

IFRIC Update November 2021

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Updates* can be found in the [IFRIC Update archive](#).

The Committee met on [30 November–1 December 2021](#). The Committee did not discuss feedback on the Tentative Agenda Decision *TLTRO III Transactions* (IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*)—Agenda Paper 5. The Committee will discuss the feedback at a future meeting.

The Committee discussed:

Committee’s tentative agenda decisions

- [Principal versus Agent: Software Resellers \(IFRS 15 Revenue from Contracts with Customers\)](#)—Agenda Paper 2

Agenda decisions for the IASB’s consideration

- [Economic Benefits from Use of a Windfarm \(IFRS 16 Leases\)](#)—Agenda Paper 3

Other matters

- [Negative Low Emission Vehicle Credits \(IAS 37 Provisions, Contingent Liabilities and Contingent Assets\)](#)—Agenda Paper 4
- [Work in Progress](#)—Agenda Paper 6

Addendum to IFRIC Update—Committee’s agenda decisions

- [Economic Benefits from Use of a Windfarm \(IFRS 16 Leases\)](#)—Agenda Paper 3

Related information

[The work plan](#)

[Supporting consistent application](#)

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the [open for comment](#) page. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing up to and including the closing date; comments received after that date will not be analysed in agenda papers considered by the Committee.

Principal versus Agent: Software Resellers (IFRS 15 Revenue from Contracts with Customers)—Agenda Paper 2

The Committee received a request asking whether, in applying IFRS 15, a reseller of software licences is a principal or agent. In the fact pattern described in the request:

- a. the reseller has a distribution agreement with a software manufacturer that:
 - i. gives the reseller the right to grant (sell) the manufacturer's standard software licences to customers;
 - ii. requires the reseller to provide pre-sales advice to each customer—before the sale of the software licences—to identify the type and number of software licences that would meet the customer's needs; and
 - iii. provides the reseller with discretion in pricing the software licences for sale to customers.
- b. the nature of the pre-sales advice varies depending on the customer's needs. If the customer decides:
 - i. not to purchase software licences, it pays nothing. The reseller and the customer do not enter into an agreement.
 - ii. to purchase a specified type and number of software licences, the reseller negotiates the selling price with the customer, places an order with the software manufacturer on behalf of the customer (and pays the manufacturer), and invoices the customer for the agreed price.
- c. the software manufacturer provides the customer with the software licences ordered—issued in the customer's name—via a software portal and with the key necessary for activation. The software manufacturer and the customer enter into an agreement specifying the customer's right to use the software, a warranty covering the software's functionality and the term of the licence.
- d. if the reseller advises the customer to order an incorrect type or number of software licences (that fails to meet the customer's needs), the customer may not accept the licences. The reseller is unable to return unaccepted licences to the software manufacturer or sell them to another customer.

Applicable requirements in IFRS 15—Principal versus agent considerations

Paragraphs B34–B38 set out a framework to determine whether an entity is a principal or agent. When another party is involved in providing goods or services to a customer, an entity determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (the entity is a principal) or to arrange for those goods or services to be provided by the other party (the entity is an agent).

Paragraph B34A states that determining the nature of its promise requires an entity to:

- a. identify the specified goods or services to be provided 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 (paragraph B34); and
- b. assess whether it controls each specified good or service before that good or service is transferred to the customer.

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer (paragraph B35). 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 (paragraph B36).

Identifying the specified goods or services to be provided to the customer

The first step in identifying the specified goods or services to be provided to the customer is to assess the goods or services promised in the contract with the customer. A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the contract may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer (paragraph 24).

Having assessed the goods or services promised in the contract with the customer, an entity then identifies—applying paragraphs 27–30—each distinct good or service (or distinct bundle of goods or services) to be provided to the customer.

Assessing whether an entity controls each specified good or service before that good or service is transferred to the customer

When another party is involved in providing goods or services to a customer, paragraph B35A sets out the circumstances in which an entity is a principal—one of which is when the entity obtains control of a good or another asset from the other party that it then transfers to the customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset; control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset (paragraph 33).

Paragraph B37 sets out indicators to help an entity determine whether it is a principal or agent, which comprise (a) primary responsibility for fulfilling the promise to provide the specified good or service; (b) inventory risk before the specified good or service has been transferred to the customer or after transfer of control to the customer; and (c) discretion in establishing the price for the specified good or service. The indicators 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, and different indicators may provide more persuasive evidence in different contracts (paragraph B37A).

Applying IFRS 15 to the fact pattern described in the request

Identifying the specified goods or services to be provided to the customer

In the fact pattern described in the request, the reseller's contract with a customer includes an explicit promise to transfer a specified type and number of standard software licences to the customer.

The Committee observed that the pre-sales advice the reseller provides—under the distribution agreement between the software manufacturer and the reseller—is not an implicit promise in a contract with a customer. At the time of entering into a contract with a customer, the reseller has already provided the advice. There is no further advice to be provided by the reseller and the advice already provided will not be transferred to the customer after contract inception. Consequently, at the time of entering into a contract with a customer, there is no valid expectation of the customer that the reseller will transfer a good or service to the customer other than the standard software licences.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the promised goods in the reseller's contract with the customer are the standard software licences. Because the standard software licences are the only promised goods in the contract with the customer, they are distinct goods to be provided to the customer. Those licences are therefore the specified goods to be provided to the customer as described in paragraph B34A(a).

Assessing whether the reseller controls the standard software licences before they are transferred to the customer

In the fact pattern described in the request, the reseller assesses whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. That assessment of control requires consideration of the specific facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer and the software manufacturer and the customer.

If—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent, the reseller considers the indicators in paragraph B37 in assessing whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. In the fact pattern described in the request, the Committee observed that:

- a. the software licences provided to the customer exist only after the reseller places an order with the software manufacturer and the software manufacturer issues the software licences in the customer's name. The software manufacturer is responsible for the software's functionality as well as issuing and activating the licences. The software manufacturer is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).
- b. the reseller is the party that engages with the customer both before and after the software licences are transferred to the customer, taking responsibility for unaccepted licences. The reseller is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).
- c. the reseller does not control a pool of standard software licences before entering into the contract with the customer and cannot, for example, direct the software licences to another

customer. The reseller therefore has no inventory risk before the licences are transferred to the customer but, in the event of non-acceptance by the customer, the reseller has inventory risk after the transfer (paragraph B37(b)).

- d. the reseller has discretion in establishing the price for the software licences (paragraph B37(c)). Pricing discretion may be less relevant to the assessment of control if, for example, the market for the software licences is such that the reseller, in effect, has limited flexibility in establishing the price.

The Committee observed that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. The reseller would apply judgement in making its overall assessment of whether it is a principal or agent—including considering the relevance of the indicators to the assessment of control and the degree to which they provide evidence of control of the standard software licences before they are transferred to the customer—within the context of the framework and requirements set out in paragraphs B34–B38 of IFRS 15.

The Committee also observed that the reseller would disclose (a) material accounting policy information in accordance with IAS 1 *Presentation of Financial Statements* (as amended in 2021), and (b) information required by IFRS 15, including about its performance obligations (paragraph 119) and the judgements made in applying IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers (paragraph 123).

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a reseller to determine whether—in the fact pattern described in the request—it is a principal or agent for the standard software licences provided to a customer. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB’s consideration

Economic Benefits from Use of a Windfarm (IFRS 16 Leases)—Agenda Paper 3

The Committee considered feedback on the [tentative agenda decision](#) published in the June 2021 IFRIC *Update* about whether, applying paragraph B9(a) of IFRS 16, an electricity retailer has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator.

The Committee reached its conclusions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the International Accounting Standards Board (IASB) will consider this agenda decision at its December 2021 meeting. If the IASB does not object to the agenda decision, it will be published in December 2021 in an addendum to this IFRIC *Update*.

Other matters

Negative Low Emission Vehicle Credits (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)—Agenda Paper 4

The Committee discussed a request relating to the application of IAS 37 to government measures to promote energy efficiency and reduce carbon emissions from passenger vehicles sold in a specified market. Under these measures, an entity receives negative credits if it produces or imports vehicles whose emission levels exceed targets set by the government. The government measures require an entity to eliminate its net negative credits, either by purchasing positive credits or by generating its own positive credits. If an entity fails to eliminate its negative credits, the government may impose economic sanctions on the entity. The request asked whether an entity that has generated negative credits has a present obligation that meets the definition of a liability in IAS 37.

The Committee tentatively decided not to add a standard-setting project to the work plan on this matter. The Committee will discuss the wording of the tentative agenda decision at a future meeting.

Work in Progress—Agenda Paper 6

The Committee received an update on the current status of open matters not discussed at its meeting in November 2021.

Addendum to IFRIC Update—Committee’s agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Economic Benefits from Use of a Windfarm (IFRS 16 Leases)—Agenda Paper 3

Published in December 2021¹

The Committee received a request about whether, applying paragraph B9(a) of IFRS 16, an electricity retailer (retailer) has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator (supplier). In the fact pattern described in the request:

- a. the retailer and supplier are registered participants in an electricity market, in which customers and suppliers are unable to enter into contracts directly with each other for the purchase and sale of electricity. Instead, customers and suppliers make such purchases and sales via the market's electricity grid, the spot price for which is set by the market operator. The retailer therefore purchases electricity from the grid.
- b. the retailer enters into an agreement with the supplier. The agreement:
 - i. swaps the spot price per megawatt of electricity the windfarm supplies to the grid during the 20-year term of the agreement for a fixed price per megawatt, and is settled net in cash. In effect, the supplier receives a fixed price per megawatt for the electricity it supplies to the grid during the period of the agreement and the retailer settles with the supplier the difference between that fixed price and the spot prices per megawatt for that volume of electricity.
 - ii. transfers to the retailer all renewable energy credits that accrue from use of the windfarm.

Paragraph 9 of IFRS 16 states that 'a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. To control the use of an identified asset for a period of time, the customer—throughout the period of use—must have both the right to obtain substantially all the economic benefits from use of the identified asset and the right to direct the use of that asset (paragraph B9 of IFRS 16).

¹ In accordance with paragraph 8.7 of the *Due Process Handbook*, at its December 2021 meeting, the IASB discussed, and did not object to, this agenda decision.

Paragraph B21 of IFRS 16 specifies that ‘a customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party’.

The Committee observed that, in the fact pattern described in the request, the economic benefits from use of the windfarm include the electricity it produces (as its primary output) and the renewable energy credits (as a by-product or other economic benefit from use of the windfarm).

The agreement results in the retailer settling with the supplier the difference between the fixed price and the spot prices per megawatt of electricity the windfarm supplies to the grid throughout the 20-year term of the agreement. That agreement, however, conveys neither the right nor the obligation for the retailer to obtain any of the electricity the windfarm produces and supplies to the grid. Although the retailer has the right to obtain the renewable energy credits (which represent a portion of the economic benefits from use of the windfarm), the retailer does not have the right to obtain substantially all the economic benefits from use of the windfarm because it has no right to obtain any of the electricity the windfarm produces throughout the period of the agreement.

The Committee therefore concluded that, in the fact pattern described in the request, the retailer does not have the right to obtain substantially all the economic benefits from use of the windfarm. Consequently, the agreement does not contain a lease.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that enters into an agreement as described in the request to assess whether it has the right to obtain substantially all the economic benefits from use of an identified asset. Consequently, the Committee decided not to add a standard-setting project to the work plan.

In considering the request, the Committee noted two other agenda decisions that include explanatory material that may be relevant to the agreement described in this request:

- a. the Agenda Decision *Meaning of delivery* (IFRS 9 *Financial Instruments*) (August 2005); and
- b. for entities applying the hedge accounting requirements in IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement*, the Agenda Decision *Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument* (IFRS 9 and IAS 39) (March 2019).