STAFF PAPER

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IASB Meeting

Project	**Revenue from Contracts with Customers**
Paper topic	Topics for which the IASB did not propose any clarifications—feedback on ED *Clarifications to IFRS 15* and redeliberations

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Purpose of the paper

1. This paper provides a summary of the feedback received in response to question 5 in the Exposure Draft *Clarifications to IFRS 15* (ED), which was issued for public comment in July 2015.

2. Question 5 in the ED asked respondents if they agreed with the IASB's decision that amendments to IFRS 15 are not required on the following three topics for which the FASB was expected to propose amendments to Topic 606 *Revenue from Contracts with Customers*:

   (a) collectability;

   (b) the measurement of non-cash consideration; and

   (c) the presentation of sales taxes.

3. The Basis for Conclusions on the IASB's ED explained the FASB's decisions.

4. The FASB published its Proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients* in September 2015 with comments due by 16 November 2015. The FASB is expected to redeliberate its proposals in this Proposed ASU in early 2016.

Staff recommendations

5. The staff recommend that, in the light of responses to the ED, 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.

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

Overall summary of feedback

7. In reaching its conclusions not to amend IFRS 15 with respect to collectability, the measurement of non-cash consideration and the presentation of sales taxes, the IASB decided to apply a high hurdle when considering whether to amend the Standard and to minimise changes to the extent possible, considering the following:

   (a) 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 the Standard to the extent that the IASB's action might be disruptive to the implementation process; and

   (b) the risk of unintended consequences of amending the Standard.

8. The majority of respondents agreed with the IASB's decisions not to propose to amend IFRS 15 with respect to collectability, the measurement of non-cash consideration and the presentation of sales taxes.

9. Paragraphs 12–28 of Agenda Paper 7A set out the general feedback of respondents regarding the convergence of IFRS 15 and Topic 606, which are relevant when considering collectability, the measurement of non-cash consideration and the presentation of sales taxes.

10. As explained in Agenda Paper 7A, if the Boards finalise different amendments to IFRS 15 and Topic 606, a majority of respondents suggested that the IASB should update Appendix A *Comparison of IFRS 15 and Topic 606* of the Basis for Conclusions to reflect those different amendments. Some recommended that the IASB should clearly explain whether the differing words in Topic 606 would result in the same outcomes as applying the words in IFRS 15. Others thought that different words could be interpreted differently and, consequently, they recommended that the IASB should acknowledge in the Basis for Conclusions that outcomes could be different if IFRS 15 and Topic 606 include different words.

11. Some respondents stated that the explanations in the Basis for Conclusions on the ED had been very useful, ie the explanations about (a) whether the IASB expects different outcomes under IFRS 15 compared to the FASB's proposals in relation to collectability; and (b) whether the FASB's proposal in respect of the date of measurement of non-cash consideration is the only possible outcome of applying IFRS 15. Those respondents recommended that the IASB should incorporate those explanations in the Basis for Conclusions on IFRS 15.

12. Although understanding the IASB's reasons for not proposing amendments, the large accounting firms and an accountancy body nonetheless encouraged the IASB to consider the benefits of maintaining full convergence with Topic 606. A majority of the large accounting firms recommended that the ideal approach would be to make the same amendments for the topics in which the Boards intend to remain converged. The accountancy body noted that, if IFRS stakeholders consider the FASB amendments to be helpful, then they might often be used in practice so it would seem that there is little to be gained from not adopting the amendments made by the FASB.

13. In respect of collectability and non-cash consideration, a few respondents indicated that they disagree with the proposals in the ED, suggesting that further clarification is necessary to avoid potential diversity in practice. Nearly half of these respondents explicitly expressed their preference for the FASB's approach. In respect of the presentation of sales taxes, a smaller number of respondents, mainly a majority of the large accounting firms, also indicated a preference for the FASB's proposals.

14. The remainder of this paper summarises the feedback received on each topic covered within question 5 of the ED, together with the staff analysis. The staff conclusions are set out at the end of each subject.

Collectability and contract terminations

Summary of proposals

15. In identifying whether there is a contract with a customer (ie as part of Step 1 of the revenue recognition model), 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.

16. For a contract that fails Step 1 of the revenue recognition model, paragraph 15 of IFRS 15 specifies when the consideration received from a customer should be recognised as revenue. Paragraph 15(b) states that revenue should be recognised when the contract has been terminated and the consideration received from customers is non-refundable.

17. Stakeholders raised implementation questions about how to apply the collectability criterion in paragraph 9(e) in instances in which the entity has received non-refundable consideration from a customer with poor credit quality. In particular, questions were raised about (a) how to apply the collectability guidance in paragraph 9(e) when it is not probable that the total consideration promised in the contract is collectable, and (b) when to recognise revenue in accordance with paragraph 15 for non-refundable consideration received from the customer when the contract does not meet the criteria in paragraph 9.

18. In the light of these questions, the FASB decided to propose clarifications to Topic 606 relating to collectability and contract terminations. In particular, the FASB decided to:

    (a) clarify in Topic 606 that the objective of the collectability assessment is to determine whether the contract is valid and represents a genuine transaction on the basis of whether a customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer; and

(b) add a new criterion to the guidance on when an entity should recognise consideration received as revenue when a contract does not meet the criteria in paragraph 9. This would allow an entity to recognise 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.

19. However, the IASB did not propose any amendments with respect to this topic. The IASB did not anticipate that any practical change in outcomes would arise if any of the clarifications decided upon by the FASB were made to IFRS 15. This is because the existing requirements in IFRS 15 and explanatory material in the basis for conclusions already address this matter.

20. For example, the IASB thought that the clarifications proposed by the FASB with respect to collectability were already addressed in paragraph BC46 of IFRS 15. Consequently, the IASB concluded that the potential risks of making changes to IFRS 15 were not justified in this case, because those changes were not considered to be necessary.

Analysis of feedback

21. 56 respondents commented on collectability. The majority of these respondents indicated that they agreed with the IASB's decision not to propose amendments to IFRS 15 with respect to collectability. This was for the following reasons:

(a) many supported the IASB's position that the existing requirement in IFRS 15 and the explanatory material in the basis for conclusion are sufficient. Some of those respondents stated that the implementation issues that may arise when collectability is not probable can be dealt with in practice without the need for additional standard-setting;

(b) a small number noted that they agreed with the IASB's view that the requirements on collectability would be applied only to a small population of contracts. These respondents noted that it is reasonable to expect that an entity would enter into a contract only when collection is considered probable;

(c) a small number noted that there are potential wider implications of amending IFRS 15 at this time and that, in their view, amendments should be restricted to an absolute minimum in order not to disrupt implementation activities that are already underway;

(d) finally, a small number of respondents also noted that they expect the practical effect of not making the same clarifications as the FASB with respect to collectability to be minor.

22. A few respondents (mainly two of the large accounting firms, a few national standard-setters, accountancy bodies and preparers) did not agree with the IASB's decision not to propose amendments to IFRS 15 with respect to collectability. This was for the following reasons:

(a) these respondents thought that it would be helpful to have more guidance on assessing collectability. One respondent noted that this is because they do not agree with the IASB's explanation in BC92 of the ED that the population of contracts to which any clarification of collectability would apply is small. In their view, this conclusion does not acknowledge the requirement in paragraph 13 to reconsider collectability when there is a significant change in facts and circumstances; nor does it acknowledge that such circumstances may be more common in some industries.

(b) a small number of respondents also noted that, in their view, it is important that IFRS 15 uses the same wording for collectability as Topic 606. These respondents thought that converged wording would be helpful in reducing the possibility of diversity in practice.

23. With regard to contract terminations, most respondents that commented agreed with the IASB's proposal not to amend IFRS 15. These respondents noted that an entity applying IFRS 15 would normally conclude that a contract termination means that an

entity has stopped transferring good or services, rather than stopped pursuing collection from the customer.

Conclusion

24. We have reviewed the FASB's proposed amendments and the comments received from respondents to the IASB's ED (many of whom provided comments in the light of reading both exposure drafts). Having done so, we have then considered whether the conclusions of the IASB in the ED that amendments to IFRS 15 are not necessary remain valid.

25. With respect to collectability, the FASB's proposed amendments are consistent with those expected by the IASB when reaching its decision not to propose similar clarifications to IFRS 15. Consequently, for the reasons explained in April 2015 Agenda Paper 7B and summarised in the Basis for Conclusions on the IASB's ED, the staff continue to think that the requirements in paragraph 9(e) and the supporting explanation in paragraph BC46 of IFRS 15 are sufficient. Furthermore, we note that a majority of respondents to the IASB's ED agreed with this view.

26. Similarly, with respect to contract terminations, the FASB's proposed amendments are consistent with those expected by the IASB when reaching its decision not to propose any similar clarifications to IFRS 15. Consequently, for the reasons explained in April 2015 Agenda Paper 7B, the staff continue to think that the requirements in paragraph 15 of IFRS 15 are sufficient. Furthermore, we note that a majority of respondents to the IASB's ED that commented on this matter agreed with the IASB's conclusions.

27. Consequently, the staff continue to think that there is no need to amend or clarify the requirements of IFRS 15 for collectability and contract terminations.

Non-cash consideration

Summary of proposals

28. In determining the transaction price in Step 3 of the revenue recognition model, paragraph 66 of IFRS 15 requires an entity to measure non-cash consideration at fair value, but does not specify the measurement date. Furthermore, paragraph 68 of IFRS 15 states that 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), an entity is required to apply the variable consideration constraint.

29. Some stakeholders raised implementation questions about (a) the date at which the fair value of non-cash consideration is measured when determining the transaction price; and (b) how the variable consideration constraint should 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 reasons other than the form of consideration.

30. The FASB proposed amendments to Topic 606 in order to specify that:

    (a) the measurement date for non-cash consideration is the contract inception date; and

    (b) the variable consideration constraint applies only to variability resulting for reasons other than the form of the consideration.

31. However, the IASB did not propose amendments for those issues because:

    (a) the question of the measurement date for non-cash consideration has important interactions with other Standards (eg IFRS 2 *Share-based Payment* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*);

    (b) unlike US GAAP, existing IFRS does not contain any specific requirements about the measurement date of non-cash consideration and, thus, IFRS 15 is not expected to create more diversity than presently exists when applying IAS 18 *Revenue*;

    (c) feedback from some stakeholders had indicated that the practical effect of diversity would arise only in limited circumstances.

32. The IASB noted in the Basis for Conclusions that a measurement date other than the contract inception date (as proposed by the FASB) would not be precluded applying IFRS 15.

Analysis of feedback

33. 55 respondents commented on non-cash consideration. A majority of these respondents indicated that they agreed with the IASB’s decision not to propose amendments to IFRS 15 with respect to non-cash consideration. This was for the following reasons:

    (a) many understand that this issue has important interactions with other standards as noted in paragraph BC102 of the ED. Some noted the risk of unintended consequences if the IASB were to make a narrow-scope amendment to IFRS 15 in this respect;

    (b) many agreed with the IASB’s observation that IFRS 15 should not increase any existing diversity in practice.

34. Although agreeing with the IASB’s proposal, a small number of respondents expressed the view that different measurement dates for non-cash consideration might arise more frequently than indicated in the Basis for Conclusions on the ED. Nonetheless, they expected that the diversity that would arise is not likely to cause significant difficulties in practice, and that the issues could be dealt with without the need for additional standard-setting.

35. A small number of respondents, mainly the accounting firms, very few accountancy bodies and preparers, indicated that they disagree with the IASB’s proposal and suggested that the IASB should clarify the measurement date for non-cash consideration. However, those respondents had mixed views about the most appropriate measurement date. Some respondents suggested that the IASB use the contract inception date as proposed by the FASB. In contrast, another respondent preferred the earlier of the date when the consideration is received and when the performance obligation is satisfied, citing that this would be consistent with the Draft IFRIC Interpretation *Foreign Currency Transactions and Advance Consideration,* and would minimise the risk of unintended consequences. That respondent highlighted

that the FASB's proposed amendment might raise further implementation questions, such as how to account for changes in fair value between the contract inception date and the receipt of consideration, and how to identify the contract inception date.

36. A number of the large accounting firms expressed concern about not clarifying the requirements for non-cash consideration. They recommended providing clear guidance on this issue in order to avoid confusion and prevent divergence arising in practice that, in their view, was likely to arise.

37. With regard to the application of the variable consideration constraint, most respondents did not comment on this issue; a small number of respondents indicated that they agree with the IASB's proposal.

Conclusion

38. We have reviewed the FASB's proposed amendments and the comments received from respondents to the IASB's ED. Having done so, we have then considered whether the conclusions of the IASB in the ED that amendments to IFRS 15 are not necessary remain valid.

39. With respect to non-cash consideration, the FASB's proposed amendments are consistent with those expected by the IASB when reaching its decision not to propose similar clarifications to IFRS 15. Consequently, the staff continue to think that there are risks associated with addressing the measurement date of non-cash consideration narrowly in the context of IFRS 15, and that retaining the existing requirements in IFRS 15 will not cause more diversity in this area than existed when applying IAS 18.

40. We note that a majority of respondents to the IASB's ED agreed with this view. We also note that there are mixed views on the most appropriate measurement date. Furthermore, based on the feedback received, we think that any diversity that might arise is unlikely to cause significant difficulties in practice.

41. Similarly, with respect to the application of the constraint on variable consideration, the FASB's proposed amendments are consistent with those expected by the IASB when reaching its decision not to propose any similar clarifications to IFRS 15.

Although only some respondents to the ED commented on this topic, the feedback received did not identify any reason to change the IASB's previous conclusion.

42. Consequently, the staff continue to think that there is no need to amend or clarify the requirements of IFRS 15 regarding the measurement date of non-cash consideration and the application of the variable consideration constraint.

Presentation of sales taxes

Summary of proposals

43. Paragraph 47 of IFRS 15 defines the transaction price as the 'amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, *excluding amounts collected on behalf of third parties (for example, some sales taxes).*' [emphasis added] If an entity's sales are subject to sales taxes in different jurisdictions, then the entity should assess on a jurisdiction-by-jurisdiction basis whether it collects sales taxes on behalf of the tax collection authority in order to determine whether to include or exclude those taxes from the transaction price.

44. Since the issuance of the new revenue Standard, some US stakeholders have expressed concerns about the cost and complexity of assessing tax laws in each jurisdiction.

45. In response to these concerns, the FASB proposed to amend Topic 606 to permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price. This amendment retains a similar accounting policy choice that was available in previous US GAAP.

46. The IASB did not propose amendments to IFRS 15 in this respect because such an amendment would reduce comparability and create an exception to the transaction price requirements. Further, IAS 18 had a similar requirement to IFRS 15—accordingly, IFRS preparers already assess whether sales taxes are collected on behalf of tax authorities when determining the amount of revenue to recognise.

Analysis of feedback

47. 50 respondents commented on the presentation of sales taxes. The majority of these respondents indicated that they agreed with the IASB's decision not to propose amendments to IFRS 15 with respect to the presentation of sales taxes for the reasons explained in paragraph BC108 of the IASB's ED (and summarised in paragraph 46 above).

48. Very few respondents, mainly some of the large accounting firms, disagreed with the IASB's decision not to propose amendments on this topic. They stated that:

    (a) there is lack of guidance in IFRS on how to identify whether a tax is a sales tax, which results in diversity in practice;

    (b) determining whether an entity or its customer is liable for sales taxes can be difficult in practice;

    (c) there is likely to be a loss of comparability of financial information because a large majority of US entities are expected to use the accounting policy choice, whereas their peers reporting under IFRS would not be able to use the policy election;

    (d) the cost of undertaking a jurisdiction-by-jurisdiction assessment of sales taxes might outweigh the benefits; and

    (e) this is a question of 'presentation' of sales taxes; the timing of revenue recognition is not affected.

49. A majority of the large accounting firms recommended that the IASB should propose the same amendments as the FASB on this topic. One accounting firm recommended that the Boards should clarify how the presentation of sales taxes interacts with the principal versus agent requirements to help entities determine whether a tax has been collected on behalf of the tax collection authority.

Conclusion

50. We have reviewed the FASB's proposed amendments and the comments received from respondents on the IASB's ED. Having done so, we have then considered

whether the conclusions of the IASB in the ED that amendments to IFRS 15 are not necessary remain valid.

51. With respect to the presentation of sales taxes, the FASB's proposed amendments are consistent with those expected by the IASB when reaching its decision not to propose similar clarifications in IFRS 15. Consequently, the staff continue to think that the IASB's rationale as explained in paragraph BC108 of the ED remains valid. In relation to the interaction of the presentation of sales taxes and the principal versus agent requirements, we note that entities are currently making those judgements to determine whether a sales tax is included or excluded from revenue when applying IAS 18. Agenda Paper 2 of the July 2014 TRG meeting includes some educational discussion on this topic. Furthermore, we note that a large majority of respondents agreed with the IASB's decision not to propose amendments to IFRS 15 in this respect.

52. Consequently, the staff continue to think that there is no need to amend or clarify the requirements of IFRS 15 for the presentation of sales taxes.

Questions for the IASB

1. Do you agree with the staff recommendation that there is no need to amend or clarify the requirements of IFRS 15 on collectability and contract terminations?

2. Do you agree with the staff recommendation that there is no need to amend or clarify the requirements of IFRS 15 on the measurement of non-cash consideration?

3. Do you agree with the staff recommendation that there is no need to amend or clarify the requirements of IFRS 15 on the presentation of sales taxes?