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Purpose of this paper

1. This paper's objective is to consider respondents' feedback and possible refinements to the implementation guidance related to licenses and rights to use.
2. This paper should be read in conjunction with Agenda papers 7A/161A and 7C/161C, which consider the proposed requirements for identifying separate performance obligations in a contract with a customer (Step 2) and the criteria for when performance obligations are satisfied over time (Step 5).
3. This paper does not discuss the appropriateness and applicability of the constraint on the cumulative amount of revenue recognised for licenses of intellectual property. That issue that will be addressed later in the redeliberations.

Staff recommendation

4. The staff recommends that the Boards refine the implementation guidance for contracts that include a promise to transfer a license or right to use. Those refinements would clarify how an entity would identify separate performance obligations in those types of contracts (i.e., 'Step 2' of the model) and how an entity would determine when those performance obligations are satisfied because

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control has transferred to the customer (i.e., 'Step 5' of the model). Specifically, refinements would:

(a) Clarify that an activity would only represent a promise to the customer when that activity transfers a good or service and that activity is specific to the customer and identifiable within the contract. Such activity may result from an entity's customary business practice (provided it creates a valid expectation of the customer that the entity will transfer a service).

(b) Explain that when an entity provides a service in addition to a license that the entity must consider whether the license and service represent a single performance obligation because together they depict the substance of the contract.

(c) Acknowledge that paragraphs 35 through 37 should be applied to the separate performance obligation in the contract to determine when revenue should be recognized. Additionally, it would be clarified that restrictions on use of the transferred asset during the term of a license are characteristics of the licensed asset and therefore should not affect the evaluation as to when control transfers.

Structure of the paper

5. This paper is organized as follows:

(a) Proposals in the exposure draft (paragraphs 6-10)

(b) Feedback on the exposure draft (paragraphs 11-16)

(c) Staff analysis (paragraphs 17-38)

(d) Staff recommendation: suggested refinements (paragraphs 39-41)

(e) Appendix A: Outlining the differences in revenue recognition for licenses and the current proposals for lessor accounting

(f) Appendix B: Suggested improvements to the implementation guidance

Proposals in the exposure draft

6. The exposure draft included implementation guidance on how to apply the revenue model to contracts involving a license or right to use (paragraphs IG33/B33 to IG37/B37). That implementation guidance explains that granting a license or other right to use intellectual property of the entity gives "rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights" (paragraph IG34/B34). This approach "focuses on the transfer of control of a promised asset, which is the core principle of the revenue model" (paragraph BC316). For the same reasons, the Boards considered, but rejected the view that an entity's performance obligation to grant a customer a license or right to use intellectual property represents "access to the entity's intellectual property that the entity satisfies continuously over the pattern of use of the underlying rights to use the entity's intellectual property by the customer" (paragraph BC315).

7. However, in paragraph IG36/B36, the Boards explained that in some cases, an entity may have other performance obligations in the contract with the customer. In those cases, the implementation guidance indicates that "the entity shall apply the criteria in paragraphs 23-30 to determine whether the promised rights are a separate performance obligation or whether the performance obligation for the rights shall be combined with those other performance obligations in the contract" (paragraph IG36/B36).

8. When the license is not distinct from the other promised services in the contract, then the promises to transfer the license and provide those other services would be identified as a single performance obligation. Paragraph IG36/B36 indicates that "if an entity grants a license that is not distinct because the customer cannot benefit from the license without an additional service that the entity promises to provide, the entity shall account for the combined license and service as a single performance obligation satisfied over time." In addition, revenue may also be recognized over time in circumstances where the consideration is variable and the amount of consideration is not reasonably assured. This is because, in those cases, an entity may not be reasonably assured to be entitled to an amount of

consideration and thus the amount of revenue recognized would be constrained (per paragraph 81 and/or 85 of the exposure draft).

9. The implementation guidance in the 2011 exposure draft represents a change from the 2010 exposure draft, which determined the recognition pattern for revenue based on exclusivity of the license. Specifically, the 2010 exposure draft proposed that a contract would be considered a sale (and hence revenue would be recognized at a point in time), if the customer obtained control of substantially all the rights associated with the entity's intellectual property. However, when the customer does not obtain control of substantially all the rights to use the entity's intellectual property, then the entity would determine whether the promised rights are exclusive. When those rights are exclusive, the entity would recognize revenue over time during the period in which the entity permits the customer to use its intellectual property. When those rights are not exclusive, the entity would recognize revenue when the entity transferred control of those rights to the customer.

10. Most respondents to the 2010 exposure draft disagreed with differentiating between types of licenses based on exclusivity because they thought such a distinction would not be operational. Also, most 2010 respondents thought that the accounting for exclusive licenses would be inconsistent with the control principle which is core to the revenue model (because exclusivity does not affect the nature of an entity's performance obligation). Accordingly, the Boards modified the implementation guidance in the 2011 exposure draft so that it did not distinguish between different types of licenses but rather focussed on whether the license is distinct, or whether it should be combined with other services in the contract.

Feedback on the exposure draft

11. The Boards did not ask a question about the proposed implementation guidance on licenses and rights to use. Nonetheless, feedback was received from a small number of preparers in various industries including media, sports and

entertainment, pharmaceuticals, and software, in addition to a few national standard-setters.

12. Many agreed with the change from the 2010 exposure draft to remove the focus on exclusivity. However, many of those who commented on the implementation guidance for licenses in the 2011 exposure draft disagreed with the accounting that they thought resulted from applying that implementation guidance. This is because they thought it implied that they would be required to recognize revenue at a point in time for *all* licenses and rights to use. In their view, this approach would be inappropriate because a single model for revenue recognition would not appropriately reflect differences in the economic substance of different types of licenses.

13. Some of those respondents also highlighted that often their performance is not complete when the customer obtains control of the license (i.e., at a point in time, as indicated in paragraph BC316). However, in some cases, it was unclear from their responses what that on-going performance was and whether it represented a performance obligation, because, in some cases, their "performance" seemed to relate to maintaining or protecting their intellectual property.

14. In other cases, entities had difficulty applying the criteria for identifying separate performance obligations in paragraphs 23-30 of the exposure draft because of the intangible nature of the license and the closely related on-going performance, which in some cases may be implicit in the contract. In their view, based on the proposals in the exposure draft, a license or a right to use would almost always be identified as a distinct good or service and therefore identified as a separate performance obligation. This is because it is often difficult to determine if the activities the entity undertakes represents promises to transfer a good or service to a customer and furthermore a customer can almost always benefit in some way from the license itself.

15. Other respondents explained that their contracts require them to grant the customer a license to use their intellectual property for a defined period of time or for a specified term (i.e., a time-based or term license). In these cases, those

respondents explained that they thought revenue should be recognized over the term of the license. However, it was unclear to them that they could do so under the proposals, because they were unsure whether the Boards intended for any contracts that include a license to be able to apply the criteria for satisfying a performance obligation satisfied over time. This sentiment was relayed by many of the respondents and is reflected in the following comment:

> We suggest that the treatment of licensing should follow the principle for determining satisfaction of performance obligations, that is, criteria in paragraphs 35 and 36 should be applied to determine whether a performance obligation is an obligation satisfied over time rather than providing an exceptional treatment that licensing contracts represent performance obligations satisfied at a point in time. (CL #188 Accounting Standards Board of Japan)

16. When considering the issue related to licenses, some respondents also requested that the Boards reconsider the scope of the leases project which currently excludes licenses and other intangible assets. This is because in their view it would be more appropriate to include all 'right to use' contracts in the scope of the leases project, rather than addressing a portion of them within the revenue project.

Staff analysis

Applying the model

17. The 2011 Implementation Guidance for licenses and rights to use was meant to clarify the application of the model to contracts that include a promise to transfer a license or right to use to a customer. The feedback on the exposure draft indicated that a number of respondents misunderstood the proposals. The staff thinks that some of these questions can be addressed in drafting. For example, the staff thinks the guidance can be clarified to indicate that not *all* agreements that include a license would result in revenue being recognized at a point in time, but rather an entity would need to assess the terms of the agreement and apply the principles outlined in the model.

18. However, the feedback also indicated that some respondents had difficulty applying the model to these types of contracts with respect to:

    (a) identifying the separate promises in the contract, specifically what is the nature of the promised assets, and

    (b) determining whether a license or right to use is distinct when there is also a service provided that is not readily available to the customer.

19. Overall, the staff observe that some respondents may have had difficulty in applying the revenue model because the rights and obligations associated with a license or right to use are created by the agreements and therefore the nature of the rights and obligations can vary significantly. Accordingly, the staff recommend refining the implementation guidance for licenses to clarify:

    (a) what represents a promise to transfer a service to a customer (i.e., a performance obligation),

    (b) when those promises should be identified as separate performance obligations, and

    (c) when those performance obligations are satisfied.

What has the entity promised to transfer to the customer?

20. Rights and obligations in a contract may include a promise to transfer a license or right to use as well as an explicit or implicit promise to undertake activities. However, those activities will represent a performance obligation only when they either transfer a good or service to a customer or create a valid expectation of the customer that the entity will transfer a good or service. Paragraph 25 of the exposure draft also explains that “Performance obligations do not include activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the customer as those activities occur.” Accordingly, activities undertaken by the entity (i.e., a licensor) for its own benefit do not transfer a good or service to a customer (i.e., a licensee) and thus would not represent a performance obligation.

21. However, determining whether an activity provides a service to the customer, and therefore is a performance obligation, can be difficult in contracts that include promises to transfer a license. This is because often the customer (i.e., the licensee) receives some ancillary benefit from an activity undertaken by the entity.

22. For an activity to transfer a good or service to the customer, it would need to be specific and identifiable, such that the customer could enforce the promise if necessary. This would be the case when the promise is clearly defined in the contract or when the customer can objectively determine whether or not a good or service is transferred based on an entity's customary business practice. (Paragraph 24 of the exposure draft indicates that an entity's customary business practices could also give rise to a performance obligation because the customary business practice creates a valid expectation of the customer that the entity will transfer a good or service.) Consider the application of these principles in the following examples:

Example 1 – Franchise Agreement

Entity A (i.e., the franchisor), enters into a franchise agreement with Entity B, (i.e., the franchisee). The agreement specifies that Entity B obtains the right to operate a garden maintenance business in a specified suburban area. Entity B also obtains right to the entity's trade name. Entity A will provide general advertising of the trade name as part of its customary business practice. The arrangement also requires Entity A to engage in specific agreed-upon advertising campaigns to help promote the garden maintenance business in the suburban area in which Entity B operates.

Example 2 – Drug Distribution Agreement

Entity C (i.e., the licensor), enters into a distribution license agreement with Entity D (i.e., the licensee). Under this agreement, Entity D obtains an exclusive right to distribute a drug developed and manufactured by Entity C in a single country. Entity D obtains that distribution right for a period of five years, which is less than the life of the patent of the drug held by Entity C. No other rights are specified in the contract; however, Entity C will engage in general advertising to maintain the value of its brand in all areas in which it markets its drugs.

23. In both of these examples the entity (i.e., the franchisor and the licensor, respectively) is undertaking activities to maintain the value of its franchise trade name or drug brand name. These activities could include marketing activities to generate positive brand associations, brand awareness, and ultimately the loyalty of customers. These activities will benefit both the entity and the franchisee/licensee, because the entity will maintain the value of its trade or brand name and the franchisee/licensee may generate more business. However, the activities and promises in each contract differ with respect to whether they are directly identifiable with the customer and contract, thus different conclusions may be reached about which promises represent performance obligations.

24. In Example 1, Entity A has made a specific and identifiable promise to Entity B to provide marketing activities to target the geographic area where Entity B will be operating. As a result, Entity A's promises will result in the transfer of a service to Entity B. Furthermore, Entity B can enforce those promises if necessary. As a result, the advertising activities represent a performance obligation.

25. Comparatively, in Example 2, Entity C has not made a specific and identifiable promise to Entity D. Although, Entity D may receive some marginal benefit from the general marketing activities of Entity C, it is unclear whether those activities will transfer a service to Entity D. Furthermore, the activity that Entity C is undertaking primarily benefits Entity C by protecting the value of the entity's intellectual property asset (the drug being distributed by Entity D). As a result, the activity undertaken by Entity C would not constitute a performance obligation.

Are the promises distinct?

26. In order for a promised good or service to be distinct (and thus be identified as a separate performance obligation), the customer must be able to benefit from the good or service either on its own or together with other resources that are readily available to the customer (paragraph 28(b) of the exposure draft), or, incorporating the words from Agenda Paper 7A/161A, the good or service must be capable of being distinct. Furthermore, the good or service will only be

accounted for as a separate performance obligation if it is distinct within context of the contract (see Agenda Paper 7A/161A).

27. Applying these criteria to contracts that promise to transfer a license or right to use may be difficult because often the customer can obtain some benefit from the transferred license on its own or with other resources that are readily available to them. However, for the customer to fully benefit from the license the license may need to be combined with a service that is integral to the license (a service that is not readily available to the customer). Additionally, the license may not be distinct if the license cannot be purchased without the service, or if, without the service, the benefit the customer receives from the license would be significantly (and adversely) affected. Consider the following example:

> **Example 3 – Software License**
>
> Entity E, (i.e., the licensor), enters into a software license agreement that provides Entity F (i.e., the licensee) a right to use specific software (e.g., anti-virus software) for one year. In addition, Entity E promises to provide Entity F with unspecified software updates that will protect Entity F's computer from any viruses that may arise in the future.

28. In Example 3, Entity F can obtain *some* benefit from the software on the date of purchase because the computer will be scanned and protected from viruses existing as of that date. However, over the term of the license, as new viruses arise, the benefit obtained from the original license diminishes significantly if Entity F does not download the updates. While Entity F can still utilize the original license without the upgrades, the utility of the license will be adversely affected without those upgrades and furthermore it will not reflect the promised good that Entity E inherently promised (i.e., a product that protects against the latest computer viruses). In other words, the software license and the updates *together* depict the substance of the contract.

29. Applying the criteria for identifying separate performance obligations may also be difficult in circumstances in which the contract includes a promise to provide *access* to intellectual property or to new intellectual property that may be developed by the entity. This access is a delivery mechanism for the license and

may occur for example in with some software arrangements where the entity hosts the intellectual property in a central location, which the customer accesses when needed. In these cases, accounting for the promise to provide access to a license separate from any license that may transfer to the entity will not depict the substance of the contract. Consider the following example:

> **Example 4 – Database Access**
>
> Entity G (i.e., the licensor) enters into a database access agreement with Entity H (i.e., the licensee). Entity H obtains the right to access a continuously updated online database for 12 months. This database contains the latest accounting, tax and finance-related regulations. Entity H can access a web portal maintained by Entity G and obtain the standards and regulations when needed. The database is continuously being updated by Entity H with the latest issued regulations.

30. In Example 4, Entity H can access the database from the inception of the agreement. However, Entity H requires access in order to use the licensed asset (i.e., the database). Without the delivery mechanism of a web portal (i.e., access), Entity H cannot benefit from its right to the database because the license is not capable of being distinct. Entity H requires the use of Entity G's servers (i.e., a hosting mechanism) because the database itself will not be transferred to Entity H. Entity G's promise to transfer a right to the database (i.e., a license) is of no benefit to Entity H without Entity H's ability to access the database. Both performance obligations must be accounted for together to relay the substance of the arrangement, which is for Entity G to provide to Entity H the latest regulations and news in the finance industry over the term of the license.

When are the performance obligations satisfied?

31. For revenue to be recognized, a performance obligation must be satisfied. Satisfaction of a performance obligation occurs when an entity has transferred a promised good or service to a customer (i.e., when the entity has performed), which can happen at a point in time or over time.

32. A contract may contain only a promise to transfer a license. In this instance, the license performance obligation would be considered satisfied when the customer obtains control of the rights, because the entity's performance is complete. This may be demonstrated by the following example:

> **Example 5 –Compound License**
>
> Entity I (i.e., the licensor), enters into a license agreement with Entity J (i.e., the licensee). Entity J obtains the right to use a drug compound for ten years. Entity J obtains the right on the same day the agreement is entered into and begins use of the compound shortly thereafter. Entity I has no further obligations to Entity J.

33. In Example 5, Entity I has promised to provide a specific compound and has transferred that good (i.e., the compound) upon entering into the license agreement with Entity J. Therefore, even though Entity J can use the compound over a period of time, Entity I's performance obligation is satisfied at the point in time when Entity J obtains control of the compound. Entity J obtains control of the compound upon the signing of the agreement, because Entity J can begin using and benefiting from the compound and Entity I has no additional performance obligations.

34. In other cases, as in Example 3 above, a contract may contain a promise to transfer a license and a service. When that license is not distinct and therefore the license and service are accounted for as a single performance obligation, that performance obligation will be evaluated against the criteria in paragraphs 35 and 37 (of the exposure draft) to determine when that performance obligation is satisfied. As illustrated in an example in paragraph IG36/B36, revenue can be recognized over time for contracts that contain both a license and a service that represent a single separate performance obligation. In these cases, it is likely that the criterion in paragraph 35(b)(i) (of the exposure draft) will be met, because the entity's performance of those services associated with the licenses (i) will not create an asset with an alternative use and (ii) will be simultaneously received and consumed by the customer.

When does control transfer when there are restrictions on use?

35. Determining when control transfers can be difficult if the license includes restrictions. Consider the following examples:

> **Example 6 – Software Access Code**
>
> Entity K (i.e., licensor) enters into a software license agreement with Entity L (i.e., licensee) on April 1. Entity L obtains the right to use that software for one year beginning July 1. Entity K provides the access code to Entity L on May 1.
>
> **Example 7 – License restrictions**
>
> Entity M (i.e., the licensor), enters into a television episode license agreement with Entity N (i.e., the licensee) on January 1. Entity M obtains the right to show existing episodes of a television series for a period of two years starting March 1. Each episode may only be shown four times over this period and the episodes must be shown in a particular order. Entity N is prohibited from selling or otherwise transferring its right to the episodes.

36. Example 6 illustrates the application of the revenue model when there is a restriction on initial access to a licensed asset (i.e., software). Example 7 also illustrates this as well as restrictions on use during the term of the license. The question arises as to how licensor-imposed restrictions (such as sequence requirements or interruptions in the ability of the licensee to use the intellectual property during the term of the license) affect the determination of when control has transferred to the customer.

37. In Example 6, Entity L, the licensee, is provided an access code prior to the start of the term of the license. However, because the access code will not be valid until July 1, Entity L will not be able to use the software until that time. With no ability to use the software prior to the start of term of the license and no ability to sell, exchange or otherwise transfer or monetize the access code until July 1, Entity L does not obtain control over the transferred promised asset until July 1. Until the start of the license period, Entity L does not control a resource; that is, Entity L does not have the ability to direct the use of and obtain substantially all of the remaining benefits from the asset (paragraph 32 of the exposure draft).

Accordingly, Entity K's has not transferred control and therefore cannot recognize revenue prior to July 1.

38. The staff do not believe that restrictions on use during the term of the license prevent a customer from obtaining control of the asset (i.e., the television episodes, rights to access the database). In Example 7, as of the beginning of the term of the license (which can differ from the date of the license agreement), Entity N obtains the right to already-produced television episodes. Prior to the start of the term of the license, Entity N does not control the licensed episodes because Entity N cannot (1) sell, exchange or otherwise transfer or pledge the right (which are examples of how potential cash flows can be obtained from an asset according to paragraph 32 of the exposure draft) and (2) cannot air the licensed television episodes (i.e., cannot use the promised asset). However, as of March 1, Entity N can direct the use of and obtain the benefit from the television episodes, and can prevent other entities from doing so. Accordingly, as of this date, Entity N has control of the licensed asset. The sequence and airing restrictions represent characteristics of the licensed asset, not restrictions on Entity N's ability to benefit from the asset.

Staff recommendation: suggested refinements

39. As explained in paragraph 19 above, the staff recommends improving the drafting of the implementation guidance generally to clarify how the revenue model should be applied to licenses and rights to use. In addition, the staff recommends refining the implementation guidance to clarify:
    - (a) what represents a promise to the customer (i.e., a performance obligation);
    - (b) when those performance obligations are distinct (i.e., separate performance obligations); and
    - (c) when those performance obligations may be satisfied.

40. The staff believe those clarifications are as follows:

(a) *A promise to the customer:* A performance obligation in a contract with a customer must transfer a good or service to a customer, or create a valid expectation of the customer that the entity will transfer a good or service to a customer. In determining whether activities that the entity implicitly or explicitly promises to undertake in connection with a license represent a service to the customer, an entity should consider whether those activities are specific to the customer and identifiable within the contract or as a result of an entity's customary business practices. This may include, for example, a specific service such as advertising that a licensor agrees to undertake in the geographic area in which the licensee will use the license. This would not include activities that an entity undertakes that do not transfer a good or service to the customer because for example, it is done to maintain the value in its own intellectual property.

(b) *Separate performance obligations:* A promise to transfer a license to a customer may be identified as a separate performance obligation (i.e., as a distinct good or service) only when the customer can benefit from the transfer of the license on its own or with other resources that are readily available to the customer; that is, the customer can benefit from the license without services promised in the contract that are not readily available to the customer. When the entity promises to provide a service in addition to that license, the entity must consider whether the license and the service represent a single performance obligation because together they depict the substance of the contract. In addition, although the Boards do not view a license as a promise to provide access to an entity's intellectual property, some agreements may include a service of access, because for example the entity promises to make the intellectual property available for the customer when needed. In those cases, typically, the license would be considered with the service of access and revenue would be recognized over time.

(c) *When are the performance obligations satisfied:* The separate performance obligations identified in a contract with a customer that includes a promise to transfer a license or right to use should be assessed against the criteria in

paragraphs 35 to 37 in the exposure draft to determine when those performance obligations are satisfied. Sometimes, that agreement will include performance obligations (i.e., services) that are not separate from the transfer of the license (because the license is not distinct) and thus those performance obligations may be satisfied over time. However, when the entity promises to transfer only a license to a customer, performance may be complete and revenue may be recognized at the time that license is transferred to that customer. Control of the license cannot be transferred before the beginning of the period during which the customer can use and benefit from the licensed intellectual property. Restrictions on the use of a transferred asset during the term of a license represent characteristics of the licensed asset and accordingly, they should not affect the evaluation of when control over the promised asset transfers to the customer.

41. The staff considered whether it would be possible to provide additional guidance, such as characteristics of licenses that may be considered to be distinct, that could help distinguish when revenue may be recognized either at point in time or over time for contracts that include a license. However, given the vast array of types of license and right to use contracts, the staff could not find a definitive list of characteristics common to all licenses or list of features in (or related to) a contract that help indicate instances when a another promise in the same contract (i.e., a service) is distinct from a license.

Question
Do the Boards agree with the suggested refinements in paragraph 40?

Appendix A: Outlining the differences in revenue recognition for licenses and the current proposals for lessor accounting

A1. The first step under the current lessor accounting proposals is to determine whether a contract contains a lease or whether it is a service contract in its entirety. This step is not unlike the requirement in the revenue model to identify the separate performance obligations in a contract because it embeds an assessment of whether the use of the underlying asset is distinct from other services that might be provided in the contract.

A2. The elements identified in the first step would then be accounted for differently depending on their nature. For example, if the contract is a service contract in its entirety, that contract would be accounted for under the revenue model, and if the contract is a lease contract in its entirety, it would be accounted for under the leases model. In all other cases, the lessor would allocate the consideration to each element using the allocation principle in the revenue model (e.g., stand-alone selling prices).

A3. Subsequent accounting for the lease element would be determined by the lessor accounting model based on an assessment of the consumption of the underlying asset (the leased asset) by the lessee. Specifically:

Lessee consumption of the underlying asset		**Accounting**
Little or no consumption	Applies to all leases of land and/or buildings unless the arrangement is an in-substance purchase.	An approach similar to current operating lease accounting *(i.e., over time recognition)*
More than insignificant consumption	Applies to all leases of assets other than land and/or buildings (e.g., equipment and vehicles), unless there is little consumption of the underlying asset over the lease term.	Receivable and residual approach *(i.e., point in time recognition, when the underlying asset is made available to the lessee)*

A4. In the context of recognition, the main difference between the lessor model and the revenue model, is the criteria for determining the timing of revenue recognition[1]. Specifically, the leases model determines the timing of revenue recognition based on the level of consumption of the underlying asset, while the revenue model determines the timing of revenue recognition based on when the performance obligations are satisfied. Both may result in revenue recognition either at a point in time or over time, but the accounting result arises from different approaches.

A5. In the staff's view, applying the lessor model (i.e., how much of the entity's underlying asset is consumed) to contracts that include promises to transfer licenses would be extremely difficult. This is because in a lease of a tangible asset, the initial step is to identify the underlying asset to which the entity has a right to use because this is the asset that will be considered for consumption. In a license, it becomes more difficult to identify the underlying asset because of the nature of intangible assets. For example, is the underlying asset in a license:

(a) a portion of the intellectual property that has been licensed (and if so, which portion);

(b) the total pool of intellectual property from which the license is derived; or

(c) the right to use the intellectual property (in other words, there is no underlying asset)?

A6. These questions are more easily answered in the context of contracts included in the scope of the leases project because the assets underlying the rights to use are identifiable tangible assets, which by their nature are not replicable, cannot be used by more than one party at the same time and have a finite number of pieces in which they can be divided.

[1] The staff are aware that there are some measurement differences between the lessor model and the revenue recognition principles (e.g., options to renew, variable consideration). Those differences will be addressed when the related revenue measurement issues are discussed later in redeliberation.

A7. Because of the difference in the nature of tangible and intangible assets as explained above, the staff do not think that the principles developed for leases should be applied to licences until the Boards have comprehensively addressed intangible assets. This thinking is consistent with the Boards previous decision as described in paragraph BC36 in the 2010 Leases Exposure Draft:

> "Although the boards have identified no conceptual reason why a lease accounting standard should exclude intangible assets, the boards decided that they would not include leases of intangible assets within the scope of the proposed IFRS until they had considered the accounting for intangible assets more broadly."

Appendix B: Suggested improvements to the 2011 exposure draft

B1. The following table lists the proposed requirements from the exposure draft that relate to the implementation guidance for licenses and rights to use and identifies which of those proposals might change as a result of the staff recommendations in this paper.

Proposals from 2011 Exposure Draft	Suggested Improvements
IG34. If an entity grants to a customer a license or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights. Control of rights to use intellectual property cannot be transferred before the beginning of the period during which the customer can use and benefit from the licensed intellectual property. For example, if a software license period begins before the customer obtains an access code that enables the customer to use the software, an entity should not recognize revenue before the entity provides the access code.	• Clarifications are recommended. See paragraph 40.
IG35. To determine the amount of revenue recognized for transferring a license to a customer, the entity should apply the proposed guidance on determining and allocating the transaction price (including paragraph 85 on constraining the amount	No material change is anticipated.

of revenue recognized to amounts that are reasonably assured).	
IG36. If an entity has other performance obligations in the contract, the entity should apply the criteria in paragraphs 23–30 to determine whether the promised rights are a separate performance obligation or whether the performance obligation for the rights should be combined with those other performance obligations in the contract. For example, if an entity grants a license that is not distinct because the customer cannot benefit from the license without an additional service that the entity promises to provide, the entity should account for the combined license and service as a single performance obligation satisfied over time.	• Clarifications are recommended. See paragraph 40.
IG37. If an entity has a patent to intellectual property that it licenses to customers, the entity may represent and guarantee to its customers that it has a valid patent and that it will defend and maintain that patent. That promise to maintain and defend patent rights is not a performance obligation because it does not transfer a good or service to the customer. Defending a patent protects the value of the entity's intellectual property assets.	• Clarifications are recommended. See paragraph 40.