

STAFF PAPER

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Project	Revenue from Contracts with Customers		
Paper topic	Cover paper		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. This cover paper:
 - (a) introduces the papers for this meeting (see paragraphs 2–8);
 - (b) provides a summary of the staff recommendations in each of those papers (see paragraph 9); and
 - (c) sets out the next steps of the project (see paragraphs 10–11).

Papers for this meeting

2. The papers for this meeting are as follows:
 - (a) Agenda Papers 7A–7G, which discuss the feedback received from respondents on the IASB [Exposure Draft Clarifications to IFRS 15](#) including the staff analysis and recommendations to assist the IASB to make its final decisions.

IASB-only meeting

- (i) Agenda Papers 7A *Summary of feedback on Exposure Draft Clarifications to IFRS 15*
- (ii) Agenda Paper 7B *Identifying performance obligations—feedback on ED Clarifications to IFRS 15 and redeliberations*

- (iii) Agenda Paper 7C *Licensing—feedback on ED Clarifications to IFRS 15 and redeliberations*
- (iv) Agenda Paper 7D *Practical expedients on transition—feedback on ED Clarifications to IFRS 15 and redeliberations*
- (v) Agenda Paper 7E *Topics for which the IASB did not propose any clarifications—feedback on ED Clarifications to IFRS 15 and redeliberations*

Joint meeting with the FASB

- (vi) Agenda Paper 7F *Principal versus agent considerations—feedback on ED Clarifications to IFRS 15*
 - (vii) Agenda Paper 7G *Principal versus Agent Considerations (Redeliberations)*
- (b) Agenda Paper 7H *Constraining estimates of variable consideration when the consideration varies based on a future market price, which considers an issue relating to the application of specified requirements in IFRS 15 Revenue from Contracts with Customers.*

***Feedback on ED and redeliberations
Agenda Papers 7A–7E for IASB-only meeting***

3. Agenda Paper 7A *Summary of feedback on Exposure Draft Clarifications to IFRS 15* is presented for the IASB-only meeting. It discusses the feedback from respondents on (i) the high hurdle set by the IASB when considering whether to amend IFRS 15; and (ii) the status of convergence of IFRS 15 and Topic 606. This paper does not include any staff recommendations or any questions for the IASB.
4. The following Agenda Papers are presented for the IASB-only meeting. Each paper discusses (i) the summary of the feedback from respondents on the IASB’s proposals to clarify the application of the requirements in respect of the issues identified in the IASB Exposure Draft *Clarifications to IFRS 15*, and (ii) the staff analysis and recommendations to assist the IASB to make its final decisions.
- (a) Agenda Paper 7B *Identifying performance obligations—feedback on ED Clarifications to IFRS 15 and redeliberations.*

- (b) *Agenda Paper 7C Licensing—feedback on ED Clarifications to IFRS 15 and redeliberations.*

This paper also considers an issue relating to the licensing guidance in IFRS 15 emerging from the discussions of the Transition Resource Group for Revenue Recognition at its meeting in November 2015.

- (c) *Agenda Paper 7D Practical expedients on transition—feedback on ED Clarifications to IFRS 15 and redeliberations.*
- (d) *Agenda Paper 7E Topics for which the IASB did not propose any clarifications—feedback on ED Clarifications to IFRS 15 and redeliberations.*

Status of FASB redeliberations in respect of topics covered by Agenda Papers 7A–7E

5. In October 2015, the FASB completed redeliberations of its proposals in respect of topics covered by Agenda Papers 7B and 7C. The FASB finalised most of its proposals and also made additional decisions within the scope of those topics. The FASB’s decisions have been explained in the respective agenda papers.
6. The FASB’s proposed Accounting Standard Update (ASU) on topics covered by Agenda Papers 7D and 7E was open for comment until 16 November 2015. The FASB is expected to redeliberate those proposals in early 2016.

**Feedback on ED and redeliberations
Agenda Papers 7F–7G for joint meeting with the FASB**

7. The IASB Exposure Draft *Clarifications to IFRS 15* and the FASB’s proposed Accounting Standard Update (ASU) *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* contained the same proposals in respect of principal versus agent considerations. The feedback on the proposals and the staff’s analysis and recommendations will be redeliberated jointly by the IASB and the FASB at their December 2015 meeting. For this purpose, the following agenda papers should be read together:
- (a) Agenda Paper 7F *Principal versus agent considerations—feedback on ED Clarifications to IFRS 15*, which discusses the summary of the feedback received by the IASB on the Boards’ proposals to clarify the principal versus agent considerations.
 - (b) FASB Memo No. 8 *Revenue Recognition—Gross Versus Net Revenue Reporting: Comment Letter Summary*, which discusses the summary of the feedback received by the FASB on the Boards’ proposals to clarify the principal versus agent considerations.
 - (c) Agenda Paper 7G / FASB Memo No. 9 *Principal versus Agent Considerations (Redeliberations)*, which discusses the staff’s analysis of the feedback received and recommendations to assist the Boards to make final decisions.

Other agenda papers

8. Agenda Paper 7H *Constraining estimates of variable consideration when the consideration varies based on a future market price* discusses whether the requirement in IFRS 15 to constrain estimates of variable consideration must be applied to consideration that varies based on a future market price.

Summary of staff recommendations

9. A summary of the staff recommendations in each of the papers is set out below.

Feedback on ED and redeliberations agenda papers

Agenda Paper 7A
Summary of feedback on ED

This paper does not include any staff recommendations or questions for the IASB.

Agenda Paper 7B
Identifying performance obligations

We recommend that the IASB:

- (a) affirms its decision not to amend the existing wording of paragraph 29 of IFRS 15 in relation to the separately identifiable principle;
- (b) revises Example 10 Case B to address concerns raised by respondents;
- (c) affirms its decision not to amend the Standard in relation to promised goods or services that are immaterial in the context of the contract; and
- (d) affirms its decision not to introduce an accounting policy election for shipping and handling activities.

Agenda Paper 7C
Licensing

We recommend that the IASB affirms its decisions proposed in the ED and, subject to drafting changes and the addition of further explanatory material, to finalise the proposals made in the ED. More specifically, we recommend that the IASB affirms its decisions:

- (a) to clarify the Application Guidance and accompanying Illustrative Examples on determining the nature of the entity's promise in granting a licence of intellectual property;
- (b) not to replace some of the existing Application Guidance with an alternative approach proposed by the FASB for determining the nature of the entity's promise in granting a licence of intellectual property;
- (c) not to add additional Application Guidance and Illustrative Examples addressing the effect of particular contractual restrictions in a licence;
- (d) not to add additional Application Guidance addressing when the guidance on determining the nature of the

entity's promise in granting a licence applies;

- (e) to clarify the Application Guidance on the scope and applicability of the sales-based and usage-based royalties exception (royalties constraint); and
- (f) not to change the scope of the royalties constraint.

We also recommend that the IASB conclude at this meeting that the issues raised about licence renewals and identifying attributes of a single licence versus identifying additional licences, which were discussed in the November 2015 TRG meeting, are outside the scope of the present project to determine whether or not to finalise the amendments proposed in the ED.

Agenda Paper 7D
*Practical expedients on
transition*

Completed contracts practical expedient

We recommend that the IASB affirms the proposal in the ED to permit an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts (as defined in paragraph C2) at the beginning of the earliest period presented.

We also recommend that the IASB permit entities applying the modified retrospective transition method to apply IFRS 15 to all contracts at the date of initial application (as additionally proposed by the FASB) or to contracts that are not completed contracts at the date of initial application.

Contract modifications practical expedient

We recommend that the IASB affirms its proposal in the ED to permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price.

Further, we also recommend that the IASB allow entities electing the modified retrospective transition method and using the contract modifications practical expedient to apply the expedient either at:

- (a) the beginning of the earliest period presented (as proposed by the IASB); or
- (b) the date of initial application of IFRS 15 (as proposed by the FASB).

Definition of completed contract

We recommend that the IASB should retain the existing definition of a completed contract.

Agenda Paper 7E
Topics for which the IASB did not propose any clarifications

We recommend that the IASB:

- (a) reaffirms its decision not to amend IFRS 15 with respect to collectability, the measurement of non-cash consideration and the presentation of sales taxes;
- (b) explains its reasoning in the Basis for Conclusions of IFRS 15; and
- (c) to the extent possible, explains the implications of any differences between IFRS 15 and Topic 606 for these topics.

We will monitor the FASB’s redeliberations of its proposals on these three topics.

Agenda Paper 7F
Principal versus agent considerations—feedback on ED

This paper does not include any questions for the IASB and staff recommendations.

Agenda Paper 7G
Principal versus Agent Considerations (Redeliberations)

We recommend that the Boards affirm the proposals in the ED. In addition, we also recommend the Boards to consider deleting the credit risk indicator from paragraph B37 of IFRS 15.

Other agenda papers

Agenda Paper 7H
Constraining market price variability

We have analysed and concluded that variability arising solely from changes in a market price would not be subject to the variable consideration constraint in IFRS 15. We ask whether the IASB agrees with our analysis and conclusion.

Next Steps

10. We will bring a paper to the January 2015 meeting of the IASB to discuss the summary of any feedback received and redeliberating the IASB's proposals:
 - (a) to allow early application of *Clarifications to IFRS 15*; and
 - (b) to require an entity to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
11. That paper will also include the staff recommendations on the effective date of *Clarifications to IFRS 15*.