting all of the consideration promised in the contract. Under this interpretation, some contracts with customers that are assessed as having poor credit quality would not meet the criteria in paragraph 9(e), even though they are otherwise valid contracts. Other stakeholders asserted that those contracts would be valid if the entity has the ability to protect itself from credit risk.

**BC46C** The boards noted that the assessment in paragraph 9(e) requires an entity to consider how the entity's contractual rights to the consideration relate to its performance obligations. That assessment considers the entity's exposure to the customer's credit risk and the business practices available to the entity to

manage its exposure to credit risk throughout the contract. For example, an entity may be able to stop providing goods or services to the customer or require advance payments. This is consistent with the explanation of the boards' considerations as described in paragraph BC46.

BC46D The FASB decided to amend the implementation guidance and illustrations in Topic 606 to clarify that an entity should assess the collectability of the consideration promised in a contract for the goods or services that will be transferred to the customer rather than assessing the collectability of the consideration promised in the contract for all of the promised goods or services.

BC46E Having considered the wider implications of amending IFRS 15 before its effective date, the IASB concluded that the existing requirements in IFRS 15 and the explanations in paragraphs BC42–BC46 are sufficient. The IASB noted that it expects practice to develop consistently with the boards' intentions in developing the collectability criterion in paragraph 9(e). The IASB does not expect the FASB's anticipated clarifications to the paragraph equivalent to paragraph 9(e) in Topic 606 to result in any additional differences in outcomes. In reaching its decision, the IASB observed that an entity will generally not enter into a contract with a customer if the entity does not consider it to be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. This is consistent with the boards' reasoning in paragraph BC43. It was not the boards' intention that many contracts should fail the condition in paragraph 9(e). On this basis, the IASB thinks that the population of contracts to which any clarification to paragraph 9(e) might apply is small.

#### **Contract termination**

BC46F Paragraph 15 specifies when an entity should recognise any consideration received from a customer as revenue when the contract does not meet Step 1 of the revenue recognition model. Paragraph 15(b) states that an entity should recognise revenue when the contract has been terminated and the consideration received from the customer is non-refundable. The TRG's discussions informed the boards about 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. Some stakeholders asserted that a contract is terminated when an entity stops transferring promised goods or services to the customer. Other stakeholders asserted that a contract is terminated only when the entity stops pursuing collection from the customer. Stakeholders noted that those two events often occur at different points in time. For example, entities sometimes pursue collection for a significant period of time after they have stopped transferring promised goods or services to the customer. As a result, non-refundable consideration received from the customer might be recognised as a liability for a significant period of time during which an entity pursues collection, even though the entity may have stopped transferring promised goods or services to the customer and has no further obligations to transfer goods or services to the customer.

- BC46G The FASB decided to amend paragraph 606-10-25-7 of Topic 606 (equivalent to paragraph 15 of IFRS 15) to add an additional event in which an entity should recognise any consideration received as revenue. This amendment is expected to allow an entity to recognise any consideration received as revenue when (a) the entity has transferred control of the goods or services to which the consideration received relates; (b) the entity has stopped transferring additional goods or services and has no obligation to transfer additional goods or services; and (c) the consideration received from the customer is non-refundable.
- BC46H The IASB noted that contracts often specify that an entity has the right to terminate the contract in the event of non-payment by the customer and that this would not generally affect the entity's rights to recover any amounts owed by the customer. The IASB also noted that an entity's decision to stop pursuing collection would not typically affect the entity's rights and the customer's obligations under the contract with respect to the consideration owed by the customer. On this basis, the IASB concluded that the existing requirements in IFRS 15 are sufficient for an entity to conclude, without any additional clarification, that a contract is terminated when it stops providing goods or services to the customer. Some IASB members also expressed concerns about the potential for unintended consequences relating to other areas of IFRS if contract termination were to be defined in IFRS 15. Consequently, the IASB decided not to amend paragraph 15.

In paragraph BC90 'For similar reasons, the boards decided not to exempt an entity from accounting for performance obligations that the entity might regard as being perfunctory or inconsequential.' is footnoted as follows. New text is underlined.

The FASB subsequently decided to amend Topic 606 to state that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial within the context of the contract with the customer. The IASB's considerations for deciding not to make similar amendments to IFRS 15 are explained in paragraphs BC116A-BC116E.

The following footnote is added to the heading 'Distinct within the context of the contract' above paragraph BC102. New text is underlined.

*Clarifications to IFRS 15 issued in April 2016 amended paragraphs 27 and 29 of IFRS 15 to clarify that the objective of assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable is to determine whether the entity's promise is to transfer (a) each of those goods or services; or (b) a combined item or items to which the promised goods or services are inputs. Amendments were also made to the factors in paragraph 29 to more clearly align them with the revised 'separately identifiable' principle. Paragraphs BC102-BC112 should therefore be read together with paragraphs BC116F-BC116Q, which explain the boards' considerations in making these amendments.*

Paragraphs BC116A–BC116U and their related headings are added. New text is underlined.

## **Clarifications to IFRS 15 (amendments issued in April 2016)**

### **Promised goods or services that are immaterial within the context of the contract**

- BC116A** The TRG discussed an implementation question about whether an entity should identify items or activities as promised goods or services that were not identified as deliverables or components under previous revenue Standards. A specific concern was raised about the boards' decision (see paragraph BC90) not to exempt an entity from accounting for performance obligations that the entity might regard as being perfunctory or inconsequential. Some stakeholders held the view that IFRS 15 might require an entity to identify significantly more performance obligations than would have been the case under previous revenue Standards.
- BC116B** In response to stakeholders' concerns, the FASB decided to amend Topic 606 to state that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial within the context of the contract with the customer. The FASB decided to specify that an entity is required to consider whether a promised good or service is material only at the contract level because it would be unduly burdensome to require an entity to aggregate and determine the effect on its financial statements of those items or activities determined to be immaterial at the contract level. In addition, the FASB decided to specify that an entity is required to accrue the costs, if any, to transfer immaterial goods or services to the customer in instances in which the costs will be incurred after the satisfaction of the performance obligation (and recognition of revenue) to which those immaterial goods or services relate.
- BC116C** Having considered the wider implications of amending IFRS 15, the IASB decided that it was not necessary to incorporate similar wording into IFRS 15. The TRG's discussion highlighted that the concerns raised primarily related to potential changes to practice under US GAAP. Previous revenue Standards under IFRS did not contain similar language to the guidance issued by the staff of the US Securities and Exchange Commission on inconsequential or perfunctory performance obligations. The TRG's discussion also indicated that IFRS stakeholders can understand and apply the requirements of IFRS 15 in this area.
- BC116D** In its deliberations, the IASB expressed the view that the concerns raised relate to the application of materiality concepts rather than the application of the requirements in IFRS 15. As described in paragraph BC84, the boards intended the notion of a performance obligation to be similar to the notions of deliverables, components or elements of a contract in previous revenue Standards. The IASB noted that IFRS 15 requires an entity to identify performance obligations rather than promised goods or services. Accordingly, although an entity makes an assessment of the goods or services promised in a



contract in order to identify material performance obligations, the boards did not intend to require an entity to individually identify every possible promised good or service.

BC116E In reaching its decision, the IASB also observed that the explanation in paragraph BC90 should be read within the context of the boards' explanation of the development of IFRS 15 rather than as implying that an entity is required to identify perfunctory or inconsequential goods or services promised in a contract. One of the reasons that the IASB decided not to introduce an exemption for perfunctory or inconsequential performance obligations is that it was not considered necessary, both because of how the concept of 'distinct' is applied and also because of the application of materiality. In assessing promised goods or services and identifying performance obligations, entities should consider not only materiality considerations but also the overall objective of IFRS 15. The IASB further noted that materiality is an overarching concept that applies throughout IFRS and not just when it is mentioned explicitly.

### **Identifying performance obligations (paragraphs 27–30)**

BC116F The TRG discussed issues relating to the principle in paragraph 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 paragraph 29. The discussion informed the boards about potential diversity in stakeholders' understanding and indicated that there was a risk of paragraph 29(c) being applied more broadly than intended, resulting in promised goods or services being inappropriately combined and accounted for as a single performance obligation. Stakeholders asked about the application of this factor to scenarios in which one of the promised goods or services is dependent on the transfer of the other, such as a contract for equipment and related consumables that are required for the equipment to function. Some stakeholders suggested that, although the promised goods or services may be capable of being distinct, if one of the goods or services was dependent on the other, the promised goods or services would not be distinct within the context of the contract.

BC116G In the light of the TRG discussions, the IASB was initially of the view that the discussions highlighted educational needs and that, given the nature of the issues raised, amendments to IFRS 15 were not required and that the examples accompanying IFRS 15 could be clarified to illustrate the application of the requirements. Consequently, in its Exposure Draft *Clarifications to IFRS 15*, the IASB proposed to add some new examples, and to amend some of the existing examples that accompany IFRS 15. The FASB decided to propose amendments to Topic 606 to clarify the guidance relating to the identification of performance obligations. In particular, their proposed amendments included expanding the articulation of the 'separately identifiable' principle and reframing the existing factors in paragraph 606-10-25-21 (paragraph 29 of IFRS 15) to align them with the amended principle.

BC116H Some respondents to the IASB's Exposure Draft asked for the amendments proposed by the FASB to be incorporated into paragraph 29 of IFRS 15. They expressed concerns about differences in wording between IFRS and US GAAP and also indicated that the FASB's proposed amendments would improve the

understanding of the separately identifiable principle and the operability of the requirements. Step 2 is a fundamental part of IFRS 15 that affects accounting in subsequent steps of the revenue recognition model. Consequently, in its redeliberations of the amendments the IASB concluded that the benefits of retaining converged requirements on this topic outweigh the potential costs of amending the requirements. Accordingly, the IASB decided to amend IFRS 15 to clarify the principle and the factors that indicate when two or more promises to transfer goods or services are not separately identifiable. Those amendments are the same as the FASB’s related amendments to Topic 606.

- BC116I Although the wording describing the separately identifiable principle in paragraph 29 has been amended, the amendments clarify the boards’ intentions and are not a change to the underlying principle. The boards observed that applying the principle in paragraph 27(b) requires judgement, taking into account facts and circumstances (see paragraph BC105). Even after amending the factors in paragraph 29 of IFRS 15, the boards recognise that judgement will be needed to determine whether promised goods or services are distinct within the context of the contract.
- BC116J The amendments are intended to convey that an entity should evaluate whether its promise, within the context of the contract, is to transfer each good or service individually or a combined item (or items) that comprises the individual goods or services promised in the contract. Therefore, entities should evaluate whether the promised goods or services in the contract are outputs or, instead, are inputs to a combined item (or items). In many cases, the inputs to a combined item concept might be further explained as a situation in which an entity’s promise to transfer goods or services results in a combined item that is more than (or substantively different from) the sum of those individual promised goods and services. For example, in a contract to build a wall, the promise to provide bricks and the promise to provide labour are not separately identifiable from each other within the context of the contract because those promises together comprise the promise to the customer to build the wall.
- BC116K The boards previously considered the concept of ‘separable risks’ (see paragraph BC103) as an alternative basis for assessing whether an entity’s promise to transfer a good or service is separately identifiable from other promises in the contract. Although the boards decided not to use this terminology in IFRS 15, the notion of separable risks continues to influence the separately identifiable principle. The evaluation of whether an entity’s promise is separately identifiable considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. Therefore, an entity should consider the level of integration, interrelation or interdependence among the promises to transfer goods or services. The boards observed that rather than considering whether one item, by its nature, depends on the other (ie whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract.
- BC116L The boards decided to reframe the factors in paragraph 29 of IFRS 15 to more clearly align them with the revised wording of the separately identifiable principle. This clarification emphasises that the separately identifiable

principle is applied within the context of the bundle of promised goods or services in the contract rather than within the context of each individual promised good or service. The separately identifiable principle is intended to identify when an entity's performance in transferring a bundle of goods or services in a contract is fulfilling a single promise to a customer. Accordingly, the boards revised the wording to emphasise that an entity should evaluate whether two or more promised goods or services each significantly affect the other (and, therefore, are highly interdependent or highly interrelated) in the contract. Furthermore, the boards concluded that it may be clearer to structure those factors to identify when the promises in a bundle of promised goods or services are *not* separately identifiable and, therefore, constitute a single performance obligation.

- BC116M In addition to reframing the factors in the context of a bundle of goods or services, the boards amended the factor relating to a significant integration service in paragraph 29(a) of IFRS 15 to clarify two related issues—that application of this factor is not limited to circumstances that result in a single output, and that a combined output may include more than one phase, element or unit. This concept is illustrated by the example in paragraph BC112, in which an entity agrees to design an experimental product for a customer and to manufacture 10 prototype units of that product. In the example, the design and production of the units is an iterative process and the significant integration service provided by the entity relates to all 10 prototype units.
- BC116N The TRG's discussions also highlighted that some stakeholders may have been interpreting the factors supporting paragraph 27(b) as a series of criteria. Paragraph 29, where the factors are set out, provides a non-exhaustive list of factors to consider; not all of those factors need to exist (or not exist) to conclude that the entity's promises to transfer goods or services are not (are) separately identifiable. Similarly, the boards also noted that the factors are not intended to be criteria that are evaluated independently of the separately identifiable principle. Given the wide variety of revenue arrangements that are within the scope of IFRS 15, the boards expect that there will be some instances for which the factors will be less relevant to the evaluation of the separately identifiable principle. Consequently, entities should consider the objective of the principle, not just the factors provided in paragraph 29 of IFRS 15.
- BC116O Stakeholders also asked about the effect of contractual restrictions on the identification of performance obligations. Accordingly, one of the examples added (Case D of Example 11) illustrates the boards' observation in paragraph BC100 of IFRS 15 that an entity should focus on the characteristics of the promised goods or services themselves instead of on the way in which the customer might be required to use the goods or services.
- BC116P The IASB decided that it was not necessary to add some of the examples that the FASB included in its amendments to Topic 606. In particular, the IASB concluded that an example relating to whether an anti-virus software licence is distinct from when-and-if-available updates to the software during the licence period (Example 10, Case C in Topic 606) was unnecessary. The IASB thought that this additional example was not required because Example 55 that

accompanies IFRS 15 illustrates the application of the requirements on identifying performance obligations to a similar fact pattern.

BC116Q Respondents to the Exposure Draft expressed concern that the proposed Example 10, Case B may imply that any contract manufacturing or similar arrangement would be a single performance obligation comprising goods that are not distinct. There are some similarities between the fact pattern in the example and other contracts with customers that involve project management, the production of customised goods or the manufacture of a series of identical goods. However, an entity should evaluate the nature of its promise(s) to a customer within the context of the contract. Example 10, Case B illustrates a scenario in which the entity is contractually required to undertake a significant effort to establish a customised production process specifically in order to produce the highly complex, specialised devices for which the customer has contracted. As a result, the entity's promise is to establish and provide a service of producing the contracted devices based on the customer's specifications. In contrast, other manufacturing scenarios may involve the development of a production process that can be used to produce goods for multiple contracts with the same or additional customers. In that case, the contract may not include a promise to establish a customised production process.

### **Shipping and handling activities**

BC116R Some stakeholders in the United States expressed differing views about when shipping and handling activities that occur after the transfer of control to the customer should be accounted for as a promised service or as a fulfilment activity. Under previous revenue Standards, entities often did not account for shipping provided in conjunction with the sale of their goods as an additional service. As a result, some stakeholders raised cost-benefit concerns and asked whether relief should be provided in respect of shipping and handling activities from the general requirement to assess the goods or services promised in a contract with a customer in order to identify performance obligations.

BC116S When the boards discussed these concerns, board members noted that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities. However, if control of a good has been transferred to a customer, shipping and handling services are provided in relation to the customer's good, which may indicate that the entity is providing a service to the customer.

BC116T In response to the cost-benefit concerns raised by stakeholders, the FASB decided to amend Topic 606 to:

- (a) 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; and
- (b) explicitly state that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities.

BC116U Having considered the wider implications of amending IFRS 15, the IASB decided not to make a similar amendment, for the following reasons:

- (a) An accounting policy choice for shipping and handling activities after control of goods has been transferred to the customer would create an exception to the revenue recognition model and potentially reduce comparability between entities. Paragraph 22 of IFRS 15 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 choice would override this requirement.
- (b) In addition, a policy choice is applicable to all entities. Consequently, it is possible that entities with significant shipping operations would make different policy elections. This would make it more difficult for users of financial statements to understand and compare the revenue reported by different entities, including those within the same industry.

The IASB acknowledged that, because the policy choice is not available in IFRS 15, this gives rise to a difference between IFRS 15 and Topic 606.

Paragraphs BC188A–BC188D and their related heading are added. New text is underlined.

*Clarifications to IFRS 15 (amendments issued in April 2016)—topics for which the IASB decided not to amend IFRS 15 (presentation of sales taxes)*

- BC188A Paragraph 47 of IFRS 15 specifies that amounts collected on behalf of third parties, such as some sales taxes, are excluded from the determination of the transaction price. Entities are therefore required to identify and assess sales taxes to determine whether to include or exclude those taxes from the transaction price.
- BC188B After the issuance of Topic 606 and IFRS 15, some US stakeholders expressed concerns about the cost and complexity of assessing tax laws in each jurisdiction, because many entities operate in numerous jurisdictions, and the laws in some jurisdictions are unclear about which party to the transaction is primarily obligated for payment of the taxes. These stakeholders also stated that the variety of, and changes in, tax laws among jurisdictions contributes to that complexity. Consequently, some preparers and auditors asked the boards to amend the Standard to add a practical expedient to reduce the complexity and practical difficulties in assessing whether a sales tax is collected on behalf of a third party. An accounting policy choice to either include or exclude all sales taxes in or from revenue was available in the previous revenue standards under US GAAP.
- BC188C The FASB decided to amend Topic 606 to provide an accounting policy election 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 taxes, use taxes, value added taxes, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process are excluded from the scope of the election.

BC188D The IASB decided not to provide a similar accounting policy choice, for the following reasons:

- (a) It would reduce the comparability of revenue between entities operating under different tax regimes in different jurisdictions, as well as between entities operating in the same jurisdictions to the extent that they choose different approaches.
- (b) The previous revenue Standards under IFRS contained requirements applicable to sales tax similar to those in IFRS 15. Consequently, assessing whether sales taxes are collected on behalf of a third party is not a new requirement for IFRS preparers.
- (c) It would create an exception to the revenue recognition model that does not reflect the economics of the arrangement in cases for which a sales (or similar) tax is a tax on the entity rather than a tax collected by the entity from the customer on behalf of a tax authority.

The IASB acknowledged that, because the policy choice is not available in IFRS 15, this gives rise to a difference between IFRS 15 and Topic 606.

Paragraphs BC254A–BC254H and their related heading are added. New text is underlined.

*Clarifications to IFRS 15 (amendments issued in April 2016)—topics for which the IASB decided not to amend IFRS 15*

BC254A The TRG discussed the following implementation questions raised by stakeholders in connection with applying IFRS 15 to contracts that involve non-cash consideration:

- (a) At which date should the fair value of non-cash consideration be measured in determining the transaction price?
- (b) How should the constraint on variable consideration 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 other reasons?

**Date of measurement of non-cash consideration**

BC254B Paragraph 66 of IFRS 15 requires non-cash consideration to be measured at fair value (or by reference to the stand-alone selling price of the goods or services promised to the customer if an entity cannot reasonably estimate fair value of the non-cash consideration). The TRG’s discussion informed the boards that the measurement date for non-cash consideration is unclear and could be interpreted as one of several dates: (a) at contract inception; (b) when the non-cash consideration is received; or (c) at the earlier of when the non-cash consideration is received and when the related performance obligation is satisfied.

BC254C In its discussions, the IASB observed that this issue has important interactions with other Standards (including IFRS 2 *Share-based Payment* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*) and, thus, any decisions made would create a risk of potential unintended consequences. Accordingly, the IASB decided that,

if needed, issues relating to the measurement of non-cash consideration should be considered more comprehensively in a separate project.

BC254D The FASB decided to amend the guidance in Topic 606 to require non-cash consideration to be measured at its fair value at contract inception. In the FASB's view, measuring non-cash consideration at contract inception is most consistent with the requirements in Topic 606 on determining the transaction price and on allocating the transaction price to performance obligations. The FASB also expects this approach to be typically less costly and less complex to apply in practice than other alternatives.

BC254E The IASB acknowledged that, because it has concluded that a change equivalent to that decided by the FASB is not needed, 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. The IASB observed that, unlike US GAAP, existing IFRS does not contain any specific requirements about the measurement date for non-cash consideration for revenue transactions. In addition, discussions with some stakeholders highlighted that any practical effect of different measurement dates would arise in only limited circumstances. The IASB also noted that paragraph 126 of IFRS 15 requires an entity to disclose information about the methods, inputs and assumptions used for measuring non-cash consideration.

**Application of the variable consideration constraint to changes in fair value of non-cash consideration**

BC254F The TRG discussed the concerns raised by some stakeholders that it is not clear whether the variable consideration requirements in paragraphs 56–58 of IFRS 15 apply in circumstances in which the fair value of non-cash consideration varies due to both the form of the consideration and for other reasons. In particular, some stakeholders are concerned that bifurcating the effects of variability might be challenging in some circumstances.

BC254G The FASB decided to amend Topic 606 to specify that the constraint on variable consideration applies only to variability that arises for reasons other than the form of the consideration. Paragraph 68 of IFRS 15 indicates that the requirements for constraining estimates of variable consideration are applied if the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, a change in the exercise price of a share option because of the entity's performance). The FASB observed that applying the variable consideration requirements to both types of variability might not provide users of financial statements with useful information, because the timing of revenue recognition might differ for similar transactions settled in different forms of consideration (for example, cash and shares). Additionally, the inclusion of a minor performance condition could significantly affect the amount of non-cash consideration that would be subject to the constraint on variable consideration.

BC254H The IASB noted that paragraph BC252 explains that the boards decided to constrain variability in the estimate of the fair value of the non-cash consideration if that variability relates to changes in the fair value for reasons other than the form of the consideration (ie for reasons other than changes in

the price of the non-cash consideration). The IASB also noted the view of some TRG members that in practice it might be difficult to distinguish between variability in the fair value due to the form of the consideration and other reasons, in which case applying the variable consideration constraint to the whole of the estimate of the non-cash consideration might be more practical. However, for reasons similar to those discussed in paragraph BC254E, the IASB decided not to amend IFRS 15 for this issue. Consequently, the IASB acknowledged that differences may arise between an entity reporting under IFRS and an entity reporting under US GAAP.

The following footnote is added to the heading 'Principal versus agent considerations (paragraphs B34–B38)' above paragraph BC379. New text is underlined.

*Clarifications to IFRS 15 issued in April 2016 amended the application guidance in paragraphs B34–B38 and, as a consequence, amended paragraph BC383. The objective of amending the application guidance in paragraphs B34–B38 is to (a) provide a better framework to be applied when assessing whether an entity is a principal or an agent; (b) clarify the application of the control principle to intangible goods and services; and (c) clarify the role of the indicators in paragraph B37 when applying the control principle. Paragraphs BC379–BC385 should therefore be read together with paragraphs BC385A–BC385Z, which explain the boards' considerations for amending the application guidance.*

Paragraph BC383 is amended. Deleted text is struck through and new text is underlined.

## **Principal versus agent considerations (paragraphs B34–B38)**

...

- BC383 After an entity identifies its promise and determines whether it is the principal or the agent, the entity would recognise revenue when it satisfies its performance obligation. This would, for an entity that is a principal, occur when control of the promised goods or services transfers to the customer. The boards observed that in some contracts in which the entity is the agent, control of the goods or services promised ~~by the agent to the customer~~ might transfer before the customer receives the goods or services from the principal. For example, an entity that issues loyalty points to its customers when they purchase goods or services from the entity might satisfy its ~~promise to provide customers with loyalty points when those points are transferred to the customer~~ performance obligation with respect to the loyalty points on issuing those points to the customers if:
- (a) ~~the entity's promise is to provide loyalty points to customers when the customer purchases goods or services from the entity;~~
  - ~~(b)~~(a) the points entitle the customers to future discounted purchases with another party (ie the points represent a material right to a future discount); and



- (e)(b) the entity determines that it is an agent (ie its promise is to arrange for the customers to be provided with points) and the entity does not control those points before they are transferred to the customer.

Paragraphs BC385A–BC385Z and their related headings are added. New text is underlined.

***Clarifications to IFRS 15 (amendments issued in April 2016)***

BC385A The TRG discussed a number of issues in relation to paragraphs B34–B38 of IFRS 15. Some stakeholders asked whether control is always the basis for determining whether an entity is a principal or an agent, and how the control principle and the indicators in paragraph B37 work together. Other stakeholders asked how to apply the control principle to contracts involving intangible goods or services. In the light of those discussions and the feedback received, the boards discussed, and decided to clarify, the principal versus agent guidance by making the same targeted amendments to the application guidance and the related Illustrative Examples in IFRS 15 and Topic 606.

BC385B When another party is involved in providing goods or services to a customer, the amendments to the application guidance clarify how an entity determines whether it is a principal or an agent. These amendments focus on (a) the need for appropriately identifying the good or service that is transferred to the customer (the ‘specified good or service’); and (b) determining whether the entity has promised to provide the specified good or service itself (ie the entity is a principal) or to arrange for the specified good or service to be provided to the customer by the other party (ie the entity is an agent). The entity determines the nature of its promise on the basis of whether the entity controls the specified good or service before that good or service is transferred to the customer. Throughout the guidance on principal versus agent considerations, the boards decided to refer to the *specified good or service* transferred to the customer (as in paragraph B34), rather than the *performance obligation*. This is because use of the term ‘performance obligation’ would have been confusing if the entity is an agent. An agent’s performance obligation is to arrange for the other party to provide its goods or services to the customer; it does not promise to provide the goods or services itself to the end customer. Accordingly, the specified good or service to be provided to the end customer is not the performance obligation of the agent.

***Principle for determining whether an entity is a principal or an agent***

BC385C Paragraph B34 requires an entity to determine whether it is a principal or an agent on the basis of whether the nature of the entity’s promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by another party (ie the entity is an agent). Assessing whether the entity controls the specified good or service before it is transferred to the customer is the basis for determining the nature of the entity’s promise.

BC385D The boards observed that 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 (as defined in paragraph 33). The entity cannot provide the specified good or service to a customer if the entity does not first control the good or service to be provided. If an entity controls the specified good or service before that good or service is transferred to the customer, the entity is the principal in the transaction with the customer. If the entity does not control the specified good or service before that good or service is transferred to a customer, the entity is not a principal in the transaction with the customer. The boards noted that their considerations in this respect are explained in paragraph BC380.

BC385E In addition, the boards noted that an entity that itself manufactures a good or performs a service is always a principal if the entity transfers control of that good or service to another party. Such an entity does not need to evaluate whether it is a principal or an agent using the guidance in paragraphs B34–B38 because the entity transfers the good or provides the service directly to its customer, without the involvement of another party. If the entity transfers a good or provides a service to an intermediary that is a principal in providing that good or service to an end customer (whether individually or as part of a distinct bundle of goods or services), the entity’s customer is the intermediary.

BC385F Because of the concerns highlighted in the TRG’s discussions, the boards decided to clarify the following aspects of the application guidance on principal versus agent considerations:

- (a) the relationship between the control principle and the indicators in paragraph B37; and
- (b) the application of the control principle to intangible goods and services.

*The relationship between control and the indicators in paragraph B37*

BC385G The boards observed that the questions about the relationship between the assessment of control and the indicators of control in paragraph B37 arose, at least in part, because the indicators in that paragraph were carried forward from IAS 18 Revenue and Topic 605 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 and, although Topic 605 did not explicitly include a principle, the indicators in Topic 605 were understood to be indicators of risks and rewards. In addition, the structure of the analysis in Examples 45–48 accompanying IFRS 15 added to the confusion.

BC385H The boards’ considerations (explained in paragraph BC382) highlight that the indicators in paragraph B37 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. The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios. Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.

BC385I The boards acknowledged that the indicators are similar to those in IAS 18 and Topic 605, but also noted their considerations in this respect, explained in

paragraph BC382. Paragraph BC382 explains that the boards decided to carry over some of the indicators in previous revenue recognition Standards even though those indicators have a different purpose in IFRS 15. In IFRS 15, the indicators support the concepts of identifying performance obligations and the transfer of control of goods or services. Accordingly, the boards had expected that the conclusions about principal versus agent under IFRS 15 could be different in some scenarios from those reached under the previous revenue recognition Standards. Furthermore, the boards observed that, although exposure to risks and rewards alone does not give an entity control, exposure to risks and rewards can be a helpful factor to consider in determining whether an entity has obtained control (see paragraph 38).

BC385J The boards decided to amend the indicators in paragraph B37 to more clearly establish a link between the control principle and the indicators by:

- (a) 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.
- (b) adding guidance to explain how each indicator supports the assessment of control as defined in paragraph 33 of IFRS 15. This should help entities apply indicators that are similar to those in the previous revenue recognition Standards but within the context of the control principle in IFRS 15.
- (c) removing the indicator relating to the form of the consideration. Although that indicator might sometimes be helpful in assessing whether an entity is an agent, the boards concluded that it would not be helpful in assessing whether an entity is a principal.
- (d) removing the indicator relating to exposure to credit risk. The feedback on the Exposure Draft *Clarifications to IFRS 15* highlighted that exposure to credit risk is generally not a helpful indicator when assessing whether an entity controls the specified good or service. Stakeholders observed that the credit risk indicator in the previous revenue guidance has been problematic from the perspective of entities trying to use exposure to credit risk to override stronger evidence of agency. The boards concluded that removing the credit risk indicator should reduce some of the complexity in the principal versus agent evaluation because the credit risk indicator will typically be less relevant, or not relevant, to the evaluation for contracts within the scope of IFRS 15.
- (e) clarifying that the indicators are not an exhaustive list and merely support the assessment of control—they do not replace or override that assessment. The boards decided to explicitly state that one or more of the indicators might provide more persuasive evidence to support the assessment of control in different scenarios.

BC385K In the light of the IASB's decision to generally apply a high hurdle when considering whether to amend IFRS 15, the IASB initially thought that it would not be necessary to add explanatory text to each indicator in paragraph B37 to establish a link to the concept of control. In the IASB's view, clarity about the interaction between the control principle and the indicators could have been

achieved by amending only the Illustrative Examples. The IASB noted concerns about adding explanatory text to the indicators in paragraph B37 because of (a) the risk of new questions arising with respect to those additional explanations; and (b) the risk that some of those additional explanations might be used inappropriately to reach a conclusion that an entity is a principal when the entity is an agent. Nonetheless, despite those concerns, the IASB decided to amend the indicators in paragraph B37 of IFRS 15 in order to align the wording of the amendments with the wording of those made by the FASB. The IASB concluded that the benefits of retaining converged requirements on this topic outweigh the potential costs of amending the requirements.

**The use of the indicators in paragraph B37 rather than the indicators in paragraph 38**

BC385L Some stakeholders asked why the indicators in paragraph B37 are different from the indicators on the satisfaction of performance obligations (paragraph 38), noting that both sets of indicators relate to control. The boards observed that the indicators in paragraph 38 are indicators of the point in time at which the customer obtains control of the promised good or service. Accordingly, the indicators in paragraph 38 serve a different purpose than the indicators in paragraph B37. The indicators in paragraph 38 are not intended to indicate whether the customer obtains control of a promised asset—within the context of IFRS 15 as a whole, it is assumed that the customer will obtain control of the promised asset at some point—instead, they are intended to indicate when the customer has obtained control. In contrast, the indicators in paragraph B37 are intended to indicate whether the entity controls a specified good or service before that good or service is transferred to the customer.

*Application of the control principle to intangible goods and services*

BC385M The boards observed that at least some of the difficulty that stakeholders had in applying the control principle, in particular to intangible goods and services, was linked to challenges in identifying the specified good or service to be provided to the customer. The boards observed that this also had frequently been a challenge for entities under previous revenue recognition Standards.

BC385N The principal versus agent considerations relate to the application of Step 2 of the revenue recognition model. Appropriately identifying the good or service to be provided is a critical step in appropriately identifying whether the nature of an entity's promise is to act as a principal or an agent. When the appropriate specified good or service is identified, the assessment of control is often relatively straightforward, even when the specified good or service is an intangible good or a service. For example, the specified good or service to be provided to the customer could be:

- (a) a right to goods or services (see paragraph 26). For example, the airline ticket (a right to fly) in Example 47 and the meal voucher (a right to a meal) in Example 48 accompanying IFRS 15; or
- (b) a bundle of goods or services that are not distinct from each other (for example, the specialised equipment in Example 46 accompanying IFRS 15).

- BC385O The boards observed 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. The fact that the entity will not provide the goods or services itself is not determinative. Instead, the entity evaluates whether it controls the right to goods or services before that right is transferred to the customer. In doing so, it is often relevant to assess whether the right is created only when it is obtained by the customer, or whether the right to goods or services exists before the customer obtains the right. If the right does not exist before the customer obtains it, an entity would be unable to control that right before it is transferred to the customer.
- BC385P Some respondents to the Exposure Draft stated that it could be difficult in some cases to determine whether the specified good or service is the right to a good or service to be provided by another party or the underlying good or service itself (for example, in the case of Example 47, whether the specified good or service is the right to the flight (the ticket) or the flight itself). The boards observed that a careful consideration of the facts and circumstances, and exercise of judgement may be required in identifying the specified good or service (just as identifying an entity's performance obligations outside the context of a principal versus agent evaluation will often require judgement). The boards also observed that assessing whether an entity controls a right to a good or service to be provided by another party is important to the principal versus agent evaluation. The boards noted that the Illustrative Examples accompanying IFRS 15 on principal versus agent considerations have been designed to address and explain scenarios in which the specified good or service is a right to a good or service to be provided by another party (as in Example 47 accompanying IFRS 15) and scenarios in which the specified good or service is the underlying service itself (as in Example 46A accompanying IFRS 15).
- BC385Q The boards also observed that the specified good or service to which the control principle is applied should be a distinct good or service, or a distinct bundle of goods or services. If individual goods or services are not distinct from each other, then they may be, for example, merely inputs to a combined item and are each only part of a single promise to the customer. Accordingly, an entity should evaluate the nature of its promise (ie to act as a principal or an agent) within the context of the promise to the customer, rather than for part of that promise. Consequently, for contracts in which goods or services provided by another party are inputs to a combined item (or items) for which the customer has contracted, the entity assesses whether it controls the combined item before that item is transferred to the customer.
- BC385R When a specified good or service is a distinct bundle of goods or services, the principal versus agent analysis may, in some cases, be straightforward. The boards concluded (in paragraph B35A(c)) that when an entity provides a significant service of integrating two or more goods or services into the combined output that is the specified good or service for which the customer contracted, it controls that specified good or service before it is transferred to the customer. When the entity provides a significant integration service it

controls the inputs to the combined item that is the specified good or service (including goods or services provided by another party that are inputs to the specified good or service). The entity controls the inputs by directing their use to create the combined item. In that case, the inputs provided by the other party would be a fulfilment cost to the entity. In contrast, if a third party provides the significant integration service, then the entity's customer for its goods or services (which would be inputs to the specified good or service) is likely to be the other party.

BC385S Consequently, the boards decided to clarify the thought process 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 each specified good or service. The amended paragraph B34 and the additional paragraph B34A should:

- (a) provide a better framework for assessing whether an entity is a principal or an agent.
- (b) emphasise 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.
- (c) clarify that the specified good or service (ie the unit of account for the principal versus agent evaluation) is each distinct good or service (or distinct bundle of goods or services). Accordingly, those paragraphs also clarify that, because a contract with a customer could include more than one specified good or service, an entity could be a principal for one or more specified goods or services in a contract and an agent for others.
- (d) emphasise that control (as defined in paragraph 33 of IFRS 15) is the determining factor when assessing whether an entity is a principal or an agent.

BC385T The IASB noted that, in many respects, paragraph B34A simply points to other relevant parts of the requirements in IFRS 15. Accordingly, the IASB did not view the inclusion of that additional paragraph as essential to clarifying the requirements in IFRS 15. In its view, clarity about the thought process to be applied could have been achieved by amending only the Illustrative Examples. Nonetheless, given the concerns raised by stakeholders, the IASB concluded that including paragraph B34A would be helpful to the principal versus agent evaluation, and would align the wording of the amendments with the wording of those made by the FASB. Therefore, the IASB concluded that the benefits of adding the paragraph outweigh the potential costs of amending the requirements.

***Assessment of control of a service***

BC385U The TRG's discussions highlighted concerns about the application of the control principle to services to be provided to a customer. Questions discussed included how an entity (other than the service provider) could control a service before that service is transferred to the customer, because a service comes into existence only at the moment that it is delivered. The boards observed that an entity can control a service to be provided by another party when it controls the

right to the specified service from the other party that will be provided to the customer. The entity then either transfers the right to the service to the customer (for example, the airline ticket in Example 47) or uses its right to direct the other party to provide the service to the customer on the entity's behalf (ie to satisfy the entity's performance obligation in the contract with the customer), such as in Example 46A. Determining whether the entity controls a right to a specified service requires consideration of the facts and circumstances. The boards noted that contracts involving services provided by another party in which the entity is a principal can be broadly categorised as follows:

- (a) Contracts in which an entity provides the customer with a right to a future service to be provided by another party, such as the right to a specified flight (in the form of a ticket) to be provided by an airline (as discussed in paragraph BC385O).
- (b) Contracts in which the service provided by the other party is not distinct from other goods or services promised to the customer, and the entity directs the use of that service to create the combined item that is the specified good or service for which the customer has contracted (as discussed in paragraphs BC385Q–BC385R). Paragraph B35A(c) states that this scenario would exist whenever the entity provides a significant service of integrating the service provided by another party into the specified good or service for which the customer has contracted. Example 46 accompanying IFRS 15 illustrates this scenario.
- (c) Contracts in which an entity directs another party to provide the service to the customer on the entity's behalf in satisfying the entity's performance obligation. Example 46A accompanying IFRS 15 illustrates this scenario.

BC385V The boards observed that determining whether an entity is a principal or an agent may be more difficult in the third category of contracts listed above in which the entity has entered into a contract with a customer and has engaged another party (a subcontractor) to satisfy a performance obligation within that contract on its behalf. In these contracts, the entity assesses whether it controls a right to the specified services. An entity could control the right to the specified services by entering into a contract with the subcontractor and defining the services to be performed by the subcontractor on the entity's behalf. In that scenario, which is illustrated in Example 46A, the entity obtains the right to the services of the subcontractor and then directs the subcontractor to provide the services to the customer on the entity's behalf. This scenario is equivalent to the entity fulfilling the contract using its own resources rather than engaging another party to do so. The entity would remain responsible for the satisfactory provision of services in accordance with the contract with the customer. In other scenarios in which the specified services provided to the customer are provided by another party and the entity did not have the ability to direct those services, the entity would typically be an agent. In those scenarios, the entity is likely to be facilitating (and arranging for) the provision of services by the other party rather than controlling the rights to the services that the entity then directs to the customer.

BC385W The boards noted that paragraph B35 explains that an entity that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party to satisfy some or all of a performance obligation on its behalf. The boards decided to add further explanation (paragraph B35A) to clarify the assessment of control of a service by explaining the scenarios in which a principal can control a service to be provided by another party. The boards also decided to add Example 46A to the Illustrative Examples accompanying IFRS 15 to illustrate the application of control to services.

*Estimating revenue as a principal*

BC385X Some TRG participants asked 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 end customers by an intermediary that is an agent. The IASB observed that this question is largely unrelated to the application guidance on principal versus agent considerations in paragraph B34–B38 of IFRS 15, but rather relates to applying the requirements in paragraphs 46–90 on determining the consideration to which an entity is entitled. The IASB noted that the situations in which an entity that is a principal may be unaware of the amount charged to end customers by an intermediary that is an agent are generally limited to situations in which the intermediary (a) has some flexibility in setting prices; or (b) is procuring the good or service on behalf of the end customer. The IASB concluded that the issue does not require any clarifications or additional guidance because the issue is expected to affect a limited number of entities and contracts.

BC385Y The FASB has also decided not to amend Topic 606 to address this issue. This is mainly because the FASB had observed that the situations in which an entity that is a principal is (and expects to remain) unaware of the amount charged by an intermediary that is an agent to the end customer are not pervasive and the issue affects only a limited number of entities and contracts. For those limited situations, the FASB is of the view that the determination of whether revenue may be estimated is based on an assessment of the requirements for determining the transaction price and estimating variable consideration.

BC385Z The IASB did not specifically consider how the transaction price requirements would be applied in those situations but concluded that an entity that is a principal would generally be expected to be able to apply judgement and determine the consideration to which it is entitled using all relevant facts and circumstances available to it.

The following footnote is added to the heading ‘Licensing (paragraphs B52–B63)’ above paragraph BC402. New text is underlined.

Clarifications to IFRS 15 issued in April 2016 deleted paragraph B57 and added paragraph B59A of IFRS 15 to clarify the application guidance on determining the nature of the entity’s promise in granting a licence of intellectual property. Paragraphs BC402–BC414 should therefore be read together with paragraphs BC414A–BC414Y, which explain the IASB’s considerations in amending the application guidance.



Heading above paragraph BC402 is amended. Paragraphs BC414A–BC414Y and their related headings are added. New text is underlined.

## Licensing (paragraphs B52–B63B)

BC402

...

### **Clarifications to IFRS 15 (amendments issued in April 2016)**

BC414A

The TRG discussed issues relating to the application of the licensing guidance in IFRS 15. The main issues discussed related to:

- (a) determining the nature of the entity's promise in granting a licence of intellectual property;
- (b) the scope and applicability of the sales-based and usage-based royalties exception;
- (c) the effect of contractual restrictions in a licence on identifying the performance obligations in the contract; and
- (d) when the guidance on determining the nature of the entity's promise in granting a licence applies.

BC414B

In the light of those discussions and the feedback received, the IASB decided to clarify the application guidance on licensing and the accompanying Illustrative Examples to improve its operability and understandability. In some cases, the IASB concluded that a clarification is not necessary because there is adequate guidance in IFRS 15 with sufficient explanation of the boards' considerations in the Basis for Conclusions. Except for the scope and applicability of the sales-based and usage-based royalties exception, the IASB reached different conclusions about whether and how to address stakeholder concerns.

### **Determining the nature of the entity's promise in granting a licence of intellectual property**

BC414C

IFRS 15 specifies criteria in paragraph B58 for determining whether the nature of the entity's promise in granting a licence is to provide a customer with a right to access the entity's intellectual property as it exists throughout the licence period, or a right to use the entity's intellectual property as it exists at a point in time when the licence is granted. In developing IFRS 15, the boards noted that these criteria were necessary because it is difficult to assess when the customer obtains control of assets in a licence without first identifying the nature of the entity's performance obligation.

BC414D

Paragraph B57 of IFRS 15 (now deleted, see paragraph BC414J) explained that the determination of 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. 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. In

contrast, a customer cannot 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 if the intellectual property to which the customer has rights changes throughout the licence period. The intellectual property will change when the entity continues to be involved with its intellectual property and undertakes activities that significantly affect the intellectual property to which the customer has rights. Paragraph B58 provides criteria to help an entity assess whether its activities 'change' the intellectual property to which the customer has rights, including whether the expected activities of the entity significantly affect the intellectual property to which the customer has rights.

- BC414E Stakeholders agree that activities that change the form or functionality of the intellectual property would represent activities that affect the intellectual property to which the customer has rights. However, stakeholders have indicated that it was 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. This had resulted in different interpretations about how to apply the criteria in paragraph B58(a). Some stakeholders held the view that, for activities to significantly affect the intellectual property to which the customer has rights, those activities must be expected to change the form or functionality of that intellectual property. They thought that changes that solely affect the value of the intellectual property do not significantly affect the intellectual property to which the customer has rights. Others thought that activities that significantly affect the value of the intellectual property are sufficient to conclude that the licence provides a right to access the intellectual property.
- BC414F The IASB decided to clarify the requirements of paragraph B58(a) by providing additional application guidance on when activities change the intellectual property to which the customer has rights in such a way that the ability of the customer to obtain benefit from the intellectual property is significantly affected. The IASB noted that the reference to form or functionality in paragraph B61 (and the Illustrative Examples and the Basis for Conclusions) was not intended to suggest that the nature of a licence is a right to access intellectual property only if the entity's activities significantly affect the form or functionality of the intellectual property to which the customer has rights. Determining the nature of a licence is defined by the criteria in paragraph B58, which do not refer to form or functionality.
- BC414G Paragraph B59A clarifies that the assessment of whether the entity's activities significantly 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. In some cases, the ability of the intellectual property to provide benefit to the customer is derived from the form or functionality of the intellectual property to which the customer has rights and, in other cases, from the value of that intellectual property. If the activities are expected to significantly change the form or functionality of the intellectual property, those activities are considered to significantly affect the customer's ability to obtain benefit from the intellectual property. If the activities do not significantly change the form or functionality, but the ability of the customer to

obtain benefit from the intellectual property is substantially derived from, or dependent upon, the entity's activities after the licence is granted, then the activities are also considered to significantly affect the intellectual property (as long as those activities do not result in the transfer of a good or service to the customer). In these cases, it is not necessary for those activities to change the form or functionality of the intellectual property to significantly affect the ability of the customer to obtain benefit from the intellectual property. For example, in some circumstances (eg many licences of brands), the benefit of the intellectual property is derived from its value and the entity's activities to support or maintain that value.

BC414H The IASB observed that intellectual property that has significant stand-alone functionality derives a substantial portion of its benefit from that functionality. Consequently, if the entity's activities do not significantly change the form or functionality of such intellectual property, then the entity's activities will not significantly affect the customer's ability to derive benefit from that intellectual property. Therefore, the IASB clarified that in these cases the criterion in paragraph B58(a) would not be met and the licence would be a right to use the intellectual property as it existed at the time that it was transferred.

BC414I The IASB has not defined the term 'significant stand-alone functionality' but has made clarifications to the Illustrative Examples to illustrate when the intellectual property to which the customer has rights might have significant stand-alone functionality. In many cases, it will be clear when intellectual property has significant stand-alone functionality. If there is no significant stand-alone functionality, the benefit to the customer might be derived substantially from the value of the intellectual property and the entity's activities to support or maintain that value. The IASB noted, however, that an entity may need to apply judgement to determine whether the intellectual property to which the customer has rights has significant stand-alone functionality.

BC414J The IASB has deleted paragraph B57. This is in response to stakeholder concerns that paragraph B57 has contributed to the confusion about whether the reference to change solely refers to changes in the form or functionality of intellectual property or also includes changes in the value of intellectual property. The IASB is of the view that the addition of paragraph B59A provides clarity about the intended meaning of change in intellectual property, which makes the discussion in paragraph B57 redundant within the context of the application guidance. The discussion in paragraph B57 explained the IASB's logic for the requirements for determining whether an entity's promise to grant a licence provides a customer with either a right to access or a right to use an entity's intellectual property. Accordingly, the IASB has incorporated the content of paragraph B57 into this Basis for Conclusions.

BC414K Having considered the wider implications of amending IFRS 15 before its effective date, the IASB decided to clarify the approach to determining the nature of an entity's promise in providing a licence, rather than change that approach. The IASB is of the view that stakeholder concerns have been addressed adequately by providing greater clarity about how to apply the requirements within the Standard. The IASB acknowledge that, in some cases,

the outcome of using its clarified approach may differ from the outcome achieved using the alternative approach contained in the amendments issued by the FASB (see paragraphs BC414L–BC414N).

**Alternative approach developed by the FASB**

BC414L The FASB developed 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 explained that the basis for this approach is whether an entity's promise to a customer includes supporting or maintaining the intellectual property to which the customer has rights, which in turn largely depends on whether the intellectual property has significant stand-alone functionality.

BC414M The FASB decided that intellectual property is either:

- (a) functional intellectual property, which is intellectual property that has significant stand-alone functionality and derives a substantial portion of its utility (ie its ability to provide benefit or value) from its significant stand-alone functionality. In this case, a customer generally obtains a licence for the right to use intellectual property unless the functionality of the intellectual property is expected to substantively change during the licence period as a result of activities of the entity that do not transfer a good or service to the customer and the customer is contractually or practically required to use the updated intellectual property; or
- (b) symbolic intellectual property, which is intellectual property that does not have significant stand-alone functionality. Substantially all of the utility of symbolic intellectual property is derived from its association with the entity's past or ongoing activities, including its ordinary business activities. In this case, a customer obtains a licence for the right to access intellectual property.

BC414N The FASB's approach looks to the nature of the intellectual property to determine whether the entity's activities significantly affect the intellectual property to which the customer has rights. The FASB's approach has 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. For example, the entity may own a brand that it does not support or maintain, but still grants licences to customers to use the brand in television or movie productions that are set in a time period during which the brand was active. Nonetheless, the FASB decided to adopt this alternative approach on the basis of feedback that the approach would be more operable than the approach contained in Topic 606 when it was issued in May 2014, particularly for entities with a significant number of licensing arrangements and those with diversified operations.

*Contractual restrictions in a licence and the identification of performance obligations*

- BC414O 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. For example, an arrangement might grant a customer a licence of a well-known television programme or movie for a period of time (for example, three years), but the customer might be restricted to showing that licensed content only once per year during each of those three years. Those stakeholders acknowledged that paragraph B62 is clear that restrictions of time, geographical region or use do not affect the licensor's determination about whether the licence is satisfied over time or at a point in time. However, in their view, it was unclear whether contractual restrictions affect the entity's identification of its promises in the contract (ie whether the airing restrictions affect whether the entity has granted one licence or three licences). Subsequent to the publication, in July 2015, of the Exposure Draft *Clarifications to IFRS 15*, the TRG discussed some further examples considering whether particular contractual restrictions create separate promises or, instead, merely define attributes of a promise. The TRG also discussed time attributes within the context of applying paragraph B61 of IFRS 15 to renewals of, or extensions to, existing licences (see paragraphs BC414S-BC414U).
- BC414P Having considered the wider implications of amending IFRS 15 before its effective date, the IASB decided that no clarification on the identification of performance obligations in a contract containing one or more licences was necessary. This is because, in its view, the clarifications made to IFRS 15 by the amendments issued in April 2016 will assist all entities in applying the requirements for identifying performance obligations contained in paragraphs 22-30 of IFRS 15. Paragraphs BC405-BC406 of IFRS 15 explain that, as is the case with other contracts, contracts that include a promise to grant a licence to a customer require an assessment of the promises in the contract using the criteria for identifying performance obligations (see paragraphs 27-30 of IFRS 15). This assessment is done before applying the criteria to determine the nature of an entity's promise in granting a licence. Consequently, the entity considers all of the contractual terms to determine whether the promised rights result in the transfer to the customer of one or more licences. In making this determination, judgement is needed to distinguish contractual provisions that create promises to transfer rights to use the entity's intellectual property from contractual provisions that establish when, where and how those rights may be used.
- BC414Q The IASB considered Example 59 in the Illustrative Examples accompanying IFRS 15. The entity concludes that its only performance obligation is to grant the customer a right to use the music recording. When, where and how the right can be used is defined by the attributes of time (two years), geographical scope (Country A) and permitted use (in commercials). If, instead, the entity had granted the customer rights to use the recording for two different time periods in two geographical locations, for example, years X1-X3 in Country A and years X2-X4 in Country B, the entity would need to use the criteria for identifying

performance obligations in paragraphs 27–30 of IFRS 15 to determine whether the contract included one licence covering both countries or separate licences for each country.

BC414R The FASB decided to amend Topic 606 to confirm that the requirements about contractual restrictions of the nature described in paragraph B62 do not replace the requirement for the entity to identify the number of licences promised in the contract. Similarly to the IASB, the FASB also observed that judgement is often required in distinguishing a contract that contains a single licence with multiple attributes from a contract that contains multiple licences to the customer that represent separate performance obligations.

*Renewals of licences of intellectual property*

BC414S As noted in paragraph BC414O, the TRG discussed the application of paragraph B61 of IFRS 15 within the context of licence renewals. Paragraph B61 states that ‘... revenue cannot be recognised for a licence that provides a right to use the entity’s intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence’. Some stakeholders asked whether paragraph B61 applies to the renewal of an existing licence or whether the entity could recognise revenue for the renewal when the parties agree to the renewal.

BC414T The discussion at the TRG indicated that this is an area in which judgement is needed. This is because when the entity and the customer enter into a contract to renew (or extend the period of) an existing licence, the entity will evaluate whether the renewal or extension should be treated as a new licence or, alternatively, as a modification of the existing contract. A modification would be accounted for in accordance with the contract modifications requirements in paragraphs 18–21 of IFRS 15. The IASB noted that, although some diversity may arise, IFRS 15 provides a more extensive framework for applying judgement than its predecessor, IAS 18. Again, having considered the wider implications of amending IFRS 15 before its effective date, the IASB decided that a clarification about the application of the contract modification requirements specifically for renewals of licensing arrangements was not necessary.

BC414U The FASB decided to amend Topic 606 and provide an additional example to specify that the entity would generally not recognise revenue relating to the renewal until the beginning of the licence renewal period. Consequently, in some cases, this may result in the recognition of revenue with respect to the renewal or extension at a later date using Topic 606 than using IFRS 15.

*When to consider the nature of the entity’s promise in granting a licence*

BC414V Paragraph B55 requires an entity to apply the general revenue recognition model (paragraphs 31–38) to determine whether a performance obligation that contains a licence that is not distinct (in accordance with paragraph 27) is satisfied at a point in time or over time. Since IFRS 15 was issued, some stakeholders have asked 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. Some held the view that paragraph B55

suggests that an entity would consider the nature of its promise in granting a licence only when the licence is distinct. Others noted that an entity would have to consider the nature of its promise in granting a licence, even when the licence is not distinct, to (a) determine whether a single performance obligation that includes a licence of intellectual property is satisfied over time or at a point in time; and (b) measure progress towards complete satisfaction of that single performance obligation if it is satisfied over time.

BC414W Again, having considered the wider implications of amending IFRS 15 before its effective date, the IASB decided 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 in a single performance obligation. An entity will, however, need to apply judgement to determine the nature of the performance obligation, and to select a method of measuring progress that is consistent with the objective of depicting the entity's performance.

BC414X In making this judgement, the IASB noted that it did not intend for an entity to disregard the guidance on determining the nature of its promise in granting a licence when applying the general revenue recognition model. In some cases, it might be necessary for an entity to consider the nature of its promise in granting a licence even when the licence is not distinct. The IASB discussed an example in which an entity grants a 10-year licence that is not distinct from a one-year service arrangement. The IASB noted that a distinct licence that provides access to an entity's intellectual property over a 10-year period could not be considered completely satisfied before the end of the access period. The IASB observed that it would, therefore, be inappropriate to conclude that a single performance obligation that includes that licence is satisfied over the one-year period of the service arrangement. Paragraph BC407 further highlights that an entity considers the nature of its promise in granting the licence if the licence is the primary or dominant component (ie the predominant item) of a single performance obligation.

BC414Y The FASB decided to make amendments that explicitly state that an entity considers the nature of its promise in granting a licence when applying the general revenue recognition model to a single performance obligation that includes a licence and other goods or services (ie when applying the requirements in Topic 606 equivalent to those set out in paragraphs 31-45 of IFRS 15). Consequently, when the licence is not the predominant item of a single performance obligation, this may result in an entity that applies Topic 606 considering the nature of its promise in granting a licence in a greater number of circumstances than an entity applying IFRS 15.

The following footnote is added to the heading ‘Consideration in the form of sales-based or usage-based royalties’ above paragraph BC415. New text is underlined.

*Clarifications to IFRS 15* issued in April 2016 added paragraphs B63A–B63B of IFRS 15 to clarify when an entity should recognise revenue for a sales-based or usage-based royalty using the requirement in paragraph B63 of IFRS 15. Paragraphs BC415–BC421 should therefore be read together with paragraphs BC421A–BC421J, which explain the boards’ considerations in amending the application guidance.

Paragraphs BC421A–BC421J and their related heading are added. New text is underlined.

*Clarifications to IFRS 15 (amendments issued in April 2016)*

**BC421A** Paragraph B63 requires an entity to recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property when the later of the following events occurs: (a) the customer’s subsequent sales or usage; and (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). This guidance in paragraph B63 is referred to as the ‘royalties constraint’.

**BC421B** Stakeholders had indicated that it was unclear when a sales-based or usage-based royalty is ‘promised in exchange for a licence’. Some stakeholders held the view 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. Other stakeholders had suggested that the royalties constraint applies only when the royalty relates solely to a licence that is distinct in accordance with paragraph 27 of IFRS 15 or only when the licence is the predominant item to which the royalty relates. Stakeholders had also indicated that it was 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.

**BC421C** In response to stakeholder concerns, the boards decided to clarify the application of the royalties constraint as follows:

- (a) the royalties constraint applies whenever a licence of intellectual property is the sole or predominant item to which the royalty relates;  
and
- (b) an entity should not split a single royalty into a portion subject to the royalties constraint and a portion that is subject to the general constraint on variable consideration contained in paragraphs 50–59 of IFRS 15.

**Applying the royalties constraint**

**BC421D** The boards decided to clarify in paragraph B63A that the royalties constraint applies to those arrangements for which the licence is the predominant item to



which the royalty relates. This is because users of financial statements are likely to view those arrangements as licensing arrangements. The boards had previously observed in paragraph BC415 that it would not be useful for an entity to recognise a minimum amount of revenue for licences of intellectual property for which the consideration is based on the customer's sales or usage. Applying the royalties constraint only when the royalty relates solely to a licence that is distinct in accordance with paragraph 27 of IFRS 15 might unduly restrict its application.

- BC421E The boards observed that judgement is required to determine when a licence is the predominant item to which a sales-based or usage-based royalty relates. However, the judgement needed for that determination is likely to be less than the judgement needed to apply the general requirements on variable consideration to those arrangements that would fall outside the scope of the royalties constraint if that scope were to be more restrictive.
- BC421F The boards decided against changing the scope of the royalties constraint, including expanding it beyond those situations for which a licence is the predominant item to which a royalty relates. This is because doing so would capture arrangements for which the boards previously concluded that the royalties constraint should not apply (for example, sales of intellectual property or sales of tangible goods that include intellectual property). As noted in paragraphs BC416 and BC421, the royalties constraint is intended to apply only to limited circumstances involving licences of intellectual property and, therefore, entities cannot apply it by analogy to other types of transactions.
- BC421G The boards observed that an entity might conclude that a licence is the predominant item to which a sales-based or usage-based royalty relates when there is more than one performance obligation. This conclusion might be reached regardless of whether the entity concludes that the royalty can be allocated entirely to one performance obligation in accordance with the requirements for allocating variable consideration in paragraphs 84–85 of IFRS 15. The boards also observed that the royalties constraint would also apply when the royalty predominantly relates to two or more licences promised in a contract, rather than a single licence.
- BC421H The boards made consistent clarifying amendments to the Illustrative Examples to more clearly support the conclusions reached about when a sales-based royalty would be recognised. However, the boards decided not to amend paragraph B63 or provide further Illustrative Examples for more complex fact patterns.
- BC421I In reaching this decision, the IASB considered a similar example to Example 60 accompanying IFRS 15 and concluded that when a time-based measure of progress appropriately depicts an entity's performance under the licence, recognising the sales-based royalty as and when the customer's sales occur would generally be appropriate. This is because, as noted in paragraph BC219, the objective of the royalties constraint is to prevent an entity from recognising revenue for uncertain amounts until the uncertainty is resolved (ie when the customer's subsequent sales or usage occurs). In effect, the requirement in paragraph B63 constrains the amount of revenue that can be recognised when

or as a performance obligation is satisfied, rather than constraining the total amount of the transaction price to be allocated. Paragraph B63(b) reflects one of the key principles of IFRS 15, which is to recognise revenue only when (or as) an entity satisfies a performance obligation. If the entity has satisfied (or partially satisfied) the performance obligation to which the royalty relates, paragraph B63(a) further constrains the recognition of revenue until the uncertainty about the amount of revenue is resolved. Consequently, an entity recognises revenue from a sales-based or usage-based royalty when (or as) the customer's subsequent sales or usage occur, unless recognition in that manner would accelerate the recognition of revenue for the performance obligation to which the royalty solely or partially relates ahead of the entity's performance towards complete satisfaction of the performance obligation based on an appropriate measure of progress.

### **Splitting a royalty**

BC421J Paragraph B63B of IFRS 15 clarifies that an entity should recognise revenue from a sales-based or usage-based royalty wholly in accordance with either the requirement in paragraph B63 (if paragraph B63 applies) or the requirements on variable consideration contained in paragraphs 50–59 of IFRS 15 (if paragraph B63 does not apply). The boards made this clarification in paragraph B63B because the boards concluded that (a) 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 (b) doing so would not provide any additional useful information to users of financial statements. This is because 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.

Heading above paragraph BC434 is amended. New text is underlined.

### **Transition (paragraphs C2–C8A)**

BC434 ...

In paragraph BC437 the sub-heading in the table 'Reducing the number of contracts that require restatement' is footnoted as follows. New text is underlined.

Clarifications to IFRS 15 issued in April 2016 amended paragraph C5 of IFRS 15 to add a further practical expedient to permit an entity not to restate contracts that are completed contracts at the beginning of the earliest period presented. This practical expedient, if applied, would further reduce the number of contracts that require restatement. The IASB's considerations in adding the practical expedient are explained in paragraphs BC445M–BC445N.

In paragraph BC437 the sub-heading in the table 'Simplifying how an entity restates contracts with customers' is footnoted as follows. New text is underlined.

Clarifications to IFRS 15 issued in April 2016 amended paragraph C5 and added paragraph C7A to add a further practical expedient to simplify how an entity restates contracts with customers that are modified before transition to IFRS 15. The boards' considerations in adding the practical expedient are explained in paragraphs BC445O–BC445R.

In paragraph BC441 '...(ie comparative years would not be restated) for contracts that are not completed at the date of initial application.' is footnoted as follows. New text is underlined.

Clarifications to IFRS 15 issued in April 2016 amended paragraph C7 of IFRS 15 to permit an entity using the transition method described in paragraph C3(b) to apply IFRS 15 (a) only to contracts that are not completed contracts at the date of initial application (as originally required in paragraph C7 when IFRS 15 was issued); or (b) to all contracts including completed contracts at the date of initial application. The boards' considerations in amending paragraph C7 are explained in paragraphs BC445J–BC445L.

In paragraph BC441 '(The boards clarified that a completed contract is a contract in which the entity has fully performed in accordance with revenue recognition requirements in effect before the date of initial application. Thus, a completed contract would include a contract for which the entity's performance was complete but there was a change in the transaction price after the date of initial application.)' is footnoted as follows. New text is underlined.

The FASB subsequently decided to amend the definition of a completed contract as a contract for which all or substantially all of the revenue was recognised in accordance with the revenue guidance that was in effect before the date of initial application of Topic 606. The IASB's considerations for deciding not to amend the definition, together with an overview of the FASB's considerations for amending the definition, are explained in paragraphs BC445C–BC445I.

Paragraphs BC445A–BC445U and their related headings are added. New text is underlined.

### ***Clarifications to IFRS 15 (amendments issued in April 2016)***

**BC445A** The boards discussed requests from some stakeholders for further transition relief in respect of (a) accounting for a completed contract (as defined in paragraph C2(b)) on transition to IFRS 15; and (b) accounting for modifications to a contract that occurred before transition to IFRS 15. The IASB decided (a) to expand the application of the transition method described in paragraph C3(b) by allowing an entity a choice to apply IFRS 15 to all contracts including completed contracts; and (b) to provide transition relief for contract modifications. The FASB decided to make similar amendments to Topic 606. The IASB additionally decided to allow an entity using the transition method described in paragraph C3(a) not to restate completed contracts at the beginning of the earliest period presented. The following paragraphs explain the boards' considerations in providing the additional practical expedients.

*Completed contracts*

BC445B The boards considered the following questions about the transition requirements in IFRS 15 with respect to a completed contract:

- (a) definition of and accounting for a completed contract.
- (b) providing an entity applying paragraph C3(b) of IFRS 15 with the choice of applying IFRS 15 to all contracts including completed contracts at the date of initial application.
- (c) permitting an entity applying paragraph C3(a) of IFRS 15 not to restate completed contracts at the beginning of the earliest period presented.

**Definition of and accounting for a completed contract**

BC445C Some stakeholders, mainly in the US, highlighted potential difficulties with respect to the definition of a completed contract in paragraph C2(b) and the accounting for a completed contract once IFRS 15 becomes effective. They were unclear whether the boards intended that any previously unrecognised revenue from a completed contract that is not transitioned to IFRS 15 would continue to be accounted for in accordance with the previous revenue Standards. In addition, referring to the words ‘transferred all of the goods or services’ in the definition of a completed contract, they commented that:

- (a) transfer of goods or services is a notion that is introduced in IFRS 15 and does not exist in previous revenue Standards.
- (b) it is unclear how an entity would continue to account for a completed contract in accordance with the previous revenue Standards, which would be withdrawn once IFRS 15 becomes effective.
- (c) the boards’ considerations explained in paragraph BC444 for rejecting a prospective transition method do not support the use of the previous revenue Standards once IFRS 15 becomes effective. As explained in paragraph BC444, one of the reasons for rejecting prospective transition methods was the ‘significant costs of maintaining two accounting systems...until all existing contracts have been completed, which could take many years for entities with long-term contracts’.

BC445D The IASB concluded that it was not necessary to change the definition of a completed contract to address the issues raised. In relation to the words ‘transferred all of the goods or services’ in the definition of a completed contract, the IASB noted that it did not intend that an entity would apply the ‘transfer of control’ notion in IFRS 15 to goods or services identified in accordance with previous revenue Standards. The IASB noted that paragraph BC441 refers to performance in accordance with previous revenue Standards. Consequently, in many situations the term ‘transferred’ would mean ‘delivered’ within the context of contracts for the sale of goods and ‘performed’ within the context of contracts for rendering services and construction contracts. In some situations, the entity would use judgement when determining whether it has transferred goods or services to the customer. For example, an entity may need to use judgement to determine when it has

transferred rights to use its assets (for example, rights granted within a licence agreement), because there is no specific guidance on the transfer or delivery of such rights in IAS 18.

- BC445E The IASB observed that if an entity chooses not to apply IFRS 15 to completed contracts in accordance with paragraph C5(a)(ii) or the amended paragraph C7, only contracts that are not completed contracts are included in the transition to IFRS 15. The entity would continue to account for the completed contracts in accordance with its accounting policies based on the previous revenue Standards. The IASB's decision, when it issued IFRS 15 in May 2014, was not to require such an entity to apply IFRS 15 either prospectively or retrospectively to completed contracts.
- BC445F Furthermore, the IASB also observed that its rationale for rejecting a prospective transition method because of the costs of maintaining two systems is less relevant to completed contracts for two reasons. First, the IASB expects the volume of completed contracts with unrecognised revenue at the date of transition to IFRS 15 to be significantly less than the volume of all ongoing contracts that would be included in the transition to IFRS 15. Second, for many completed contracts, the IASB does not expect the accounting under previous revenue Standards to continue for many years after transition, because the goods or services have been transferred before the transition to IFRS 15.
- BC445G Some stakeholders expressed a view that accounting for completed contracts using the previous revenue Standards after IFRS 15 becomes effective would not provide useful financial information to users of financial statements. When developing the transition method described in paragraph C3(b), the boards considered feedback from users of financial statements and decided to require an entity to provide additional disclosures to help users understand the effect of that transition method on trend information (see paragraphs BC442–BC443). The IASB observed that as part of the disclosures required by paragraph C8 an entity could provide additional information about the amount of revenue recognised using previous revenue Standards, if the entity concludes that such information would be helpful to users. In addition, when selecting a transition method, the IASB expects that an entity would consider whether the selected transition method provides useful information to users of its financial statements. If the entity were to conclude that excluding completed contracts from the transition to IFRS 15 would not provide useful information to users, and if that is an important consideration for the entity, then the entity could decide to include completed contracts in its transition to IFRS 15.
- BC445H The FASB decided to amend Topic 606 to define a completed contract as a contract for which all (or substantially all) of the revenue was recognised in accordance with the previous revenue Standards. The FASB believes that the objective of the transition guidance in Topic 606 should be to ensure that all (or substantially all) of the revenue from contracts with customers that is recognised after transition to Topic 606 should be recognised in accordance with Topic 606. Accordingly, the FASB decided to amend the definition of a completed contract so that an entity would apply Topic 606 to all contracts for which all (or substantially all) of the revenue was not recognised under the

previous revenue Standards. The FASB acknowledged that an entity would need to apply judgement in some cases to determine whether a contract is completed.

BC445I The IASB observed that the boards' different decisions regarding amendments to the definition of a completed contract give rise to a difference between IFRS 15 and Topic 606. However, the IASB noted that an entity could avoid the consequences of the different definitions by choosing to apply IFRS 15 retrospectively to all contracts including completed contracts (see paragraph BC445K).

**Providing an entity applying IFRS 15 in accordance with paragraph C3(b) with the choice of applying IFRS 15 to all contracts including completed contracts at the date of initial application**

BC445J The boards decided to amend paragraph C7 to provide an entity with a choice of applying IFRS 15 in accordance with paragraph C3(b) either (a) only to contracts that are not completed contracts at the date of initial application (which was the original requirement in paragraph C7 when IFRS 15 was issued); or (b) to all contracts including completed contracts at the date of initial application. The boards acknowledged that this choice might result in a decrease in comparability between entities. However, the boards observed that applying the transition method described in paragraph C3(b) to all contracts, including completed contracts, at the date of initial application could result in financial information that is more comparable with financial information provided by entities using the transition method described in paragraph C3(a). Furthermore, the IASB observed that any decrease in comparability between entities because of the choice will be transitory.

BC445K The IASB also observed that:

- (a) an entity that wishes to use the transition method described in paragraph C3(b) and also avoid the consequences of the different definitions of a completed contract in IFRS 15 and Topic 606 could choose to apply IFRS 15 in accordance with paragraph C3(b) to all contracts including contracts that are completed contracts at the date of initial application; and
- (b) some entities will find applying the transition method described in paragraph C3(b) to all contracts less complex operationally than continuing to account for completed contracts under previous revenue Standards and all other contracts under IFRS 15, or using the method described in paragraph C3(a).

BC445L The FASB observed that allowing the choice may help mitigate some of the unanticipated financial reporting consequences that some entities may experience as a result of its amendments to the definition of a completed contract.

**Permitting an entity applying IFRS 15 in accordance with paragraph C3(a) not to restate completed contracts at the beginning of the earliest period presented**

BC445M The IASB decided to provide an additional practical expedient to permit an entity applying IFRS 15 in accordance with paragraph C3(a) not to restate

contracts that are completed contracts at the beginning of the earliest period presented. The IASB noted that reducing the population of contracts to which IFRS 15 applies (the consequence of applying this practical expedient) could reduce the effort and cost of initial application of IFRS 15. In addition, the IASB observed that a similar expedient is currently given to first-time adopters in paragraph D35 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

BC445N The FASB decided not to provide 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. The IASB acknowledged that the expedient could affect the comparability of financial information under the full retrospective method, but concluded that this would be outweighed by the benefit provided by the reduced transition costs.

#### *Modified contracts*

BC445O Some stakeholders highlighted that applying the requirements in paragraphs 20–21 of IFRS 15 to past contract modifications could be complex, especially if the entity has long-term contracts that are modified frequently. To simplify how an entity retrospectively applies IFRS 15 to its contracts with customers, the boards decided to provide an additional practical expedient that would permit an entity to use hindsight when evaluating contract modifications when making the transition to IFRS 15. Consequently, when restating contracts on transition to IFRS 15, an entity could either (a) follow the requirements in paragraphs 20–21; or (b) use the new practical expedient in paragraph C5(c) of IFRS 15. The new practical expedient allows the entity to reflect the aggregate effect of all past contract modifications when identifying the performance obligations, and determining and allocating the transaction price, instead of accounting for the effects of each contract modification separately. The boards observed that the practical expedient would provide some cost relief and yet would result in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

BC445P The boards' conclusions on the date at which this practical expedient should be applied are not fully aligned. Both boards decided that an entity applying IFRS 15 in accordance with paragraph C3(a) should apply the practical expedient at the beginning of the earliest period presented. For an entity applying Topic 606 in accordance with paragraph 606-10-65-1(d)(2) (equivalent to paragraph C3(b) of IFRS 15), the FASB decided that the entity should apply the practical expedient at the date of initial application. However, the IASB decided that an entity applying IFRS 15 in accordance with paragraph C3(b) may apply the practical expedient either (a) at the beginning of the earliest period presented; or (b) at the date of initial application.

BC445Q The IASB observed that without the choice of the date at which the practical expedient is applied, entities that apply IFRS 15 in accordance with paragraph C3(b), especially entities with a large number of contracts subject to frequent modifications (for example, some telecommunication companies), might have practical difficulties if they are required to wait until the date of initial application for finalising the cumulative effect of past contract

modifications. This is because of the large number of contracts that would have to be evaluated in a relatively short time. Those entities highlighted that the benefit of the practical expedient would be considerably constrained if they cannot finalise the cumulative effect of past contract modifications ahead of the date of initial application of IFRS 15. The IASB observed that this decision creates a difference between IFRS 15 and Topic 606. However, an entity applying IFRS 15 in accordance with paragraph C3(b) could avoid the different reporting outcomes between IFRS 15 and Topic 606 by choosing to apply the practical expedient at the date of initial application.

BC445R The boards considered, but rejected, permitting an entity to account for the unsatisfied performance obligations in a modified contract at transition as if the original contract were terminated and a new contract created as of the transition date. This would be computationally simpler because it eliminates the need to evaluate the effects of modifications before transition to IFRS 15. Under this approach, the amount of consideration allocated to the unsatisfied performance obligations would be the total consideration promised by the customer (including amounts already received) less any amounts already recognised as revenue under previous revenue Standards. Although this might significantly reduce the cost and complexity of applying the transition requirements to contract modifications, the approach was rejected by the boards because it could result in financial information that differed significantly from that under IFRS 15 without the expedient.

*Transition to Clarifications to IFRS 15*

BC445S The IASB decided to require an entity to apply the amendments to IFRS 15 retrospectively in accordance with IAS 8. In reaching its decision to require retrospective application, the IASB observed that the amendments were intended to clarify the IASB's intentions when developing the requirements in IFRS 15 rather than to change the underlying principles of IFRS 15. The IASB decided not to allow prospective application of the amendments because that would reduce comparability in the limited cases that the amendments may have resulted in significant changes to an entity's application of IFRS 15. This is consistent with feedback received from users of financial statements during the development of IFRS 15 highlighting that retrospective application would be the most useful transition method for them to understand trends in revenue.

BC445T By requiring an entity to apply the amendments as if those amendments had been included in IFRS 15 at the date of initial application, the IASB observed that:

- (a) if the entity applies both IFRS 15 and *Clarifications to IFRS 15* at the same time, any effect of applying the amendments would be reflected in the effects of initially applying IFRS 15.
- (b) if the entity applies *Clarifications to IFRS 15* after the date of initial application of IFRS 15, the effects of initially applying IFRS 15 would be restated for the effects, if any, of initially applying the amendments.

BC445U The outcome of retrospective application of *Clarifications to IFRS 15* will depend on which transition method an entity chooses when it first applies IFRS 15. The



choice of the transition method will determine, for example, whether periods before the date of initial application of IFRS 15 are restated as well as the amount and date of the adjustment to retained earnings. Retrospective application of *Clarifications to IFRS 15* will affect only those reporting periods and those contracts to which IFRS 15 is applied. For example, consider an entity that applies IFRS 15 in accordance with paragraph C3(b) on 1 January 2017 and *Clarifications to IFRS 15* on 1 January 2018. Retrospective application of *Clarifications to IFRS 15* would not require the restatement of financial information before 1 January 2017 for the effects of the amendments. Any effect of applying the amendments would be included in a restated cumulative effect adjustment as of 1 January 2017.

Heading above paragraph BC446 is amended. Paragraphs BC453I–BC453J and their related heading are added. New text is underlined.

### **Effective date and early application (paragraphs C1–C1B)**

BC446

...

#### **Clarifications to IFRS 15 (amendments issued in April 2016)**

BC453I

As explained in paragraph BC453C, one of the considerations of the IASB in deferring the effective date of IFRS 15 from 1 January 2017 to 1 January 2018 was that the deferral would provide additional time to entities that wish to implement *Clarifications to IFRS 15* along with IFRS 15. Consequently, the IASB set an effective date for *Clarifications to IFRS 15* that aligns with the revised effective date of IFRS 15.

BC453J

Furthermore, the IASB decided that an entity should be permitted to apply *Clarifications to IFRS 15* earlier than its effective date. This would allow an entity the choice of either:

- (a) applying *Clarifications to IFRS 15* on the same date as it first applies IFRS 15; or
- (b) applying *Clarifications to IFRS 15* at a date later than when it early applies IFRS 15.

In other words, an entity that has decided to early apply IFRS 15 would have the flexibility to apply *Clarifications to IFRS 15* either together with the Standard or at a subsequent date.

...

The following footnote is added to the heading ‘Comparison of IFRS 15 and Topic 606’ in Appendix A to the Basis for Conclusions on IFRS 15. New text is underlined.

This Appendix reflects the differences between IFRS 15 and Topic 606 when those standards were issued in May 2014 updated to reflect the issue of *Clarifications to IFRS 15* in April 2016.

In paragraph A1(c) ‘... whereas Topic 606 prohibits a public entity from applying the requirements earlier than the effective date.’ is footnoted as follows. New text is underlined.

The FASB subsequently amended Topic 606 in August 2015 to allow all entities to apply the standard early for annual periods beginning after 15 December 2016. See paragraph BC453H.

In paragraph A1(c) ‘... whereas Topic 606 has an effective date for public entities for annual reporting periods beginning after 15 December 2016.’ is footnoted as follows. New text is underlined.

The IASB issued *Effective Date of IFRS 15* in September 2015 deferring the effective date of IFRS 15 by one year. Similarly, the FASB amended Topic 606 in August 2015 deferring the effective date of Topic 606 by one year. See paragraphs BC453A–BC453H.

In Appendix A to the Basis for Conclusions on IFRS 15, paragraph A2 is amended and paragraph A1A is added. New text is underlined.

## Appendix A Comparison of IFRS 15 and Topic 606

A1 IFRS 15, together with the FASB’s Topic 606, issued in May 2014 completes a joint effort by the IASB and the FASB to improve financial reporting by creating a common revenue standard for IFRS and US GAAP that can be applied consistently across various transactions, industries and capital markets. In IFRS 15 and Topic 606, the boards achieved their goal of reaching the same conclusions on all requirements for the accounting for revenue from contracts with customers. However, there are some minor differences in the standards as issued in May 2014, which are as follows:

...

A1A As explained in paragraph BC1A, the IASB issued *Clarifications to IFRS 15* in April 2016, which differed in some respects from the amendments to Topic 606 issued by the FASB, and those expected to be issued by the FASB based on its decisions, until March 2016. The differences are as follows:

- (a) **Collectability criterion**—The FASB decided to amend paragraph 606-10-25-1(e) of Topic 606 (equivalent to paragraph 9(e) of IFRS 15), and add implementation guidance and illustrations to clarify that an entity should assess the collectability of the consideration promised in a contract for the goods or services that will be transferred to the customer rather than assessing the collectability of the consideration promised in the contract for all of the promised goods or services. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC46B–BC46E.)
- (b) **Revenue recognition for contracts with customers that do not meet the Step 1 criteria**—The FASB decided to amend paragraph 606-10-25-7 of Topic 606 (equivalent to paragraph 15 of IFRS 15) to add an

event in which an entity recognises any consideration received as revenue when (a) the entity has transferred control of the goods or services to which the consideration received relates; (b) the entity has stopped transferring additional goods or services and has no obligation to transfer additional goods or services; and (c) the consideration received from the customer is non-refundable. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC46F–BC46H.)

- (c) **Promised goods or services that are immaterial within the context of the contract**—The FASB decided to amend Topic 606 to state that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial within the context of the contract with the customer. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC116A–BC116E.)
- (d) **Shipping and handling activities**—The FASB decided to amend Topic 606 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. The IASB decided not to make a similar amendment to IFRS 15. (See paragraphs BC116R–BC116U.)
- (e) **Presentation of sales taxes**—The FASB decided to amend Topic 606 to provide an accounting policy election 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 taxes, use taxes, value added taxes and some excise taxes). The IASB decided not to provide a similar accounting policy choice in IFRS 15. (See paragraphs BC188A–BC188D.)
- (f) **Non-cash consideration**—The FASB decided to amend Topic 606 to require non-cash consideration to be measured at its fair value at contract inception. The FASB also decided to specify that the constraint on variable consideration applies only to variability in the fair value of the non-cash consideration that arises for reasons other than the form of the consideration. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC254A–BC254H.)
- (g) **Licensing**
- (i) **Determining the nature of the entity’s promise in granting a licence of intellectual property**—IFRS 15 and Topic 606 require entities to determine whether the nature of an entity’s promise in granting a licence is a right to use or a right to access the entity’s intellectual property. The IASB did not amend the criteria in IFRS 15 to determine the nature of the licence but clarified that the assessment of whether the entity’s activities significantly 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. The FASB decided to amend the criteria to determine the nature

of the licence by requiring an entity to classify the intellectual property underlying the licence as functional or symbolic based on whether the intellectual property has significant stand-alone functionality. A licence to functional intellectual property is considered a right to use, while a licence to symbolic intellectual property is considered a right to access the underlying intellectual property. (See paragraphs BC414C–BC414N.)

- (ii) **Contractual restrictions in a licence and the identification of performance obligations**—The FASB decided to amend Topic 606 to clarify that the requirements about contractual restrictions of the nature described in paragraph B62 do not replace the requirement for the entity to identify the number of licences promised in the contract. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC414O–BC414R.)
- (iii) **Renewals of licences of intellectual property**—The FASB decided to amend Topic 606 and provide an additional example to specify that the entity would generally not recognise revenue from the transfer of the renewal licence until the beginning of the licence renewal period. The IASB did not make similar amendments. (See paragraphs BC414S–BC414U.)
- (iv) **When to consider the nature of an entity’s promise in granting a licence**—The FASB decided to make amendments that explicitly state that an entity considers the nature of its promise in granting a licence when applying the general revenue recognition model to a single performance obligation that includes a licence and other goods or services. The IASB did not make similar amendments to IFRS 15. (See paragraphs BC414V–BC414Y.)
- (h) **Completed contracts**—The FASB decided to amend the definition of a completed contract to be a contract for which all (or substantially all) of the revenue was recognised in accordance with the previous revenue Standards. The IASB did not make a similar amendment to IFRS 15. (See paragraphs BC445C–BC445L.) Furthermore, the IASB added a practical expedient to allow an entity applying IFRS 15 in accordance with paragraph C3(a) not to restate contracts that are completed contracts at the beginning of the earliest period presented. The FASB decided not to provide the practical expedient. (See paragraphs BC445M–BC445N.)
- (i) **Date of application of the contract modifications practical expedient**—For an entity applying Topic 606 in accordance with paragraph 606-10-65-1(d)(2) (equivalent to paragraph C3(b) of IFRS 15), the FASB decided that the entity should apply the practical expedient at the date of initial application. However, the IASB decided that an entity applying IFRS 15 in accordance with paragraph C3(b) may apply the practical expedient either (a) at the beginning of the earliest period presented; or (b) at the date of initial application. (See paragraphs BC445O–BC445R.)

A2 IFRS 15 and Topic 606 have been structured to be consistent with the style of other Standards in IFRS and US GAAP (respectively). As a result, the paragraph numbers of IFRS 15 and Topic 606 are not the same, ~~even though the wording in the paragraphs is consistent.~~ The wording in most of the paragraphs is consistent because IFRS 15 and Topic 606 were issued in May 2014 as a common revenue standard for IFRS and US GAAP. However, the wording in some paragraphs differs because of the different amendments to IFRS 15 and Topic 606 (see paragraph A1A). The following table illustrates how the paragraphs of IFRS 15 and Topic 606, and the related illustrative examples, correspond. Paragraphs in which the wording differs are marked with “\*”. The table reflects amendments issued by the FASB, and those expected to be issued by the FASB based on its decisions, until March 2016.

...

<b>RECOGNITION</b>	
...	...
9	606-10-25-1*
...	...
11	606-10-25-3*
...	...
15	606-10-25-7*
...	...
24	606-10-25-16*
N/A	606-10-25-16A through 25-16B*
25	606-10-25-17*
...	...
N/A	606-10-25-18A through 25-18B*
...	...

<b>MEASUREMENT</b>	
...	...
N/A	606-10-32-2A*
...	...
66	606-10-32-21*
...	...
68	606-10-32-23*
...	...

...

<b>TRANSITION AND EFFECTIVE DATE</b>	
Appendix C	606-10-65-1*

<b>APPLICATION GUIDANCE</b>	
B1	606-10-55-3*
<b>Assessing Collectability</b>	
N/A	606-10-55-3A through 55-3C*
...	...
B34A	606-10-55-36A
...	...
B35A	606-10-55-37A
B35B	606-10-55-37B
...	...
B37A	606-10-55-39A
...	...
B52	606-10-55-54*
...	...
B55	606-10-55-57*
B56	606-10-55-58*
<b>Determining the Nature of the Entity's Promise</b>	
B57 [Deleted]	606-10-55-59 N/A*
N/A	606-10-55-59*
B58 and B59A	606-10-55-60, 55-62 through 55-63A*
B59	606-10-55-61 [Superseded]*
B60	606-10-55-62 606-10-55-58A*
B61	606-10-55-63 606-10-55-58B through 55-58C*
B62	606-10-55-64 through 55-64A*
...	...
B63A–B63B	606-10-55-65A through 55-65B
...	...

...

<b>IDENTIFYING THE CONTRACT</b>	
IE2	606-10-55-94*
...	...
IE4	606-10-55-96*
IE5	606-10-55-97*
IE6	606-10-55-98*
<u>N/A</u>	<u>606-10-55-98A through 55-98L*</u>
...	...

...

<b>IDENTIFYING PERFORMANCE OBLIGATIONS</b>	
IE44	606-10-55-136*
...	...
<u>IE48A–IE48C</u>	<u>606-10-55-140A through 55-140C</u>
<u>N/A</u>	<u>606-10-55-140D through 55-140F*</u>
...	...
IE51	606-10-55-143*
...	...
IE58	606-10-55-150*
<u>IE58A–IE58K</u>	<u>606-10-55-150A through 55-150K</u>
...	...
<u>IE61A</u>	<u>606-10-55-153A</u>
...	...
IE63	606-10-55-155*
...	...
<u>IE65A</u>	<u>606-10-55-157A</u>
<b>Example 12A—Series of Distinct Goods or Services</b>	
<u>N/A</u>	<u>606-10-55-157B through 55-157E*</u>

...

<b>NON-CASH CONSIDERATION</b>	
...	...
IE158	606-10-55-250*

...

<b>WARRANTIES</b>	
...	...
IE223	606-10-55-309*
...	...

<b>PRINCIPAL VERSUS AGENT CONSIDERATIONS</b>	
...	...
<u>IE232A–IE232C</u>	<u>606-10-55-318A through 55-318C</u>
...	...
<u>IE237A–IE237B</u>	<u>606-10-55-323A through 55-323B</u>
...	...
<b>Example 46A—Promise to Provide Goods or Services (Entity Is a Principal)</b>	
<u>IE238A–IE238G</u>	<u>606-10-55-324A through 55-324G</u>
...	...
<u>IE242A–IE242C</u>	<u>606-10-55-328A through 55-328C</u>
...	...
<u>IE247A–IE247B</u>	<u>606-10-55-333A through 55-333B</u>
...	...
<b>Example 48A—Entity Is a Principal and an Agent in the Same Contract</b>	
<u>IE248A–IE248F</u>	<u>606-10-55-334A through 55-334F</u>

...



<b>LICENSING</b>	
IE275	606-10-55-361 <sub>2</sub> *
...	...
IE277	606-10-55-363 through 55-363B*
...	...
<u>IE279A</u>	<u>606-10-55-365A</u>
IE280	606-10-55-366 <sub>2</sub> *
<b>Example 56—Identifying a Distinct Licence</b>	
IE281	606-10-55-367 <sub>2</sub> *
IE282	606-10-55-368 <sub>2</sub> *
...	...
IE284	606-10-55-370 <sub>2</sub> *
...	...
<u>IE286A</u>	<u>606-10-55-372A</u>
IE287	606-10-55-373 <sub>2</sub> *
IE288	606-10-55-374 <sub>2</sub> *
<b>Example 57—Franchise Rights</b>	
IE289	606-10-55-375 <sub>2</sub> *
IE290	606-10-55-376 <sub>2</sub> *
...	...
IE292	606-10-55-378 <sub>2</sub> *
IE293	606-10-55-379 <sub>2</sub> *
IE294	606-10-55-380 <sub>2</sub> *
IE295	606-10-55-381 <sub>2</sub> *
IE296	606-10-55-382 <sub>2</sub> *
<b>Example 58—Access to Intellectual Property</b>	
IE297	606-10-55-383 <sub>2</sub> *
...	...
IE299	606-10-55-385 <sub>2</sub> *
IE300	606-10-55-386 <sub>2</sub> *
IE301	606-10-55-387 <sub>2</sub> *
IE302	606-10-55-388 <sub>2</sub> *

continued...

...continued

<b>LICENSING</b>	
...	...
IE305	606-10-55-391*
IE306	606-10-55-392*
N/A	606-10-55-392A through 55-392D*
...	...
IE310	606-10-55-396*
IE311	606-10-55-397*
IE312	606-10-55-398*
IE313	606-10-55-399*
<b>Example 61A—Right to Use Intellectual Property</b>	
N/A	606-10-55-399A through 55-399J*
<b>Example 61B—Distinguishing Multiple Licences from Attributes of a Single Licence</b>	
N/A	606-10-55-399K through 55-399O*

## Dissenting Opinion

### Dissenting Opinion from *Clarifications to IFRS 15 Revenue from Contracts with Customers* as issued in April 2016

- DO1 Mr Ochi voted against the publication of *Clarifications to IFRS 15 Revenue from Contracts with Customers*. He agrees with all of the clarifying amendments to IFRS 15 and the additional transition reliefs. However, he disagrees with the IASB's decision to require entities to apply *Clarifications to IFRS 15* retrospectively as if those amendments had been included in IFRS 15 at the date of initial application.
- DO2 Referring to the IASB's considerations explained in paragraph BC445T, he thinks that requiring an entity that has applied IFRS 15 before applying these amendments to restate the effects of initially applying IFRS 15 for the effects, if any, of initially applying the amendments is inconsistent with allowing early application of IFRS 15. That entity might be required to restate some contracts twice, first on initially applying IFRS 15 and again on initial application of these amendments. Furthermore, that entity is deprived of the benefit of the new practical expedients added by the IASB.
- DO3 Mr Ochi does not disagree with issuing clarifications, if absolutely necessary, to a Standard before its effective date. However, the IASB's actions in issuing any such clarifying amendments should not be perceived as penalising those entities that begin their implementation process early and rewarding those that delay. Such perceptions could discourage entities from starting the implementation of any new Standard on a timely basis.
- DO4 Mr Ochi noted that the effective date of the new leases Standard has been set so as to provide a long initial implementation period. In that regard, he believes that allowing early application of a Standard supports the smooth application of new Standards.
- DO5 To encourage early application of Standards, he thinks that the IASB should, when deciding the transition requirements for amendments such as *Clarifications to IFRS 15*, give due consideration to those entities that have already early applied the Standard or are in advanced stages of preparing to do so. When deciding the transition requirements, he thinks it is not just a question of considering the extent or potential effect of any clarifications to a Standard; rather it is a matter of principle.