April 2016

IFRS® Standard

Clarifications to IFRS 15 Revenue from Contracts with Customers

IASB®

IFRS®

Clarifications to IFRS 15
Revenue from Contracts with Customers

Clarifications to IFRS 15 Revenue from Contracts with Customers is issued by the International Accounting Standards Board® (the Board).

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Amendments to IFRS 15 *Revenue from Contracts with Customers*

Paragraphs 26, 27 and 29 are amended. Deleted text is struck through and new text is underlined. Paragraphs 28 and 30 have not been amended but have been included for ease of reference.

Distinct goods or services

26 Depending on the contract, promised goods or services may include, but are not limited to, the following:

(a) sale of goods produced by an entity (for example, inventory of a manufacturer);

(b) resale of goods purchased by an entity (for example, merchandise of a retailer);

(c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs B34–B38);

(d) performing a contractually agreed-upon task (or tasks) for a customer;

(e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;

(f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs B34–B38);

(g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);

(h) constructing, manufacturing or developing an asset on behalf of a customer;

(i) granting licences (see paragraphs B52–B63B); and

(j) granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs B39–B43).

27 A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).

28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

29 In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that ~~an entity's promise~~ two or more promises to transfer ~~a good or service~~ goods or services to a customer ~~is~~ are not separately identifiable ~~(in accordance with paragraph 27(b))~~ include, but are not limited to, the following:

(a) the entity ~~does not provide~~ provides a significant service of integrating the ~~good or service~~ goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is ~~not~~ using the ~~good or service as an input~~ goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.

(b) one or more of the ~~good or service does not~~ goods or services significantly ~~modify or customise~~ modifies or customises, or are significantly modified or customised by, one or more of the other ~~another good or service~~ goods or services promised in the contract.

(c) the ~~good or service is not~~ goods or services are highly interdependent ~~on,~~ or highly interrelated ~~with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those~~

~~other promised goods or services~~. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.

30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

In Appendix B, paragraphs B1, B34–B38, B52–B53 and B58 are amended and paragraphs B34A, B35A, B35B, B37A, B59A, B63A and B63B are added. Paragraph B57 is deleted. Deleted text is struck through and new text is underlined. Paragraphs B54–B56, B59 and B60–B63 have not been amended but have been included for ease of reference.

Appendix B
Application Guidance

...

B1 This application guidance is organised into the following categories:

(a) ...

(i) licensing (paragraphs B52–B63B);

(j) ...

Principal versus agent considerations

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its 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 the other party ~~to provide those goods or services~~ (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

(a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and

(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

B35 An entity is a principal if ~~the entity~~ it controls ~~a promised~~ the specified good or service before ~~the entity transfers the~~ that good or service is transferred to a customer. However, an entity ~~is~~ does not necessarily ~~acting as a principal~~ control a specified good if the entity obtains legal title ~~of a product~~ to that good only momentarily before legal title is transferred to a customer. An entity that is a principal ~~in a contract~~ may satisfy ~~a~~ its performance obligation ~~by~~ to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of ~~a~~ the performance obligation on its behalf. ~~When an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.~~

B35A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

(a) a good or another asset from the other party that it then transfers to the customer.

(b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.

(c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

B35B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

B36 An entity is an agent if the entity's performance obligation is to arrange for the provision of ~~goods or services~~ the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for ~~the other party to provide its~~ the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

B37 Indicators that an entity ~~is an agent (and therefore does not control~~ controls the specified good or service before it is ~~provided~~ transferred to ~~a~~ the customer~~)~~ (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

(a) ~~another party~~ the entity is primarily responsible for fulfilling the ~~contract;~~ promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) the entity ~~does not have~~ has inventory risk before ~~or after the goods have~~ the specified good or service has been ~~ordered by~~ transferred to a customer~~, during shipping or on return;~~ or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

(c) the entity ~~does not have~~ has discretion in establishing ~~prices~~ the price for the ~~other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;~~ specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

~~(d) the entity's consideration is in the form of a commission; and~~

~~(e) the entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.~~

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the ~~promised~~ specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

...

Licensing

B52 A licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

(a) software and technology;

(b) motion pictures, music and other forms of media and entertainment;

(c) franchises; and

(d) patents, trademarks and copyrights.

B53 In addition to a promise to grant a licence (or licences) to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies or specific statements (see paragraph 24). As with other types of contracts, when a contract with a customer includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 22–30 to identify each of the performance obligations in the contract.

B54 If the promise to grant a licence is not distinct from other promised goods or services in the contract in accordance with paragraphs 26–30, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation. Examples of licences that are not distinct from other goods or services promised in the contract include the following:

(a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).

B55 If the licence is not distinct, an entity shall apply paragraphs 31–38 to determine whether the performance obligation (which includes the promised licence) is a performance obligation that is satisfied over time or satisfied at a point in time.

B56 If the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity shall determine whether the licence transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a customer is to provide the customer with either:

(a) a right to access the entity's intellectual property as it exists throughout the licence period; or

(b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

Determining the nature of the entity's promise

B57 ~~To determine whether an entity's promise to grant a licence provides a customer with either a right to access an entity's intellectual property or a right to use an entity's intellectual property, an entity shall consider whether a 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 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 (and thus affect the entity's assessment of when the customer controls the licence) when the entity continues to be involved with its intellectual property and the entity undertakes activities that significantly affect the intellectual property to which the customer has rights. In these cases, the licence provides the customer with a right to access the entity's intellectual property (see paragraph B58). In contrast, a customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence is granted if the intellectual property to which the customer has rights will not change (see paragraph B61). In those cases, any activities undertaken by the entity merely change its own asset (ie the underlying intellectual property), which may affect the entity's ability to provide future licences; however, those activities would not affect the determination of what the licence provides or what the customer controls.~~ [Deleted]

B58 The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A);

(b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and

(c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).

B59 Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

B59A An entity's activities significantly affect the intellectual property to which the customer has rights when either:

(a) those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

B60 If the criteria in paragraph B58 are met, an entity shall account for the promise to grant a licence as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

B61 If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the licence transfers to the customer. However, 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. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

B62 An entity shall disregard the following factors when determining whether a licence provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised licence, rather than define whether the entity satisfies its performance obligation at a point in time or over time.

(b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorised use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the licence transferred meets the specifications of the licence promised in the contract.

Sales-based or usage-based royalties

B63 Notwithstanding the requirements in paragraphs 56–59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

(a) the subsequent sale or usage occurs; 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).

B63A The requirement for a sales-based or usage-based royalty in paragraph B63 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

B63B When the requirement in paragraph B63A is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph B63. When the requirement in paragraph B63A is not met, the requirements on variable consideration in paragraphs 50–59 apply to the sales-based or usage-based royalty.

In Appendix C, paragraphs C2, C5 and C7 are amended and paragraphs C1B, C7A and C8A are added. Deleted text is struck through and new text is underlined. Paragraphs C3 and C6 have not been amended but have been included for ease of reference.

Effective date

...

C1B *Clarifications to IFRS 15* Revenue from Contracts with Customers, issued in April 2016, amended paragraphs 26, 27, 29, B1, B34–B38, B52–B53, B58, C2, C5 and C7, deleted paragraph B57 and added paragraphs B34A, B35A, B35B, B37A, B59A, B63A, B63B, C7A and C8A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C8A:

(a) the date of initial application is the start of the reporting period in which an entity first applies this Standard; and

(b) a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations.

C3 An entity shall apply this Standard using one of the following two methods:

(a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph C5; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.

...

C5 An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a):

(a) for completed contracts, an entity need not restate contracts that:

(i) begin and end within the same annual reporting period; or

(ii) are completed contracts at the beginning of the earliest period presented.

(b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods~~; and~~.

(c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 20–21. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) identifying the satisfied and unsatisfied performance obligations;

(ii) determining the transaction price; and

(iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

~~(c)~~(d) for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see paragraph 120).

C6 For any of the practical expedients in paragraph C5 that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) the expedients that have been used; and

(b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity ~~shall~~ may elect to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).

C7A An entity applying this Standard retrospectively in accordance with paragraph C3(b) may also use the practical expedient described in paragraph C5(c), either:

(a) for all contract modifications that occur before the beginning of the earliest period presented; or

(b) for all contract modifications that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph C6.

...

C8A An entity shall apply *Clarifications to IFRS 15* (see paragraph C1B) retrospectively in accordance with IAS 8. In applying the amendments retrospectively, an entity shall apply the amendments as if they had been included in IFRS 15 at the date of initial application. Consequently, an entity does not apply the amendments to reporting periods or to contracts to which the requirements of IFRS 15 are not applied in accordance with paragraphs C2–C8. For example, if an entity applies IFRS 15 in accordance with paragraph C3(b) only to contracts that are not completed contracts at the date of initial application, the entity does not restate the completed contracts at the date of initial application of IFRS 15 for the effects of these amendments.

Approval by the Board of *Clarifications to IFRS 15* Revenue from Contracts with Customers issued in April 2016

Clarifications to IFRS 15 Revenue from Contracts with Customers was approved for issue by thirteen of the fourteen members of the International Accounting Standards Board. Mr Ochi dissented. His dissenting opinion is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Patrick Finnegan	
Amaro Gomes	
Gary Kabureck	
Suzanne Lloyd	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

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

...

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.

...

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

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

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

Topic	Reference
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

~~(c)~~(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 FASB 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–BC445I.) 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.

...

RECOGNITION	
…	…
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*
…	…

MEASUREMENT	
…	…
N/A	606-10-32-2A*
…	…
66	606-10-32-21*
…	…
68	606-10-32-23*
…	…

...

TRANSITION AND EFFECTIVE DATE	
Appendix C	606-10-65-1*

APPLICATION GUIDANCE	
B1	606-10-55-3*
Assessing Collectability	
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*
Determining the Nature of the Entity's Promise	
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
…	…

...

IDENTIFYING THE CONTRACT	
IE2	606-10-55-94*
…	…
IE4	606-10-55-96*
IE5	606-10-55-97*
IE6	606-10-55-98*
N/A	606-10-55-98A through 55-98L*
…	…

…

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

…

NON-CASH CONSIDERATION	
…	…
IE158	606-10-55-250*

...

WARRANTIES	
…	…
IE223	606-10-55-309*
…	…

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

...

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

continued...

...continued

LICENSING	
…	…
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*
Example 61A—Right to Use Intellectual Property	
N/A	606-10-55-399A through 55-399J*
Example 61B—Distinguishing Multiple Licences from Attributes of a Single Licence	
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.

Amendments to the Illustrative Examples on IFRS 15 *Revenue from Contracts with Customers*

Paragraphs IE45, IE47, IE50–IE51, IE55–IE57, IE61, IE63, IE225–IE227, IE230–IE232, IE237–IE238, IE240–IE245, IE247–IE248, IE275, IE277–IE280, IE286–IE287, IE290–IE294, IE296, IE299–IE300, IE304–IE305, IE307–IE308, IE310–IE311 and IE313 are amended. Heading above paragraph IE64 is amended. Paragraphs IE48A–IE48C and their related headings, IE58A–IE58K and their related headings, IE61A, IE65A, IE232A–IE232C, IE237A–IE237B, IE238A–IE238G and their related heading, IE242A–IE242C, IE247A–IE247B, IE248A–IE248F and their related heading, IE279A and IE286A are added. Deleted text is struck through and new text is underlined. Other paragraphs that have not been amended have been included for ease of reference.

Example 10—Goods and services are not distinct

Case A—Significant integration service

IE45 An entity, a contractor, enters into a contract to build a hospital for a customer. The entity is responsible for the overall management of the project and identifies various promised goods and services ~~to be provided~~, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE46 The promised goods and services are capable of being distinct in accordance with paragraph 27(a) of IFRS 15. That is, the customer can benefit from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customers. In addition, the customer could generate economic benefit from the individual goods and services by using, consuming, selling or holding those goods or services.

IE47 However, the promises to transfer the goods and services are not ~~distinct within the context of the contract~~ separately identifiable in accordance with paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15). ~~That is, the entity's promise to transfer individual goods and services in the contract are not separately identifiable from other promises in the contract.~~ This is evidenced by the fact that the entity provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the customer has contracted.

IE48 Because both criteria in paragraph 27 of IFRS 15 are not met, the goods and services are not distinct. The entity accounts for all of the goods and services in the contract as a single performance obligation.

Case B—Significant integration service

IE48A An entity enters into a contract with a customer that will result in the delivery of multiple units of a highly complex, specialised device. The terms of the contract require the entity to establish a manufacturing process in order to

produce the contracted units. The specifications are unique to the customer, based on a custom design that is owned by the customer and that were developed under the terms of a separate contract that is not part of the current negotiated exchange. The entity is responsible for the overall management of the contract, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE48B The entity assesses the promises in the contract and determines that each of the promised devices is capable of being distinct in accordance with paragraph 27(a) of IFRS 15 because the customer can benefit from each device on its own. This is because each unit can function independently of the other units.

IE48C The entity observes that the nature of its promise is to establish and provide a service of producing the full complement of devices for which the customer has contracted in accordance with the customer's specifications. The entity considers that it is responsible for overall management of the contract and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting devices (the combined output) and, therefore, the devices and the various promised goods and services inherent in producing those devices are not separately identifiable in accordance with paragraph 27(b) and paragraph 29 of IFRS 15. In this case, the manufacturing process provided by the entity is specific to its contract with the customer. In addition, the nature of the entity's performance and, in particular, the significant integration service of the various activities means that a change in one of the entity's activities to produce the devices has a significant effect on the other activities required to produce the highly complex, specialised devices such that the entity's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 27(b) of IFRS 15 is not met, the goods and services that will be provided by the entity are not separately identifiable and, therefore, are not distinct. The entity accounts for all of the goods and services promised in the contract as a single performance obligation.

Example 11—Determining whether goods or services are distinct

Case A—Distinct goods or services

IE49 An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE50 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the software is delivered before the other goods and services and remains functional without the updates

and the technical support. The customer can benefit from the updates together with the software licence transferred at the start of the contract. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 27(a) of IFRS 15 is met.

IE51 The entity also considers the principle and the factors in paragraph 29 of IFRS 15 and determines that the promise to transfer each good and service to the customer is separately identifiable from each of the other promises (thus the criterion in paragraph 27(b) of IFRS 15 is met). ~~In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.~~ In reaching this determination, the entity considers that, although it integrates the software into the customer's system, the installation services do not significantly affect the customer's ability to use and benefit from the software licence because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the customer's ability to use and benefit from the software licence during the licence period. The entity further observes that none of the promised goods or services significantly modify or customise one another, nor is the entity providing a significant service of integrating the software and the services into a combined output. Lastly, the entity concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the entity would be able to fulfil its promise to transfer the initial software licence independently from its promise to subsequently provide the installation service, software updates or technical support.

IE52 On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

(a) the software licence;

(b) an installation service;

(c) software updates; and

(d) technical support.

IE53 The entity applies paragraphs 31–38 of IFRS 15 to determine whether each of the performance obligations for the installation service, software updates and technical support are satisfied at a point in time or over time. The entity also assesses the nature of the entity's promise to transfer the software licence in accordance with paragraph B58 of IFRS 15 (see Example 54 in paragraphs IE276–IE277).

Case B—Significant customisation

IE54 The promised goods and services are the same as in Case A, except that the contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.

IE55 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity first assesses whether the criterion in paragraph 27(a) has been met. For the same reasons as in Case A, the entity determines that the software licence, installation, software updates and technical support each meet that criterion. The entity next assesses whether the criterion in paragraph 27(b) has been met by evaluating the principle and the factors in paragraph 29 of IFRS 15. The entity observes that the terms of the contract result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service as specified in the contract. In other words, the entity is using the licence and the customised installation service as inputs to produce the combined output (ie a functional and integrated software system) specified in the contract (see paragraph 29(a) of IFRS 15). ~~In addition, the~~ The software is significantly modified and customised by the service (see paragraph 29(b) of IFRS 15). ~~Although the customised installation service can be provided by other entities,~~ Consequently, the entity determines that ~~within the context of the contract,~~ the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 27(b) of IFRS 15 ~~(on the basis of the factors in paragraph 29 of IFRS 15)~~ is not met. Thus, the software licence and the customised installation service are not distinct.

IE56 ~~As~~ On the basis of the same analysis as in Case A, the entity concludes that the software updates and technical support are distinct from the other promises in the contract. ~~This is because the customer can benefit from the updates and technical support either on their own or together with the other goods and services that are readily available and because the promise to transfer the software updates and the technical support to the customer are separately identifiable from each of the other promises.~~

IE57 On the basis of this assessment, the entity identifies three performance obligations in the contract for the following goods or services:

(a) ~~customised installation service (that includes the software licence)~~ software customisation (which comprises the licence for the software and the customised installation service);

(b) software updates; and

(c) technical support.

IE58 The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Case C—Promises are separately identifiable (installation)

IE58A An entity contracts with a customer to sell a piece of equipment and installation services. The equipment is operational without any customisation or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE58B The entity identifies two promised goods and services in the contract: (a) equipment and (b) installation. The entity assesses the criteria in

paragraph 27 of IFRS 15 to determine whether each promised good or service is distinct. The entity determines that the equipment and the installation each meet the criterion in paragraph 27(a) of IFRS 15. The customer can benefit from the equipment on its own, by using it or reselling it for an amount greater than scrap value, or together with other readily available resources (for example, installation services available from alternative providers). The customer also can benefit from the installation services together with other resources that the customer will already have obtained from the entity (ie the equipment).

IE58C The entity further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 27(b) of IFRS 15). The entity considers the principle and the factors in paragraph 29 of IFRS 15 in determining that the equipment and the installation services are not inputs to a combined item in this contract. In this case, each of the factors in paragraph 29 of IFRS 15 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The entity is not providing a significant integration service. That is, the entity has promised to deliver the equipment and then install it; the entity would be able to fulfil its promise to transfer the equipment separately from its promise to subsequently install it. The entity has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The entity's installation services will not significantly customise or significantly modify the equipment.

(c) Although the customer can benefit from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the entity would be able to fulfil its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

(i) the equipment; and

(ii) installation services.

IE58D The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are separately identifiable (contractual restrictions)

IE58E Assume the same facts as in Case C, except that the customer is contractually required to use the entity's installation services.

IE58F The contractual requirement to use the entity's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the contractual requirement to use the entity's installation services does not change the characteristics of the goods or services

themselves, nor does it change the entity's promises to the customer. Although the customer is required to use the entity's installation services, the equipment and the installation services are capable of being distinct (ie they each meet the criterion in paragraph 27(a) of IFRS 15) and the entity's promises to provide the equipment and to provide the installation services are each separately identifiable, ie they each meet the criterion in paragraph 27(b) of IFRS 15. The entity's analysis in this regard is consistent with that in Case C.

Case E—Promises are separately identifiable (consumables)

IE58G An entity enters into a contract with a customer to provide a piece of off-the-shelf equipment (ie the equipment is operational without any significant customisation or modification) and to provide specialised consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the entity, but are sold separately by the entity.

IE58H The entity determines that the customer can benefit from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 28 of IFRS 15, because they are regularly sold separately by the entity (ie through refill orders to customers that previously purchased the equipment). The customer can benefit from the consumables that will be delivered under the contract together with the delivered equipment that is transferred to the customer initially under the contract. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 27(a) of IFRS 15.

IE58I The entity determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 27(b) of IFRS 15. In determining that the equipment and the consumables are not inputs to a combined item in this contract, the entity considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customised or modified by the other. Lastly, the entity concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the customer can benefit from the consumables in this contract only after it has obtained control of the equipment (ie the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the entity would be able to fulfil each of its promises in the contract independently of the other. That is, the entity would be able to fulfil its promise to transfer the equipment even if the customer did not purchase any consumables and would be able to fulfil its promise to provide the consumables, even if the customer acquired the equipment separately.

IE58J On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

(a) the equipment; and

(b) the consumables.

IE5K The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.

Example 12—Explicit and implicit promises in a contract

IE59 An entity, a manufacturer, sells a product to a distributor (ie its customer) who will then resell it to an end customer.

Case A—Explicit promise of service

IE60 In the contract with the distributor, the entity promises to provide maintenance services for no additional consideration (ie 'free') to any party (ie the end customer) that purchases the product from the distributor. The entity outsources the performance of the maintenance services to the distributor and pays the distributor an agreed-upon amount for providing those services on the entity's behalf. If the end customer does not use the maintenance services, the entity is not obliged to pay the distributor.

IE61 The contract with the customer includes two promised goods or services—(a) the product and (b) the maintenance services. ~~Because the~~ The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the entity and the distributor~~, the entity determines that the promise to provide maintenance services is a performance obligation (see paragraph 26(g) of IFRS 15)~~. ~~The entity concludes that the promise would represent a performance obligation regardless of whether the entity, the distributor, or a third party provides the service. Consequently, the entity allocates a portion of the transaction price to the promise to provide maintenance services.~~ The entity assesses whether each good or service is distinct in accordance with paragraph 27 of IFRS 15. The entity determines that both the product and the maintenance services meet the criterion in paragraph 27(a) of IFRS 15. The entity regularly sells the product on a stand-alone basis, which indicates that the customer can benefit from the product on its own. The customer can benefit from the maintenance services together with a resource the customer already has obtained from the entity (ie the product).

IE61A The entity further determines that its promises to transfer the product and to provide the maintenance services are separately identifiable (in accordance with paragraph 27(b) of IFRS 15) on the basis of the principle and the factors in paragraph 29 of IFRS 15. The product and the maintenance services are not inputs to a combined item in the contract. The entity is not providing a significant integration service because the presence of the product and the services together in this contract do not result in any additional or combined functionality. In addition, neither the product nor the services modify or customise the other. Lastly, the product and the maintenance services are not highly interdependent or highly interrelated because the entity would be able to fulfil each of the promises in the contract independently of its efforts to fulfil the other (ie the entity would be able to transfer the product even if the customer declined maintenance services and would be able to provide maintenance services in relation to products sold previously through other

distributors). The entity also observes, in applying the principle in paragraph 29 of IFRS 15, that the entity's promise to provide maintenance is not necessary for the product to continue to provide significant benefit to the customer. Consequently, the entity allocates a portion of the transaction price to each of the two performance obligations (ie the product and the maintenance services) in the contract.

Case B—Implicit promise of service

IE62 The entity has historically provided maintenance services for no additional consideration (ie 'free') to end customers that purchase the entity's product from the distributor. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final contract between the entity and the distributor does not specify terms or conditions for those services.

IE63 However, on the basis of its customary business practice, the entity determines at contract inception that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the distributor. That is, the entity's past practices of providing these services create valid expectations of the entity's customers (ie the distributor and end customers) in accordance with paragraph 24 of IFRS 15. Consequently, the entity ~~identifies~~ assesses whether the promise of maintenance services ~~as~~ is a performance obligation ~~to which it allocates a portion of the transaction price~~. For the same reasons as in Case A, the entity determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a ~~performance obligation~~ promised service

IE64 In the contract with the distributor, the entity does not promise to provide any maintenance services. In addition, the entity typically does not provide maintenance services and, therefore, the entity's customary business practices, published policies and specific statements at the time of entering into the contract have not created an implicit promise to provide goods or services to its customers. The entity transfers control of the product to the distributor and, therefore, the contract is completed. However, before the sale to the end customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the distributor for no additional promised consideration.

IE65 The promise of maintenance is not included in the contract between the entity and the distributor at contract inception. That is, in accordance with paragraph 24 of IFRS 15, the entity does not explicitly or implicitly promise to provide maintenance services to the distributor or the end customers. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

IE65A Although the maintenance services are not a promised service in the current contract, in future contracts with customers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

...

Example 44—Warranties

IE223 An entity, a manufacturer, provides its customer with a warranty with the purchase of a product. The warranty provides assurance that the product complies with agreed-upon specifications and will operate as promised for one year from the date of purchase. The contract also provides the customer with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.

IE224 The entity assesses the goods and services in the contract to determine whether they are distinct and therefore give rise to separate performance obligations.

IE225 ~~The product is distinct because it meets both criteria in paragraph 27 of IFRS 15.~~ The product ~~is~~ and training services are each capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the product on its own without the training services and can benefit from the training services together with the product that already has been transferred by the entity. The entity regularly sells the product separately without the training services. ~~In addition, the product is distinct within the context of the contract in accordance with paragraphs 27(b) and 29 of IFRS 15, because the entity's promise to transfer the product is separately identifiable from other promises in the contract.~~

IE226 ~~In addition, the training services are distinct because they meet both criteria in paragraph 27 of IFRS 15. The training services are capable of being distinct in accordance with paragraphs 27(a) and 28 of IFRS 15, because the customer can benefit from the training services together with the product that has already been provided by the entity. In addition, the training services are distinct within the context of the contract~~ The entity next assesses whether its promises to transfer the product and to provide the training services are separately identifiable in accordance with paragraphs 27(b) and 29 of IFRS 15~~, because the entity's promise to transfer the training services are separately identifiable from other promises in the contract~~. The entity does not provide a significant service of integrating the training services with the product (see paragraph 29(a) of IFRS 15). The training services ~~are~~ and product do not significantly ~~modified or customised by the product~~ modify or customise each other (see paragraph 29(b) of IFRS 15). The product and the training services are not highly interdependent ~~on,~~ or highly interrelated ~~with, the product~~ (see paragraph 29(c) of IFRS 15). The entity would be able to fulfil its promise to transfer the product independently of its efforts to subsequently provide the training services, and would be able to provide training services to any customer that had previously acquired its product. Consequently, the entity concludes that its promise to transfer the product and its promise to provide training services are not inputs to a combined item, and, therefore, are each separately identifiable.

IE227 The product and training services are each distinct in accordance with paragraph 27 of IFRS 15 and therefore give rise to two separate performance obligations.

IE228 Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the customer with the assurance that the product will function as intended for one year. The entity concludes, in accordance with paragraphs B28–B33 of IFRS 15, that the warranty does not provide the customer with a good or service in addition to that assurance and, therefore, the entity does not account for it as a performance obligation. The entity accounts for the assurance-type warranty in accordance with the requirements in IAS 37.

IE229 As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and recognises revenue when (or as) those performance obligations are satisfied.

Principal versus agent considerations

IE230 Examples 45–48A illustrate the requirements in paragraphs B34–B38 of IFRS 15 on principal versus agent considerations.

Example 45—Arranging for the provision of goods or services (entity is an agent)

IE231 An entity operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. Under the terms of the entity's contracts with suppliers, ~~When~~ when a good is purchased via the website, the entity is entitled to a commission that is equal to 10 per cent of the sales price. The entity's website facilitates payment between the supplier and the customer at prices that are set by the supplier. The entity requires payment from customers before orders are processed and all orders are non-refundable. The entity has no further obligations to the customer after arranging for the products to be provided to the customer.

IE232 To determine whether the entity's performance obligation is to provide the specified goods itself (ie the entity is a principal) or to arrange for ~~the supplier to provide~~ those goods to be provided by the supplier (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~Specifically, the entity observes that the supplier of the goods delivers its goods directly to the customer and thus the entity does not obtain control of the goods. Instead, the entity's promise is to arrange for the supplier to provide those goods to the customer. In reaching that conclusion, the entity considers the following indicators from paragraph B37 of IFRS 15 as follows:~~

~~(a) the supplier is primarily responsible for fulfilling the contract—ie by shipping the goods to the customer;~~

~~(b) the entity does not take inventory risk at any time during the transaction because the goods are shipped directly by the supplier to the customer;~~

~~(c) the entity's consideration is in the form of a commission (10 per cent of the sales price);~~

~~(d) the entity does not have discretion in establishing prices for the supplier's goods and, therefore, the benefit the entity can receive from those goods is limited; and~~

~~(e) neither the entity, nor the supplier, has credit risk because payments from customers are made in advance.~~

IE232A The website operated by the entity is a marketplace in which suppliers offer their goods and customers purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to customers that use the website are the goods provided by the suppliers, and no other goods or services are promised to customers by the entity.

IE232B The entity concludes that it does not control the specified goods before they are transferred to customers that order goods using the website. The entity does not at any time have the ability to direct the use of the goods transferred to customers. For example, it cannot direct the goods to parties other than the customer or prevent the supplier from transferring those goods to the customer. The entity does not control the suppliers' inventory of goods used to fulfil the orders placed by customers using the website.

IE232C As part of reaching that conclusion, the entity considers the following indicators in paragraph B37 of IFRS 15. The entity concludes that these indicators provide further evidence that it does not control the specified goods before they are transferred to the customers:

(a) the supplier is primarily responsible for fulfilling the promise to provide the goods to the customer. The entity is neither obliged to provide the goods if the supplier fails to transfer the goods to the customer, nor responsible for the acceptability of the goods.

(b) the entity does not take inventory risk at any time before or after the goods are transferred to the customer. The entity does not commit itself to obtain the goods from the supplier before the goods are purchased by the customer, and does not accept responsibility for any damaged or returned goods.

(c) the entity does not have discretion in establishing prices for the supplier's goods. The sales price is set by the supplier.

IE233 Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), the entity recognises revenue in the amount of the commission to which it is entitled.

Example 46—Promise to provide goods or services (entity is a principal)

IE234 An entity enters into a contract with a customer for equipment with unique specifications. The entity and the customer develop the specifications for the equipment, which the entity communicates to a supplier that the entity contracts with to manufacture the equipment. The entity also arranges to have

the supplier deliver the equipment directly to the customer. Upon delivery of the equipment to the customer, the terms of the contract require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

IE235 The entity and the customer negotiate the selling price, and the entity invoices the customer for the agreed-upon price with 30-day payment terms. The entity's profit is based on the difference between the sales price negotiated with the customer and the price charged by the supplier.

IE236 The contract between the entity and the customer requires the customer to seek remedies for defects in the equipment from the supplier under the supplier's warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.

IE237 To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~The entity has promised to provide the customer with specialised equipment; however, the entity has subcontracted the manufacturing of the equipment to the supplier. In determining whether the entity obtains control of the equipment before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:~~

~~(a) the entity is primarily responsible for fulfilling the contract. Although the entity subcontracted the manufacturing, the entity is ultimately responsible for ensuring that the equipment meets the specifications for which the customer has contracted.~~

~~(b) the entity has inventory risk because of its responsibility for corrections to the equipment resulting from errors in specifications, even though the supplier has inventory risk during production and before shipment.~~

~~(c) the entity has discretion in establishing the selling price with the customer, and the profit earned by the entity is an amount that is equal to the difference between the selling price negotiated with the customer and the amount to be paid to the supplier.~~

~~(d) the entity's consideration is not in the form of a commission.~~

~~(e) the entity has credit risk for the amount receivable from the customer in exchange for the equipment.~~

IE237A The entity concludes that it has promised to provide the customer with specialised equipment designed by the entity. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the design and manufacturing of the equipment are not distinct, because they are not separately identifiable (ie there is a single performance obligation). The entity is responsible for the overall management of the contract (for example, by ensuring that the manufacturing service conforms to the

specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialised equipment—for which the customer has contracted. In addition, those activities are highly interrelated. If necessary modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications. Accordingly, the entity identifies the specified good to be provided to the customer as the specialised equipment.

IE237B The entity concludes that it controls the specialised equipment before that equipment is transferred to the customer (see paragraph B35A(c)). The entity provides the significant integration service necessary to produce the specialised equipment and, therefore, controls the specialised equipment before it is transferred to the customer. The entity directs the use of the supplier's manufacturing service as an input in creating the combined output that is the specialised equipment. In reaching the conclusion that it controls the specialised equipment before that equipment is transferred to the customer, the entity also observes that, even though the supplier delivers the specialised equipment to the customer, the supplier has no ability to direct its use (ie the terms of the contract between the entity and the supplier preclude the supplier from using the specialised equipment for another purpose or directing that equipment to another customer). The entity also obtains the remaining benefits from the specialised equipment by being entitled to the consideration in the contract from the customer.

IE238 ~~The entity concludes that its promise is to provide the equipment to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the equipment before it is transferred to the customer.~~ Thus, the entity concludes that it is a principal in the transaction ~~and~~. The entity does not consider the indicators in paragraph B37 of IFRS 15 because the evaluation above is conclusive without consideration of the indicators. The entity recognises revenue in the gross amount of consideration to which it is entitled from the customer in exchange for the specialised equipment.

Example 46A—Promise to provide goods or services (entity is a principal)

IE238A An entity enters into a contract with a customer to provide office maintenance services. The entity and the customer define and agree on the scope of the services and negotiate the price. The entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the contract. The entity invoices the customer for the agreed-upon price on a monthly basis with 10-day payment terms.

IE238B The entity regularly engages third-party service providers to provide office maintenance services to its customers. When the entity obtains a contract from a customer, the entity enters into a contract with one of those service providers, directing the service provider to perform office maintenance services for the customer. The payment terms in the contracts with the service providers are

generally aligned with the payment terms in the entity's contracts with customers. However, the entity is obliged to pay the service provider even if the customer fails to pay.

IE238C To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.

IE238D The entity observes that the specified services to be provided to the customer are the office maintenance services for which the customer contracted, and that no other goods or services are promised to the customer. While the entity obtains a right to office maintenance services from the service provider after entering into the contract with the customer, that right is not transferred to the customer. That is, the entity retains the ability to direct the use of, and obtain substantially all the remaining benefits from, that right. For example, the entity can decide whether to direct the service provider to provide the office maintenance services for that customer, or for another customer, or at its own facilities. The customer does not have a right to direct the service provider to perform services that the entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the entity from the service provider is not the specified good or service in its contract with the customer.

IE238E The entity concludes that it controls the specified services before they are provided to the customer. The entity obtains control of a right to office maintenance services after entering into the contract with the customer but before those services are provided to the customer. The terms of the entity's contract with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf (see paragraph B35A(b)). In addition, the entity concludes that the following indicators in paragraph B37 of IFRS 15 provide further evidence that the entity controls the office maintenance services before they are provided to the customer:

(a) the entity is primarily responsible for fulfilling the promise to provide office maintenance services. Although the entity has hired a service provider to perform the services promised to the customer, it is the entity itself that is responsible for ensuring that the services are performed and are acceptable to the customer (ie the entity is responsible for fulfilment of the promise in the contract, regardless of whether the entity performs the services itself or engages a third-party service provider to perform the services).

(b) the entity has discretion in setting the price for the services to the customer.

IE238F The entity observes that it does not commit itself to obtain the services from the service provider before obtaining the contract with the customer. Thus, the entity has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the entity concludes that it controls the office maintenance services before they are provided to the customer on the basis of the evidence in paragraph IE238E.

IE238G Thus, the entity is a principal in the transaction and recognises revenue in the amount of consideration to which it is entitled from the customer in exchange for the office maintenance services.

Example 47—Promise to provide goods or services (entity is a principal)

IE239 An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance.

IE240 The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are purchased~~; therefore there is no credit risk~~.

IE241 The entity also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

IE242 To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (ie the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. In determining whether the entity obtains control of the right to fly before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:~~

~~(a) the entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.~~

~~(b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.~~

~~(c) the entity has discretion in setting the sales prices for tickets to its customers.~~

~~(d) as a result of the entity's ability to set the sales prices, the amount that the entity earns is not in the form of a commission, but instead depends on the sales price it sets and the costs of the tickets that were negotiated with the airline.~~

IE242A The entity concludes that, with each ticket that it commits itself to purchase from the airline, it obtains control of a right to fly on a specified flight (in the

form of a ticket) that the entity then transfers to one of its customers (see paragraph B35A(a)). Consequently, the entity determines that the specified good or service to be provided to its customer is that right (to a seat on a specific flight) that the entity controls. The entity observes that no other goods or services are promised to the customer.

IE242B The entity controls the right to each flight before it transfers that specified right to one of its customers because the entity has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil. The entity also has the ability to obtain the remaining benefits from that right by either reselling the ticket and obtaining all of the proceeds from the sale or, alternatively, using the ticket itself.

IE242C The indicators in paragraphs B37(b)–(c) of IFRS 15 also provide relevant evidence that the entity controls each specified right (ticket) before it is transferred to the customer. The entity has inventory risk with respect to the ticket because the entity committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because the entity is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favourable price for the ticket. The entity also establishes the price that the customer will pay for the specified ticket.

IE243 ~~The entity concludes that its promise is to provide a ticket (ie a right to fly) to the customer. On the basis of the indicators in paragraph B37 of IFRS 15, the entity concludes that it controls the ticket before it is transferred to the customer.~~ Thus, the entity concludes that it is a principal in the ~~transaction and~~ transactions with customers. The entity recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers.

Example 48—Arranging for the provision of goods or services (entity is an agent)

IE244 An entity sells vouchers that entitle customers to future meals at specified restaurants. ~~These vouchers are sold by the entity and the~~ The sales price of the voucher provides the customer with a significant discount when compared with the normal selling prices of the meals (for example, a customer pays CU100 for a voucher that entitles the customer to a meal at a restaurant that would otherwise cost CU200). The entity does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a customer; instead, it purchases vouchers only as they are requested by the customers. The entity sells the vouchers through its website and the vouchers are non-refundable.

IE245 The entity and the restaurants jointly determine the prices at which the vouchers will be sold to customers. Under the terms of its contracts with the restaurants, ~~The~~ the entity is entitled to 30 per cent of the voucher price when it sells the voucher. ~~The entity has no credit risk because the customers pay for the vouchers when purchased.~~

IE246 The entity also assists the customers in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.

IE247 To determine whether the entity is a principal or an agent, the entity ~~considers the nature of its promise and whether it takes control of the voucher (ie a right) before control transfers to the customer~~ identifies the specified good or service to be provided to the customer and assesses whether it controls the specified good or service before that good or service is transferred to the customer. ~~In making this determination, the entity considers the indicators in paragraph B37 of IFRS 15 as follows:~~

~~(a) the entity is not responsible for providing the meals itself, which will be provided by the restaurants;~~

~~(b) the entity does not have inventory risk for the vouchers because they are not purchased before being sold to customers and the vouchers are non-refundable;~~

~~(c) the entity has some discretion in setting the sales prices for vouchers to customers, but the sales prices are jointly determined with the restaurants; and~~

~~(d) the entity's consideration is in the form of a commission, because it is entitled to a stipulated percentage (30 per cent) of the voucher price.~~

IE247A A customer obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to customers on the entity's behalf as described in the indicator in paragraph B37(a) of IFRS 15. Therefore, the entity observes that the specified good or service to be provided to the customer is the right to a meal (in the form of a voucher) at a specified restaurant or restaurants, which the customer purchases and then can use itself or transfer to another person. The entity also observes that no other goods or services (other than the vouchers) are promised to the customers.

IE247B The entity concludes that it does not control the voucher (right to a meal) at any time. In reaching this conclusion, the entity principally considers the following:

(a) the vouchers are created only at the time that they are transferred to the customers and, thus, do not exist before that transfer. Therefore, the entity does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits from the vouchers, before they are transferred to customers.

(b) the entity neither purchases, nor commits itself to purchase, vouchers before they are sold to customers. The entity also has no responsibility to accept any returned vouchers. Therefore, the entity does not have inventory risk with respect to the vouchers as described in the indicator in paragraph B37(b) of IFRS 15.

IE248 ~~The entity concludes that its promise is to arrange for goods or services to be provided to customers (the purchasers of the vouchers) in exchange for a commission. On the basis of the indicators in paragraph B37 of IFRS 15, the~~

~~entity concludes that it does not control the vouchers that provide a right to meals before they are transferred to the customers.~~ Thus, the entity concludes that it is an agent ~~in the arrangement and~~ with respect to the vouchers. The entity recognises revenue in the net amount of consideration to which the entity will be entitled in exchange for ~~the service~~ arranging for the restaurants to provide vouchers to customers for the restaurants' meals, which is the 30 per cent commission it is entitled to upon the sale of each voucher.

Example 48A—Entity is a principal and an agent in the same contract

IE248A An entity sells services to assist its customers in more effectively targeting potential recruits for open job positions. The entity performs several services itself, such as interviewing candidates and performing background checks. As part of the contract with a customer, the customer agrees to obtain a licence to access a third party's database of information on potential recruits. The entity arranges for this licence with the third party, but the customer contracts directly with the database provider for the licence. The entity collects payment on behalf of the third-party database provider as part of the entity's overall invoicing to the customer. The database provider sets the price charged to the customer for the licence, and is responsible for providing technical support and credits to which the customer may be entitled for service down time or other technical issues.

IE248B To determine whether the entity is a principal or an agent, the entity identifies the specified goods or services to be provided to the customer, and assesses whether it controls those goods or services before they are transferred to the customer.

IE248C For the purpose of this example, it is assumed that the entity concludes that its recruitment services and the database access licence are each distinct on the basis of its assessment of the requirements in paragraphs 27–30 of IFRS 15. Accordingly, there are two specified goods or services to be provided to the customer—access to the third party's database and recruitment services.

IE248D The entity concludes that it does not control the access to the database before it is provided to the customer. The entity does not at any time have the ability to direct the use of the licence because the customer contracts for the licence directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access to the database to a party other than the customer, or prevent the database provider from providing access to the customer.

IE248E As part of reaching that conclusion, the entity also considers the indicators in paragraph B37 of IFRS 15. The entity concludes that these indicators provide further evidence that it does not control access to the database before that access is provided to the customer:

(a) the entity is not responsible for fulfilling the promise to provide the database access service. The customer contracts for the licence directly with the third-party database provider and the database provider is

responsible for the acceptability of the database access (for example, by providing technical support or service credits).

(b) the entity does not have inventory risk because it does not purchase, or commit itself to purchase, the database access before the customer contracts for database access directly with the database provider.

(c) the entity does not have discretion in setting the price for the database access with the customer because the database provider sets that price.

IE248F Thus, the entity concludes that it is an agent in relation to the third party's database service. In contrast, the entity concludes that it is the principal in relation to the recruitment services because the entity performs those services itself and no other party is involved in providing those services to the customer.

...

Licensing

IE275 Examples 54–61 illustrate the requirements in paragraphs 22–30 of IFRS 15 for identifying performance obligations and paragraphs B52–B63B of IFRS 15 on licensing. These examples also illustrate other requirements as follows:

(a) ...

(c) paragraphs B63–B63B of IFRS 15 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Examples 57 and 61).

Example 54—Right to use intellectual property

IE276 Using the same facts as in Case A in Example 11 (see paragraphs IE49–IE53), the entity identifies four performance obligations in a contract:

(a) the software licence;

(b) installation services;

(c) software updates; and

(d) technical support.

IE277 The entity assesses the nature of its promise to transfer the software licence in accordance with paragraph B58 of IFRS 15. ~~The entity observes that the software is functional at the time that the licence transfers to the customer, and the customer can direct the use of, and obtain substantially all of the remaining benefits from, the software when the licence transfers to the customer. Furthermore, the entity concludes that because the software is functional when it transfers to the customer, the customer does not reasonably expect the entity to undertake activities that significantly affect the intellectual property to which the licence relates. This is because at the point in time that the licence is transferred to the customer, the intellectual property will not change throughout the licence period.~~ The entity does not consider in its assessment of the criteria in paragraph B58 of IFRS 15 the promise to provide software updates, because they ~~represent a separate performance obligation~~ result in the transfer of an additional good or service to the customer (see paragraph B58(c)). The

entity also observes that it does not have any contractual or implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the licence period. The entity observes that the software remains functional without the updates and the technical support and, therefore, the ability of the customer to obtain the benefits of the software is not substantially derived from, or dependent on, the entity's ongoing activities. The entity therefore determines that the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the software (independent of the updates and technical support). ~~Therefore, the~~ The entity concludes that the software to which the licence relates has significant stand-alone functionality and none of the criteria in paragraph B58 of IFRS 15 are met ~~and~~. The entity further concludes that the nature of the entity's promise in transferring the licence is to provide a right to use the entity's intellectual property as it exists at a point in time~~—ie the intellectual property to which the customer has rights is static~~. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.

Example 55—Licence of intellectual property

IE278 An entity enters into a contract with a customer to licence (for a period of three years) intellectual property related to the design and production processes for a good. The contract also specifies that the customer will obtain any updates to that intellectual property for new designs or production processes that may be developed by the entity. The updates are ~~essential~~ integral to the customer's ability to ~~use~~ derive benefit from the licence during the licence period, because the ~~customer operates~~ intellectual property is used in an industry in which technologies change rapidly. ~~The entity does not sell the updates separately and the customer does not have the option to purchase the licence without the updates.~~

IE279 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that ~~although the entity can conclude that~~ the customer can ~~obtain~~ benefit from (a) the licence on its own without the updates ~~(see paragraph 27(a) of IFRS 15), that benefit~~; and (b) the updates together with the initial licence. Although the benefit the customer can derive from the licence on its own (ie without the updates) is ~~would be~~ limited because the updates are ~~critical~~ integral to the customer's ability to continue to ~~make use of the licence in the rapidly changing technological environment in which the customer operates~~ use the intellectual property in an industry in which technologies change rapidly, the licence can be used in a way that generates some economic benefits. ~~In assessing whether the criterion in paragraph 27(b) of IFRS 15 is met, the entity observes that the customer does not have the option to purchase the licence without the updates and the customer obtains limited benefit from the licence without the updates. Therefore, the entity concludes that the licence and the updates are highly interrelated and the promise to grant the licence is not distinct within the context of the contract, because the licence is not separately identifiable from the promise to provide the updates (in~~

~~accordance with the criterion in paragraph 27(b) and the factors in paragraph 29 of IFRS 15).~~ Therefore, the criterion in paragraph 27(a) of IFRS 15 is met for the licence and the updates.

IE279A The fact that the benefit the customer can derive from the licence on its own (ie without the updates) is limited (because the updates are integral to the customer's ability to continue to use the licence in the rapidly changing technological environment) is also considered in assessing whether the criterion in paragraph 27(b) of IFRS 15 is met. Because the benefit that the customer could obtain from the licence over the three-year term without the updates would be significantly limited, the entity's promises to grant the licence and to provide the expected updates are, in effect, inputs that together fulfil a single promise to deliver a combined item to the customer. That is, the nature of the entity's promise in the contract is to provide ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract. The promises within that combined item (ie to grant the licence and to provide when-and-if-available updates) are, therefore, not separately identifiable in accordance with the criterion in paragraph 27(b) of IFRS 15.

IE280 The nature of the combined good or service that the entity promised to transfer to the customer is ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract. On the basis of this conclusion, the entity applies paragraphs 31–38 of IFRS 15 to determine whether the single performance obligation ~~(which includes the licence and the updates)~~ is satisfied at a point in time or over time. The entity concludes that because the customer simultaneously receives and consumes the benefits of the entity's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 35(a) of IFRS 15.

Example 56—Identifying a distinct licence

IE281 An entity, a pharmaceutical company, licenses to a customer its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the customer. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary business practices.

Case A—Licence is not distinct

IE282 In this case, no other entity can manufacture this drug because of the highly specialised nature of the manufacturing process. As a result, the licence cannot be purchased separately from the manufacturing services.

IE283 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity determines that the customer cannot benefit from the licence without the manufacturing service; therefore, the criterion in paragraph 27(a) of IFRS 15 is not met. Consequently, the licence and the manufacturing service are not distinct and the entity accounts for the licence and the manufacturing service as a single performance obligation.

IE284 The entity applies paragraphs 31–38 of IFRS 15 to determine whether the performance obligation (ie the bundle of the licence and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—Licence is distinct

IE285 In this case, the manufacturing process used to produce the drug is not unique or specialised and several other entities can also manufacture the drug for the customer.

IE286 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct ~~in accordance with~~, and it concludes that the criteria in paragraph 27 of IFRS 15 are met for each of the licence and the manufacturing service. ~~Because the manufacturing process can be provided by other entities, the~~ The entity concludes that the criterion in paragraph 27(a) of IFRS 15 is met because the customer can benefit from the licence ~~on its own (ie without the manufacturing service) and that the licence is separately identifiable from the manufacturing process (ie the criteria in paragraph 27 of IFRS 15 are met)~~ together with readily available resources other than the entity's manufacturing service (because there are other entities that can provide the manufacturing service), and can benefit from the manufacturing service together with the licence transferred to the customer at the start of the contract. ~~Consequently, the entity concludes that the licence and the manufacturing service are distinct and the entity has two performance obligations:~~

~~(a) licence of patent rights; and~~

~~(b) manufacturing service.~~

IE286A The entity also concludes that its promises to grant the licence and to provide the manufacturing service are separately identifiable (ie the criterion in paragraph 27(b) of IFRS 15 is met). The entity concludes that the licence and the manufacturing service are not inputs to a combined item in this contract on the basis of the principle and the factors in paragraph 29 of IFRS 15. In reaching this conclusion, the entity considers that the customer could separately purchase the licence without significantly affecting its ability to benefit from the licence. Neither the licence, nor the manufacturing service, is significantly modified or customised by the other and the entity is not providing a significant service of integrating those items into a combined output. The entity further considers that the licence and the manufacturing service are not highly interdependent or highly interrelated because the entity would be able to fulfil its promise to transfer the licence independently of fulfilling its promise to subsequently manufacture the drug for the customer. Similarly, the entity would be able to manufacture the drug for the customer even if the customer had previously obtained the licence and initially utilised a different manufacturer. Thus, although the manufacturing service necessarily depends on the licence in this contract (ie the entity would not provide the manufacturing service without the customer having obtained the licence), the licence and the manufacturing service do not significantly affect each other. Consequently, the entity

concludes that its promises to grant the licence and to provide the manufacturing service are distinct and that there are two performance obligations:

(a) licence of patent rights; and

(b) manufacturing service.

IE287 The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity's promise to grant the licence. The drug is a mature product (ie it has been approved, is currently being manufactured and has been sold commercially for the last several years). For these types of mature products, the entity's customary business practices are not to undertake any activities to support the drug. The drug compound has significant stand-alone functionality (ie its ability to produce a drug that treats a disease or condition). Consequently, the customer obtains a substantial portion of the benefits of the drug compound from that functionality, rather than from the entity's ongoing activities. ~~Consequently, the~~ The entity concludes that the criteria in paragraph B58 of IFRS 15 are not met because the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. In its assessment of the criteria in paragraph B58 of IFRS 15, the entity does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the entity's promise in transferring the licence is to provide a right to use the entity's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the customer. Consequently, the entity accounts for the licence as a performance obligation satisfied at a point in time.

IE288 The entity applies paragraphs 31–38 of IFRS 15 to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 57—Franchise rights

IE289 An entity enters into a contract with a customer and promises to grant a franchise licence that provides the customer with the right to use the entity's trade name and sell the entity's products for 10 years. In addition to the licence, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the licence, the entity receives a sales-based royalty of five per cent of the customer's monthly sales. The fixed consideration for the equipment is CU150,000 payable when the equipment is delivered.

Identifying performance obligations

IE290 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the entity, as a franchisor, has developed a customary business practice to undertake activities such as analysing ~~the customer's~~ consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies to support the franchise name. However, the entity

concludes that these activities do not directly transfer goods or services to the customer because they are part of the entity's promise to grant a licence ~~and, in effect, change the intellectual property to which the customer has rights~~.

IE291 The entity determines that it has two promises to transfer goods or services: a promise to grant a licence and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the licence and the promise to transfer the equipment are each distinct. This is because the customer can benefit from each good or service ~~promise~~ (ie the ~~promise of the~~ licence and ~~the promise of~~ the equipment) on ~~their~~ its own or together with other resources that are readily available (see paragraph 27(a) of IFRS 15). ~~(That is, the~~ The customer can benefit from the licence together with the equipment that is delivered before the opening of the franchise and the equipment can be used in the franchise or sold for an amount other than scrap value.~~)~~ The entity also determines that the promises to grant the franchise licence and to transfer the equipment are separately identifiable, in accordance with the criterion in paragraph 27(b) of IFRS 15~~, because none of the factors in paragraph 29 of IFRS 15 are present~~. The entity concludes that the licence and the equipment are not inputs to a combined item (ie they are not fulfilling what is, in effect, a single promise to the customer). In reaching this conclusion, the entity considers that it is not providing a significant service of integrating the licence and the equipment into a combined item (ie the licensed intellectual property is not a component of, and does not significantly modify, the equipment). In addition, the licence and the equipment are not highly interdependent or highly interrelated because the entity would be able to fulfil each promise (ie to license the franchise or to transfer the equipment) independently of the other. Consequently, the entity has two performance obligations:

(a) the franchise licence; and

(b) the equipment.

Allocating the transaction price

IE292 The entity determines that the transaction price includes fixed consideration of CU150,000 and variable consideration (five per cent of customer sales). The stand-alone selling price of the equipment is CU150,000 and the entity regularly licenses franchises in exchange for five per cent of customer sales.

IE293 The entity applies paragraph 85 of IFRS 15 to determine whether the variable consideration should be allocated entirely to the performance obligation to transfer the franchise licence. The entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the franchise licence because the variable consideration relates entirely to the entity's promise to grant the franchise licence. In addition, the entity observes that allocating CU150,000 to the equipment and the sales-based royalty to the franchise licence would be consistent with an allocation based on the entity's relative stand-alone selling prices in similar contracts. ~~That is, the stand-alone selling price of the equipment is CU150,000 and the entity regularly licences franchises in exchange for five per cent of customer sales.~~ Consequently, the

entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the performance obligation to grant the franchise licence.

Application guidance: licensing

IE294 The entity assesses, in accordance with paragraph B58 of IFRS 15, the nature of the entity's promise to grant the franchise licence. The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity's promise is to provide access to the entity's intellectual property in its current form throughout the licence period. This is because:

(a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property to which the customer has rights. The ability of the customer to obtain benefit from the intellectual property to which the customer has rights is substantially derived from, or dependent upon, the expected activities of the entity. This is on the basis of the entity's customary business practice to undertake activities such as analysing ~~the customer's~~ consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies. In addition, the entity observes that because part of its compensation is dependent on the success of the franchisee (as evidenced through the sales-based royalty), the entity has a shared economic interest with the customer that indicates that the customer will expect the entity to undertake those activities to maximise earnings.

(b) the entity also observes that the franchise licence requires the customer to implement any changes that result from those activities and thus exposes the customer to any positive or negative effects of those activities.

(c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE295 Because the criteria in paragraph B58 of IFRS 15 are met, the entity concludes that the promise to transfer the licence is a performance obligation satisfied over time in accordance with paragraph 35(a) of IFRS 15.

IE296 The entity also concludes that because the consideration that is in the form of a sales-based royalty relates specifically to the franchise licence (see paragraph B63A), the entity applies paragraph B63 of IFRS 15. ~~and, after~~ After the transfer of the franchise licence, the entity recognises revenue as and when ~~those~~ the customer's sales occur because the entity concludes that this reasonably depicts the entity's progress towards complete satisfaction of the franchise licence performance obligation.

Example 58—Access to intellectual property

IE297 An entity, a creator of comic strips, licenses the use of the images and names of its comic strip characters in three of its comic strips to a customer for a four-year term. There are main characters involved in each of the comic strips. However,

newly created characters appear regularly and the images of the characters evolve over time. The customer, an operator of cruise ships, can use the entity's characters in various ways, such as in shows or parades, within reasonable guidelines. The contract requires the customer to use the latest images of the characters.

IE298 In exchange for granting the licence, the entity receives a fixed payment of CU1 million in each year of the four-year term.

IE299 In accordance with paragraph 27 of IFRS 15, the entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity concludes that it has no other performance obligations other than the promise to grant a licence. That is, the additional activities associated with the licence do not directly transfer a good or service to the customer because they are part of the entity's promise to grant a licence ~~and, in effect, change the intellectual property to which the customer has rights~~.

IE300 The entity assesses the nature of the entity's promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:

(a) the customer reasonably expects (arising from the entity's customary business practices) that the entity will undertake activities that will significantly affect the intellectual property to which the customer has rights (ie the characters). ~~Those activities include development of the characters and the publishing of a weekly comic strip that includes the characters.~~ This is because the entity's activities (ie development of the characters) change the form of the intellectual property to which the customer has rights. In addition, the ability of the customer to obtain benefit from the intellectual property to which the customer has rights is substantially derived from, or dependent upon, the entity's ongoing activities (ie the publishing of the comic strip).

(b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities because the contract requires the customer to use the latest characters.

(c) even though the customer may benefit from those activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE301 Consequently, the entity concludes that the criteria in paragraph B58 of IFRS 15 are met and that the nature of the entity's promise to transfer the licence is to provide the customer with access to the entity's intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).

IE302 The entity applies paragraphs 39–45 of IFRS 15 to identify the method that best depicts its performance in the licence. Because the contract provides the customer with unlimited use of the licensed characters for a fixed term, the

entity determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 59—Right to use intellectual property

IE303 An entity, a music record label, licenses to a customer a 1975 recording of a classical symphony by a noted orchestra. The customer, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the licence, the entity receives fixed consideration of CU10,000 per month. The contract does not include any other goods or services to be provided by the entity. The contract is non-cancellable.

IE304 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to grant the licence. The entity determines that the term of the licence (two years), its geographical scope (the customer's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised licence in the contract.

IE305 In accordance with paragraph B58 of IFRS 15, the entity assesses the nature of the entity's promise to grant the licence. The entity does not have any contractual or implied obligations to change the licensed recording. ~~Thus, the intellectual property to which the customer has rights is static.~~ The licensed recording has significant stand-alone functionality (ie the ability to be played) and, therefore, the ability of the customer to obtain the benefits of the recording is not substantially derived from the entity's ongoing activities. The entity therefore determines that the contract does not require, and the customer does not reasonably expect, the entity to undertake activities that significantly affect the licensed recording (ie the criterion in paragraph B58(a) is not met). Consequently, the entity concludes that the nature of its promise in transferring the licence is to provide the customer with a right to use the entity's intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the licence is a performance obligation satisfied at a point in time. The entity recognises all of the revenue at the point in time when the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licensed intellectual property.

IE306 Because of the length of time between the entity's performance (at the beginning of the period) and the customer's monthly payments over two years (which are non-cancellable), the entity considers the requirements in paragraphs 60–65 of IFRS 15 to determine whether a significant financing component exists.

Example 60—Sales-based royalty for a licence of intellectual property

IE307 An entity, a movie distribution company, licenses Movie XYZ to a customer. The customer, an operator of cinemas, has the right to show the movie in its cinemas for six weeks. Additionally, the entity has agreed to (a) provide memorabilia from the filming to the customer for display at the customer's cinemas before

the beginning of the six-week screening period; and (b) sponsor radio advertisements for Movie XYZ on popular radio stations in the customer's geographical area throughout the six-week screening period. In exchange for providing the licence and the additional promotional goods and services, the entity will receive a portion of the operator's ticket sales for Movie XYZ (ie variable consideration in the form of a sales-based royalty). ~~The entity concludes that its only performance obligation is the promise to grant the licence.~~

IE308 ~~The entity observes that regardless of whether the promise to grant the licence represents a right to access the entity's intellectual property, or a right to use the entity's intellectual property, the entity applies paragraph B63 of IFRS 15 and recognises revenue as and when the ticket sales occur. This is because the consideration for its licence of intellectual property is a sales-based royalty and the entity has already transferred the licence to the movie to which the sales-based royalty relates.~~ The entity concludes that the licence to show Movie XYZ is the predominant item to which the sales-based royalty relates because the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the related promotional goods or services. The entity recognises revenue from the sales-based royalty, the only consideration to which the entity is entitled under the contract, wholly in accordance with paragraph B63. If the licence, the memorabilia and the advertising activities are separate performance obligations, the entity would allocate the sales-based royalty to each performance obligation.

Example 61—Access to intellectual property

IE309 An entity, a well-known sports team, licenses the use of its name and logo to a customer. The customer, an apparel designer, has the right to use the sports team's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the licence, the entity will receive fixed consideration of CU2 million and a royalty of five per cent of the sales price of any items using the team name or logo. The customer expects that the entity will continue to play games and provide a competitive team.

IE310 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity concludes that its only performance obligation is to transfer the licence. ~~That is, the~~ The additional activities associated with the licence (ie continuing to play games and provide a competitive team) do not directly transfer a good or service to the customer because they are part of the entity's promise to grant the licence ~~and, in effect, change the intellectual property to which the customer has rights~~.

IE311 The entity assesses the nature of the entity's promise to transfer the licence in accordance with paragraph B58 of IFRS 15. In assessing the criteria the entity considers the following:

(a) the entity concludes that the customer would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property (ie the team name and logo) to which the customer has rights. This is on the basis of the entity's customary business practice to undertake activities that support and maintain the value of the name

and logo such as continuing to play and providing a competitive team. The entity determines that the ability of the customer to obtain benefit from the name and logo is substantially derived from, or dependent upon, the expected activities of the entity. In addition, the entity observes that because some of its consideration is dependent on the success of the customer (through the sales-based royalty), the entity has a shared economic interest with the customer, which indicates that the customer will expect the entity to undertake those activities to maximise earnings.

(b) the entity observes that the rights granted by the licence (ie the use of the team's name and logo) directly expose the customer to any positive or negative effects of the entity's activities.

(c) the entity also observes that even though the customer may benefit from the activities through the rights granted by the licence, they do not transfer a good or service to the customer as those activities occur.

IE312 The entity concludes that the criteria in paragraph B58 of IFRS 15 are met and the nature of the entity's promise to grant the licence is to provide the customer with access to the entity's intellectual property as it exists throughout the licence period. Consequently, the entity accounts for the promised licence as a performance obligation satisfied over time (ie the criterion in paragraph 35(a) of IFRS 15 is met).

IE313 The entity then applies paragraphs 39–45 of IFRS 15 to determine a measure of progress that will depict the entity's performance ~~for the fixed consideration~~. For the consideration that is in the form of a sales-based royalty, paragraph B63 of IFRS 15 applies because the sales-based royalty relates solely to the licence, which is the only performance obligation in the contract. The entity concludes that recognition of the CU2 million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue~~; therefore, the entity recognises revenue~~ as and when the customer's sales of items using the team name or logo occur reasonably depicts the entity's progress towards complete satisfaction of the licence performance obligation.

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