

## STAFF PAPER

February 2015

<b>Project</b>	<b>Revenue from Contracts with Customers</b>		
<b>Paper topic</b>	Cover paper—issues emerging from TRG discussions		
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This paper has been prepared by the staff of the IFRS Foundation 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*.

1. This paper accompanies the following IASB agenda papers:
  - (a) Agenda paper 7A *Implications of amending IFRS 15 before the mandatory effective date*. Agenda paper 7A discusses issues, relevant in the context of IFRS, that the IASB should consider in determining whether, and how, to address the issues emerging from the joint IASB-FASB Revenue Transition Resource Group (TRG) discussions.
  - (b) Agenda paper 7B *Licences of intellectual property—issues emerging from TRG discussions*. Agenda paper 7B considers the following issues:
    - (i) Determining the nature of an entity's promise in granting a licence; and
    - (ii) Sales-based and usage-based royalties.In addition, this paper considers two less significant issues regarding licences.
  - (c) Agenda paper 7C *Identifying performance obligations—issues emerging from TRG discussions*. Agenda paper 7C considers the following issues:
    - (i) Issue 1: Promised goods or services
    - (ii) Issue 2: 'Distinct within the context of the contract'
    - (iii) Issue 3: Shipping and handling services

2. Agenda paper 7A should be read as context for considering the issues in agenda papers 7B and 7C. Agenda papers 7B and 7C explain the specific issues relating to licences and identifying performance obligations in contracts with customers that were highlighted during the TRG discussions so that the IASB can decide what, if any, action it would like to take at this stage to address those issues. The IASB could decide that no standard setting activity is needed at this stage, or explore what amendments could be made, subject to the additional consultation discussed in Agenda paper 7A.
3. In addition, IASB members have been provided with the following FASB memos:
  - (a) FASB Memo No. 1: *Determining the Nature of the Entity's Promise in Granting a License; The Sales- and Usage-Based Royalties Exception*. This memo discusses the issues in Agenda Paper 7B.
  - (b) FASB Memo No. 1: *Identifying Promised Goods or Services, Distinct, and Shipping Services*. This memo discusses the issues in Agenda Paper 7C.
4. Because these FASB memos contain analysis and alternatives relating to the issues discussed in agenda papers 7B and 7C, they should be read in conjunction with those papers.
5. The issues discussed in agenda papers 7A-7C and the FASB memos will be discussed by the IASB and FASB at their February 2015 meeting.

### **Summary of staff recommendations**

6. The staff recommendations in the papers for this meeting are as follows:

#### ***Licences of intellectual property***

- (a) The IASB staff recommend that the IASB explore proposing limited amendments to the licensing Application Guidance in IFRS 15 relating to:
  - (i) Determining the nature of an entity's promise in granting a licence;

- (ii) Determining when the sales-based and usage-based royalties constraint applies.
- (b) The FASB staff recommend that the FASB add a project to its technical agenda to enact revisions to the licences implementation guidance in the new revenue Standard relating to:
  - (i) Determining the nature of an entity’s promise in granting a licence;
  - (ii) The sales-based and usage-based royalties constraint;
  - (iii) When an entity should apply the guidance on determining the nature of an entity’s promise in granting a licence; and
  - (iv) How contractual restrictions affect the identification of the promised goods or services in a contract.

***Identifying performance obligations***

- (c) The IASB staff recommend that the IASB enhance the understanding of the requirements on performance obligations by exploring adding some illustrative examples relating to the concept of ‘distinct within the context of the contract’.
  - (d) The FASB staff recommend that the FASB add a project to its technical agenda to improve the guidance (including adding examples) on identifying performance obligations relating to:
    - (i) Identifying promised goods or services
    - (ii) The concept of distinct in the context of the contract
    - (iii) Shipping and handling services.
7. The FASB staff are also asking for permission to ballot a proposed Accounting Standards Update for vote by written ballot on the issues described in paragraphs 6(b) and 6(d) of this paper.