

Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

28 October 2015

Dear Mr Hoogervorst

## **Exposure Draft ED 2015/6 – Clarifications to IFRS 15**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Clarifications to IFRS 15* ('the exposure draft').

We welcome the Board's initiative in addressing a number of issues that were likely to cause significant practical difficulties in the application of IFRS 15. We believe the proposed amendments will be helpful to preparers and users of financial statements and, subject to some areas (particularly in respect of the agent versus principal analysis) where we believe additional clarity could be achieved, we support them.

We would also take this opportunity to provide the following more general comments which we believe should be considered as the boards deal with issues arising from implementation of this significant new Standard is brought into use as such challenges may continue to arise in the context of either IFRS 15 or future converged standards.

### *Value of convergence*

We believe there is great value to users of financial statements in having IFRS and U.S. GAAP revenue standards that are as closely converged as possible. In addition, this is beneficial for preparers in optimising costs to comply with the new revenue standards on a global basis. We therefore urge the IASB, when updating and clarifying IFRS 15, to continue to work with the Financial Accounting Standards Board (FASB) with the aim, wherever possible, of adopting converged solutions. We recognise that such an approach poses challenges, particularly when the Boards' views are not fully aligned on a topic. Nevertheless, before taking different approaches to a particular matter, we encourage both boards to consider whether the perceived benefits of their preferred approach really are so great as to outweigh the disadvantages to users and preparers of the resulting divergence and, if they are, to explain clearly that decision and that it will result in the same transaction being accounted for differently under IFRS as compared to U.S. GAAP.

## *Clarity, stable platform and timing of further amendments*

IFRS 15 introduces both a new framework for revenue recognition and certain new concepts, some of which may be difficult to understand and to apply. If the adoption of the new Standard is to be a success, it is important that these concepts are expressed as clearly as possible. We recognise that it is not ideal to make changes to a Standard ahead of the implementation date, but we believe the changes currently proposed are needed. We therefore support the Boards' efforts in seeking to clarify those aspects of the Standard that are unclear.

It will be important for preparers to have a degree of stability as they work towards adopting the Standard, particularly as the updated version of the Standard will need to be translated into a number of different languages. As explained further below, we believe that a number of amendments should be made to the Standard as a result of the issues identified in this exposure draft. However, if further changes to the Standard are subsequently required, we suggest that they should be issued with a later effective date, but with early adoption permitted. This will allow those entities that wish to adopt them for 2018 to do so, while still allowing the necessary degree of stability for other entities that are working towards implementation.

## *Importance of drafting and updating the Standard itself*

Where the Boards are in agreement on how a particular aspect of the Standard should be applied, we urge them as much as possible to adopt the same wording when updating the Standard. Using different wording increases the risk of preparers arriving at divergent answers. In addition, using different wording but at the same time indicating that outcomes are expected to be the same will place inappropriate pressure on preparers to consider not just the guidance in IFRS 15 but also the equivalent guidance in U.S. GAAP.

Similarly, we recommend that decisions made are reflected by amendments to the Standard itself rather than, as for certain issues addressed by the exposure draft, only in the Basis for Conclusions or Illustrative Examples. Failing to update the Standard itself and, in particular, retaining wording that is less clear than that proposed by the FASB, will not benefit preparers or users – it will merely create greater confusion and lack of clarity given that changes to accompanying literature will, in any case, result in a changed understanding of the Standard. Moreover, we understand there are jurisdictions in which the Illustrative Examples and Basis for Conclusions are either not subject to endorsement procedures or are not translated and hence are not readily available to users.

## *Ongoing role of Transition Resource Group*

We continue to see an important role for the Transition Resource Group in the period leading up to mandatory adoption of the Standard. In our experience, many IFRS reporters are only now starting to engage with the detailed issues that arise when seeking to adopt the Standard. Having a public forum in which to discuss matters of interpretation and application is valuable for preparers, auditors and regulators. Where it is concluded that a choice of approach is available (as in the discussions on accounting for the exercise of a material right, or the date of measurement of non-cash consideration), it is helpful for this to be clearly and publicly acknowledged. Conversely, where discussion indicates consensus over a particular interpretation, this is helpful in either confirming that an entity's proposed approach is appropriate, or highlighting that it may need to be amended.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole  
Global IFRS Leader

## Appendix

### Question 1 – Identifying performance obligations

*IFRS 15 requires an entity to assess the goods or services promised in a contract to identify the performance obligations in that contract. An entity is required to identify performance obligations on the basis of promised goods or services that are distinct.*

*To clarify the application of the concept of 'distinct', the IASB is proposing to amend the Illustrative Examples accompanying IFRS 15. In order to achieve the same objective of clarifying when promised goods or services are distinct, the FASB has proposed to clarify the requirements of the new revenue Standard and add illustrations regarding the identification of performance obligations. The FASB's proposals include amendments relating to promised goods or services that are immaterial in the context of a contract, and an accounting policy election relating to shipping and handling activities that the IASB is not proposing to address. The reasons for the IASB's decisions are explained in paragraphs BC7–BC25.*

*Do you agree with the proposed amendments to the Illustrative Examples accompanying IFRS 15 relating to identifying performance obligations? Why or why not? If not, what alternative clarification, if any, would you propose and why?*

We believe it is helpful to provide further clarity around the concept of 'distinct', but would support additional clarifications being made in the Standard itself, and not just in the Illustrative Examples. We think the changes proposed by the FASB are helpful and would encourage both Boards to adopt them, subject to further refinement where needed. Further, the discussion in paragraph BC11 in the Basis for Conclusions on the exposure draft is helpful and we would encourage both Boards to incorporate such guidance into the Standard itself.

In our view, the FASB's proposed amendments relating to promised goods or services that are immaterial in the context of a contract would help to reduce the administrative burden on preparers and auditors in terms of documenting and auditing compliance with the Standard. We note that there is already precedent for assessing materiality at the contract level as IFRS 15 does not require a financing component to be accounted for separately if it is not significant at the contract level, even though, in aggregate, such insignificant financing components could be material at a financial statements level. We therefore urge the IASB to include in IFRS 15 wording equivalent to that proposed by the FASB.

Such guidance would often capture shipping and handling activities when these are a minor part of a larger contract. As such, we do not believe that a separate accounting policy election for such performance obligations is necessary. Although this would, assuming the FASB proposals are finalised, result in a difference between IFRS 15 and ASC Topic 606, we note that the treatment required by IFRS 15 would still be available under U.S. GAAP and that entities applying the proposed accounting policy election would (according to the FASB exposure draft) be required to disclose that fact. Given that, we believe that it is valid for the two Boards to reach different conclusions on this narrow scope issue provided that this decision and its implications (i.e. that an accounting policy may be acceptable under one framework but not the other) are explained in the Basis for Conclusions to both standards.

We find Case B in Illustrative Example 10 hard to understand and it does not appear to be consistent with the Standard. Specifically, it does not seem as though the goods or services are being integrated, only the process of making them, which does not seem to fit with the words in paragraph 29(a). If the example reflects how the Boards believe the Standard should be applied, then we suggest that paragraph 29(a) should be reworded so as to be consistent with this.

Finally, as explained above, we recommend that the IFRS and U.S. guidance be converged to the maximum extent possible, both in the Standard itself and in the Illustrative Examples. Accordingly, we append to this letter the response of Deloitte & Touche LLP in the U.S. to the FASB's proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* which includes detailed comments on the changes proposed by the FASB to the Illustrative Examples.

## **Question 2 – Principal versus agent considerations**

*When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent. To do so, an entity assesses whether it controls the specified goods or services before they are transferred to the customer.*

*To clarify the application of the control principle, the IASB is proposing to amend paragraphs B34–B38 of IFRS 15, amend Examples 45–48 accompanying IFRS 15 and add Examples 46A and 48A.*

*The FASB has reached the same decisions as the IASB regarding the application of the control principle when assessing whether an entity is a principal or an agent, and is expected to propose amendments to Topic 606 that are the same as (or similar to) those included in this Exposure Draft in this respect.*

*The reasons for the Boards' decisions are explained in paragraphs BC26–BC56.*

*Do you agree with the proposed amendments to IFRS 15 regarding principal versus agent considerations? In particular, do you agree that the proposed amendments to each of the indicators in paragraph B37 are helpful and do not raise new implementation questions? Why or why not? If not, what alternative clarification, if any, would you propose and why?*

Overall, we think the proposed changes are an improvement, and that proposed paragraph B35A and the amended examples are particularly helpful.

However, we believe that the proposed revisions to paragraphs B37 and B37A could be strengthened. We believe that the first two indicators (primary responsibility, inventory risk) are much stronger than the other indicators and that, in some cases, their presence or combined absence can be determinative. In particular, we propose the following be made clear.

- That the indicator described in paragraph B37(a) (primary responsibility for fulfilling the promise) is in fact determinative when it is met – i.e. if an entity has primary responsibility to deliver goods or services, that is sufficient to conclude that the entity is a principal. Note, however, that the absence of primary responsibility is not enough, by itself, to determine that an entity is an agent.
- That, given the statement in proposed paragraph B35A(a) that an entity is a principal if it has control of inventory prior to transferring control to a customer, this subset of inventory risk is determinative.
- That if an entity has neither primary responsibility for fulfilling the promise (paragraph B37(a)) nor inventory risk (paragraph B37(b)), this is sufficient to determine that the entity is not a principal.

In paragraph B35, we suggest the wording in the final sentence is expanded to say “may engage and direct another party”.

We also note that the proposed guidance makes no reference to warranty obligations in the context of the agent versus principal analysis. In some cases, a warranty obligation could be viewed as an indicator of

responsibility for the goods delivered or as a risk of inventory (its quality). We believe that guidance on when and how a warranty obligation would affect the analysis would be beneficial.

Finally, paragraphs BC53 to BC56 in the Basis for Conclusions on the exposure draft explain the Board's decision not to provide guidance on a scenario that we believe is both widespread and problematic in the technology sector. For example, Entity A (a technology company) may sell a box with a promise to supply services (e.g. online services of some kind, such as a right to download software) to Entity B (a retailer). Entity B has inventory risk and the ability to set prices and will sell the box to Consumer C. In such circumstances, it seems clear that Entity B is a principal in respect of the sale of the box and is not acting as an agent for either Entity A or Consumer C. Ultimately, Entity A will be obliged to supply services to Consumer C – but does that mean that Entity A should recognise as revenue the amount ultimately paid by Consumer C? An entity seeking to apply such an approach would face significant practical difficulties, because it may not be in a position to determine what price the consumer has paid.

In such circumstances, we think it is more appropriate for Entity A to recognise revenue based on the amounts payable by Entity B, on the basis that Entity A has sold an item that is transferable. We note that paragraphs BC33 to BC38 of the Basis for Conclusions on the FASB's proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* discuss this issue and reach conclusions that are helpful. However, the analysis in the IASB's exposure draft seems to conflict with that set out in the FASB's exposure draft. We encourage the IASB to reconsider this matter in light of the FASB's analysis.

Finally, as explained above, we recommend that the IFRS and U.S. guidance be converged to the maximum extent possible, both in the Standard itself and in the Illustrative Examples. Accordingly, we append to this letter the response of Deloitte & Touche LLP in the U.S. to the FASB's proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* which includes detailed comments on the changes proposed by the FASB to the Illustrative Examples.

### **Question 3 – Licensing**

*When an entity grants a licence to a customer that is distinct from other promised goods or services, IFRS 15 requires the entity to determine whether the licence transfers to a customer either at a point in time (providing the right to use the entity's intellectual property) or over time (providing the right to access the entity's intellectual property). That determination largely depends on whether the contract requires, or the customer reasonably expects, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. IFRS 15 also includes requirements relating to sales-based or usage-based royalties promised in exchange for a licence (the royalties constraint).*

*To clarify when an entity's activities significantly affect the intellectual property to which the customer has rights, the IASB is proposing to add paragraph B59A and delete paragraph B57 of IFRS 15, and amend Examples 54 and 56–61 accompanying IFRS 15. The IASB is also proposing to add paragraphs B63A and B63B to clarify the application of the royalties constraint. The reasons for the IASB's decisions are explained in paragraphs BC57–BC86.*

*The FASB has proposed more extensive amendments to the licensing guidance and the accompanying Illustrations, including proposing an alternative approach for determining the nature of an entity's promise in granting a licence.*

*Do you agree with the proposed amendments to IFRS 15 regarding licensing? Why or why not? If not, what alternative clarification, if any, would you propose and why?*

We believe that the changes proposed are helpful. In particular, we agree that it is appropriate to distinguish between functional and symbolic intellectual property. We note that the IASB's proposals start from these concepts, but we would encourage use of this terminology, in order to maximise clarity.

The exposure draft notes that the IASB and the FASB are proposing slightly different approaches in this area. We prefer the approach proposed by the FASB, and we recommend that the IASB also adopts this because we believe that the FASB's approach is much easier to understand and to apply, and is likely to result in much greater consistency of application. We are concerned that, for symbolic licences, the IASB's approach results in dramatically different accounting – revenue at a point in time or over a licence period – based on a threshold (no reasonable expectation of activities) that may be very difficult and subjective to apply in practice. In particular, there may be difficulties both in assessing whether there is a reasonable 'expectation' of activities and in assessing whether particular activities affect the intellectual property.

We welcome the proposed guidance on when the royalties constraint applies. However, we note that concerns have been expressed by some industries (especially life sciences) that the constraint applies only to 'licences' of intellectual property, and not to 'sales', even though the uncertain cash flows associated with 'sales' can, in some circumstances, have very similar characteristics to those for licences. In addition, sales can be viewed as an ultimate form of licensing (i.e. licensing for the full useful life) and, from this point of view, there is no economic reason to apply the constraint to one but not the other. We encourage both Boards to follow up these concerns and consider whether the scope of the constraint should be broadened.

As explained previously, we would favour the IFRS and U.S. guidance being converged to the maximum extent possible. Accordingly, we append to this letter the response of Deloitte & Touche LLP in the U.S. to the FASB's proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* which includes detailed comments on the changes proposed by the FASB.

#### **Question 4 – Practical expedients on transition**

*The IASB is proposing the following two additional practical expedients on transition to IFRS 15:*

- (a) to permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price.*
- (b) to permit an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts (as defined in paragraph C2) at the beginning of the earliest period presented.*

*The reasons for the IASB's decisions are explained in paragraphs BC109–BC115. The FASB is also expected to propose a practical expedient on transition for modified contracts.*

*Do you agree with the proposed amendments to the transition requirements of IFRS 15? Why or why not? If not, what alternative, if any, would you propose and why?*

We welcome both proposed practical expedients, but note that the drafting in respect of the first is confusing and difficult to understand. We believe the wording is intended to mean that, at whichever date the expedient is applied, the entity:

- identifies performance obligations based on the current version of the contract (i.e. including any contract modifications since inception);
- measures variable consideration at that date;
- determines standalone selling prices for performance obligations as they would have been at contract inception (though we think the proposals are unclear in terms of specifying the date at which standalone selling prices are to be measured); and
- allocates the transaction price to the performance obligations using the information above.

If we have understood correctly, then there may be practical difficulties with this approach if a performance obligation was added to a contract considerably later than contract inception and it is difficult (or impossible) to identify a standalone selling price at inception (e.g. because the associated goods or services were not sold or did not exist at that earlier date, as may be the case in some technology contracts). If it is possible for the practical expedient to allow for such circumstances, that would be helpful.

We understand that there is a difference between IFRS 15 and ASC Topic 606 in terms of the date at which the practical expedient would be applied under the modified retrospective approach. Under the IASB's proposals, the expedient would be applied at the start of the comparative period (e.g. at 1 January 2017 for an entity adopting for calendar year 2018). Under the FASB's proposals, the expedient would be applied at the start of the current period (e.g. at 1 January 2018 for an entity adopting for calendar year 2018). We support the IASB's proposal to use the earlier date (i.e. the start of the comparative period), on the basis that using the later date may not allow sufficient time between finalising transition and reporting for the first time, particularly for entities that report on a quarterly basis.

We note that there have been some discussions over how a 'completed contract' should be identified for transition purposes, and whether this should focus on performance being complete under previous GAAP or on all revenue having been recognised under previous GAAP. In order to maximise the benefit from this practical expedient, we encourage the Boards to consider whether a completed contract should be defined as one for which either of these conditions are met.

Based on the current guidance around what is a completed contract, there will be some contracts that are completed (in that performance is complete) and, hence, not in the scope of IFRS 15 but for which some revenue has not yet been recognised. It is not entirely clear how any residual revenue amounts should be treated for such contracts. Should legacy GAAP be applied, such that two different Standards are being applied in the same period? Greater clarity on this point would be welcome. Irrespective of which standard is applied (IFRS 15 or IAS18) we would support recognition and presentation as revenue when such cash payments flow to the entity.

Finally, to the extent that changes are made to IFRS 15 relating to practical expedients available on transition, equivalent amendments should be made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, so that there is a level playing field for first-time adopters. As currently drafted, it appears that the proposed practical expedient on modification of contracts prior to the beginning of the earliest period presented would not be available to first-time adopters.



## Question 5 – Other topics

*The FASB is expected to propose amendments to the new revenue Standard with respect to collectability, measuring non-cash consideration and the presentation of sales taxes. The IASB decided not to propose amendments to IFRS 15 with respect to those topics. The reasons for the IASB's decisions are explained in paragraphs BC87–BC108.*

*Do you agree that amendments to IFRS 15 are not required on those topics? Why or why not? If not, what amendment would you propose and why? If you would propose to amend IFRS 15, please provide information to explain why the requirements of IFRS 15 are not clear.*

As explained in our covering letter, we believe there is great value to users of financial statements in having IFRS and U.S. GAAP revenue standards that are as closely converged as possible. In general, therefore, we would favour the IASB making amendments to IFRS 15 that are equivalent to those proposed by the FASB. Our detailed comments are below.

### *Collectability*

The FASB has proposed clarifications on how an entity should assess collectability as part of Step 1 of the model, particularly in scenarios in which a customer makes a non-refundable upfront payment but there is doubt over collectability of some later payments. In paragraph BC92 of the Basis for Conclusions on the exposure draft, the IASB explains that it expects the population of contracts to which any such clarification would apply to be small, because entities will not generally enter into contracts if collection is not considered to be probable. However, this explanation does not acknowledge the requirement in paragraph 13 to reconsider collectability when there is a significant change in facts and circumstances. Nor does it acknowledge that such circumstances will be disproportionately common in certain industries.

As such, we believe the clarifications proposed by the FASB will be helpful in such circumstances, and we encourage the IASB to make equivalent changes to IFRS 15.

More generally, we think that there would be merit in a reconsideration of whether collectability should be removed from Step 1 of the model and dealt with elsewhere. At present, an arrangement may fail Step 1 due to collectability concerns, even though some goods or services have been provided and the customer has made some payments. In such circumstances, we think it is counter intuitive to say that no revenue can be recognised on the basis that there is no contract, when both parties are clearly behaving as though there is (and indeed both will typically have signed) a contract.

### *Non-cash consideration*

The exposure draft proposes not to specify a measurement date for non-cash consideration. The rationale set out in paragraph BC100 of the Basis for Conclusions on the exposure draft is that this is to avoid unintended consequences.

In our view, in the absence of clear guidance on this important area divergent practices are highly likely to develop. We do not believe that this is desirable and, as such, recommend that the Standard be amended to specify this date. There are valid arguments for other dates but for the sake of simplicity and because that is that date at which an entity decides what it is willing to accept in return for the provision of goods and services, we believe measurement at contract inception to be appropriate.

The risk of unintended consequences noted in the Basis for Conclusion on the exposure draft could be mitigated by noting that this requirement of IFRS 15 should not be applied by analogy (the approach adopted in IFRIC 10 *Interim Financial Reporting and Impairment*).

## *Presentation of sales taxes*

We note the IASB's rationale for not proposing a practical expedient in respect of sales taxes. However, we think that rationale fails to acknowledge the lack of clear guidance in IFRSs on how to identify whether a tax is a sales tax. In the absence of such guidance, we think that different entities may currently be taking different approaches, such that comparability is already impaired. Accordingly, in the medium term, we think the best solution would be the development of guidance on how to identify whether a tax is or is not a sales tax.

In the interim, we recognise that there are valid arguments for and against a practical expedient.

On the one hand, we think that, in most cases, it will be possible for entities operating in a particular jurisdiction to discuss and reach a consistent position on whether a particular tax is, or is not, a sales tax – though we also think that the view reached may differ from that reached for a very similar tax by entities in a different jurisdiction.

On the other hand, given that the practical expedient proposed by the FASB will, in effect, allow existing practice to continue, we expect it to be taken up by the large majority of U.S. GAAP reporters. Accordingly, the absence of a similar practical expedient in IFRS 15 will prevent IFRS reporters from adopting an approach that is consistent with their U.S. peers, which would be unhelpful to users of financial statements.

Accordingly, we encourage the IASB to reflect further on the pros and cons of a practical expedient and, in the medium term, to work with the FASB to develop common guidance on what is a sales tax.

## *Series guidance – paragraph 22(b)*

We believe that it would be helpful to make the series guidance an optional practical expedient and despite the FASB's decision not to propose an accounting policy election on its use in proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* would encourage further consideration of that possibility.

On a related topic, we are aware that, in certain industries, the series guidance is considered to be applicable to some transactions (e.g. the supply of electricity – typically consumed immediately) but not, due to the way in which paragraphs 35(a) and (b) are drafted, to other transactions that seem very similar (e.g. the supply of gas or water – sometimes stored for a period of time before use). When gas or water is supplied via a pipeline, it would seem sensible to regard it as being delivered over time. We therefore encourage the Boards to consider whether the drafting of paragraph 35 could be refined to address this apparent inconsistency.