

STAFF PAPER

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IFRS[®] Interpretations Committee meeting

Project	Customer's right to access the supplier's software hosted on the cloud (IAS 38)		
Paper topic	Item for continuing consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how a customer accounts for Software as a Service (SaaS) cloud computing arrangements. Specifically, the submitter asked about the accounting for fees paid or payable to access the supplier's application software running on the supplier's cloud infrastructure.
2. The Committee discussed this matter at its September 2018 meeting.
3. The objective of this paper is to:
 - (a) provide the Committee with a summary of its discussion in September;
 - (b) consider the effects of that discussion on our analysis; and
 - (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.
4. Appendix A to the paper includes proposed wording of the tentative agenda decision.

Background information

The fact pattern described in the submission

(for more details about the fact pattern, see September 2018 [Agenda Paper 5](#))

5. There are various types of cloud computing arrangements. However, the submission focussed on Software as a Service (SaaS) arrangements. In these arrangements, the capability provided by the supplier (the cloud service provider) to the customer is access to the supplier's application software¹ running on the supplier's cloud infrastructure. The cloud infrastructure is a collection of hardware and software including network, servers, operating systems, storage, and individual software capabilities.
6. The customer accesses the supplier's software on an as-needed basis over the internet or via a dedicated line, and does not manage or control the underlying cloud infrastructure.
7. Contracts are often for an initial non-cancellable period (for example, two years), with options within the contracts for the customer to extend. The contracts often include other services, such as technical support, implementation, data migration, business process mapping, training, and project management. The fees are generally paid on a monthly or yearly basis and are all inclusive, meaning they cover the right to access the software as well as these other services. The submission focussed only on:
 - (a) the customer's access to the supplier's application software without these other products and services; and
 - (b) the fees paid or payable to the supplier for that access.

¹ Application software (app or application for short) is any program, or group of programs, that is designed for the end user. This contrasts with system software, which is mainly involved with running the computer.

Questions submitted

8. The submitter asked about the following:
- (a) **Definitions.** How to apply the definitions of a lease and an intangible asset in IFRS 16 *Leases* and IAS 38 *Intangible Assets* in the context of these arrangements.
 - (b) **Scope.** How to apply the scope paragraphs in IFRS 16 and IAS 38, in particular distinguishing between ‘leases of intangible assets’ and ‘rights held by a lessee under licensing agreements’ in paragraphs 3(e) and 4 of IFRS 16 (and paragraph 6 of IAS 38).
 - (c) **Measurement.** How to measure any asset (and related liability) recognised as an intangible asset applying IAS 38.

The Committee’s discussion in September 2018

9. At the September 2018 meeting, Committee members generally agreed that:
- (a) rights held by a customer under licensing agreements (including licences of software) are within the scope of IAS 38, and not IFRS 16.
 - (b) if a contract gives the customer only the right to receive access to the supplier’s application software over the contract term in exchange for payment, the contract is a service contract and the customer accounts for it accordingly. The customer receives the service—access to the software—over the contract term. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.
 - (c) some contracts might convey at contract commencement rights to software (beyond a right to receive future access) that create an intangible asset for the customer. For example, as part of the SaaS arrangement the customer might obtain rights that give it the ability to direct the use, and obtain the benefits from use, of software that is delivered to the customer at contract commencement. In that case, the customer would have power to obtain the

future economic benefits flowing from the rights and to restrict the access of others to those benefits and, thus, would control an intangible asset.

- (d) the requirements in existing IFRS Standards provide an adequate basis for the customer to account for fees paid or payable to access the supplier's application software in SaaS arrangements.

10. However, the discussion highlighted that improvements were needed to the wording of the proposed tentative agenda decision in September. Committee members suggested:

- (a) clarifying that all rights held by a customer under licensing agreements are within the scope of IAS 38 and considering whether we can add clarity as to what is a licence.
- (b) simplifying the language, particularly in explaining why the right to receive access to the supplier's software is a service and in distinguishing it from rights to software that create an asset for the customer at contract commencement.
- (c) considering adding explanation or examples to help identify circumstances in which the customer's rights to software create an intangible asset for the customer. The Committee discussed exclusivity, the right to download software, and the right to possess the software and use it on the customer's infrastructure.

Staff analysis

- 11. Having considered the Committee's discussion at its September meeting, we have relooked at the applicable requirements in IFRS Standards so that we can respond to the submitter's questions in the clearest way possible.
- 12. The submitter first asked about how to apply the definitions of a lease in IFRS 16 and an intangible asset in IAS 38 in the context of a SaaS arrangement. We think the essence of this question is whether the contract (a) gives rise to a software asset for the customer at contract commencement that is either a lease or an intangible asset, or instead (b) is a service contract. **(Question 1)**

13. The submitter then asked about the scope of IFRS 16 and that of IAS 38. If the customer has a right to use the software under a licensing agreement, does the customer apply the requirements in IFRS 16 or those in IAS 38? (**Question 2**)
14. Finally, if the customer recognises an intangible asset at contract commencement applying IAS 38, the submitter asked about the measurement of that asset and any related liability. (**Question 3**)
15. We discuss each of these questions in the following paragraphs.

Question 1: Does the customer receive a software asset at contract commencement?

16. The SaaS arrangement described in the submission is one in which the customer receives access to the supplier’s application software over the term of the contract. At its September meeting, the Committee agreed with the staff conclusion that if the customer has only a right to receive access to the supplier’s software in the future, the contract is a service contract. The customer receives the service—the access to the software—over the contract term and immediately consumes it. In such an arrangement, the customer does not obtain a right to direct the use of the software—that right remains with the supplier. Accordingly, the customer does not receive rights to the software that would create an asset for the customer at contract commencement.
17. To explain this conclusion further and directly respond to the submitter’s question, we have analysed why the customer’s right to receive future access is not an asset considering the definition of a lease in IFRS 16 and that of an intangible asset in IAS 38.

A software lease

18. IFRS 16 defines a lease as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. Paragraphs 9 and B9 of IFRS 16 explain that a contract conveys the right to use an asset if, throughout the period of use, the customer has *both*:
 - (a) the right to obtain substantially all the economic benefits from use of the asset (an identified asset); and

- (b) the right to direct the use of that asset.
19. Paragraphs B9-B30 provide application guidance on assessing whether a contract contains a lease. Among those requirements, we note that a customer:
- (a) might have the right to obtain substantially all the benefits from use of an asset by having exclusive use of the asset throughout the period of use.
 - (b) generally has the right to direct the use of an asset by having the right to change how and for what purpose the asset is used throughout the period of use. Paragraph B25 explains that an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use, and that decisions are relevant when they affect the economic benefits to be derived from use.
20. If the customer in a SaaS arrangement has only the right to receive access to the supplier's software in the future, the customer does not at contract commencement obtain the right to use that software for a period of time. A right to receive future access to the supplier's software running on the supplier's cloud infrastructure (that the supplier manages and controls) does not give the customer any decision-making rights about how and for what purpose the software is used. Instead, the supplier would have those rights by, for example, deciding how and when to update or reconfigure the software, deciding how the software can be used and by whom, etc.
21. Paragraphs 37-44 of this paper discuss further the assessment of whether a contract contains a software lease.

A software intangible asset

22. IAS 38 defines an intangible asset as 'an identifiable non-monetary asset without physical substance'. To control an intangible asset, paragraph 13 of IAS 38 requires an entity to have the power to obtain the future economic benefits flowing from it and to restrict the access of others to those benefits.
23. If the customer in a SaaS arrangement has only the right to receive access to the supplier's software in the future, the customer does not have a software intangible asset that it controls at contract commencement. A right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not, at

contract commencement, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

Question 2: If the customer receives a right to use the supplier's application software, does the customer apply IFRS 16 or IAS 38?

IFRS 16 versus IAS 38

24. For some SaaS arrangements, the contract might convey rights beyond a right to future access, such that the customer receives a right to use the supplier's software at contract commencement. In that case, the contract contains a lease as defined in IFRS 16. The submitter asked how to read the scope requirements in IFRS 16 and IAS 38 in determining which Standard to apply to such a contract.
25. In discussing this question, we assume that the customer holds the software rights for use within its own business, and not for sale. IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business—such assets are instead within the scope of IAS 2 *Inventories*.²
26. Paragraph 6 of IAS 38 states:

Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are within the scope of this Standard and are excluded from the scope of IFRS 16.
27. Paragraphs 3(e) and 4 of IFRS 16 state the following:

An entity shall apply this Standard to all leases...except for...

 - (a) ...
 - (e) rights held by a lessee under licensing agreements within the scope of IAS 38 *Intangible Assets* for such items as motion

² See paragraph 3(a) of IAS 38.

picture films, video recordings, plays, manuscripts, patents and copyrights.

- 4 A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e).
28. We think that paragraph 6 of IAS 38 includes within the scope of IAS 38 all rights held by a lessee under licensing agreements, and not just the items specified. This is because that paragraph includes the wording ‘such as’, meaning ‘for example’.
29. Paragraph 3(e) of IFRS 16 replicates the requirement in IAS 38 for clarity (as the scope paragraphs of IAS 17 *Leases* had done). Paragraph 4 of IFRS 16 reflects the Board’s decision to allow, but not require, the application of IFRS 16 to any other leases of intangible assets.³
30. Neither IAS 38 nor IFRS 16 define ‘licensing agreement’. A business definition of a ‘licensing agreement’ is a ‘written contract under which the owner of a copyright, know how, patent, servicemark, trademark, or other intellectual property, allows a licensee to use, make, or sell copies of the original’.⁴ In addition, paragraph B52 of IFRS 15 *Revenue from Contracts with Customers* provides the following explanation of a ‘licence’:

B52 A licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

- (a) software and technology;
- (b) motion pictures, music and other forms of media and entertainment;
- (c) franchises; and

³ Paragraph BC71 of IFRS 16 explains the Board’s decision: ‘..The IASB acknowledged that there is no conceptual basis for excluding leases of intangible assets from the scope of IFRS 16 for lessees. However, the IASB concluded that a separate and comprehensive review of the accounting for intangible assets should be performed before requiring leases of intangible assets to be accounted for applying the requirements of IFRS 16..’

⁴ Taken from www.businessdictionary.com

(d) patents, trademarks and copyrights.

31. Considering the description in IFRS 15, we think all leases of software would result in rights being held by a lessee under licensing agreements. We also note that both paragraph 6 of IAS 38 and paragraph 3(e) of IFRS 16 refer to rights held by a *lessee* under licensing agreements, implying that any such licensing agreement contains a lease. Indeed, if those licensing agreements did not contain a lease, then arguably paragraph 3(e) would not need to exist because those agreements would be excluded from the scope of IFRS 16 without that paragraph.
32. Consequently, we think leases of software are within the scope of IAS 38, and not IFRS 16.

Would the customer recognise an intangible asset applying IAS 38 when it has a software lease?

33. Paragraph 13 of IAS 38 specifies that an entity controls an asset if it has the power to obtain the future economic benefits flowing from the asset and to restrict the access of others to those benefits.
34. As discussed above in paragraphs 18-19 of this paper, to have a right to use software, throughout the contract term the customer must have both (a) the right to obtain substantially all the economic benefits from use of the software; and (b) the right to direct the use of the software. Having the right to direct the use of the software generally means having decision-making rights that are most relevant to changing how and for what purpose the software is used throughout the contract term.
35. In our view, if a customer has a software lease, then it would control the right to use the software at contract commencement. In other words, we think the customer has the power to obtain the future economic benefits flowing from the right-of-use and to restrict others' access to those benefits when it has both (a) decision-making rights that are most relevant to changing how and for which purpose the software is used throughout the contract term; and (b) the right to obtain substantially all the economic benefits from use of the software throughout that term.

36. Consequently, in our view when it has a software lease the customer recognises an intangible asset for the right to use the software applying IAS 38 (subject to the recognition criteria in paragraph 21 of IAS 38).

How to assess when the customer's rights are sufficient to give it the right to use software?

37. Assessing whether a contract conveys the right to use software at contract commencement requires judgement considering the terms and conditions of the contract. As mentioned above, paragraphs B9-B30 of IFRS 16 include application guidance that would help in making this determination—in particular, paragraphs B24-B30 address the right to direct the use, and there are also various illustrative examples accompanying IFRS 16 on the definition of the lease. For the customer to have a software lease, the supplier must have given up some of its rights to the software throughout the contract term. Therefore, for some contracts it might be helpful in assessing the rights of the customer to consider whether the supplier has given up any of its rights to the software.

IFRS 15 licences

38. IFRS 15 includes application guidance on licences. The requirements distinguish between licences that grant the customer (a) a right to use the supplier's intellectual property as it exists when the licence is granted, and (b) a right to access the supplier's intellectual property as it exists throughout the licence period.
39. Applying IFRS 15, a supplier transfers a right-of-use licence (and the customer obtains control of that licence giving it the right to use the supplier's intellectual property) at the date the licence is granted. In this case, the customer receives a right to use the intellectual property at the start of the contract. In contrast, the supplier transfers a right-of-access licence (and the customer receives the access to the supplier's intellectual property) over the licence term. In this type of arrangement, it is expected that the supplier will undertake activities that significantly affect the intellectual property. In this case, the customer does not receive a right to use the intellectual property at the start of the contract.
40. IFRS 15 applies only to a supplier's accounting for its contracts with customers—it is not applicable to the customer's accounting for SaaS arrangements. Nonetheless,

IFRS 15 requires the recognition of revenue when the supplier transfers goods or services to the customer (assessed based on when the customer obtains control). We therefore think the application guidance in paragraphs B58-B62 of IFRS 15 regarding right-of-use and right-of-access licences may be helpful to customers in assessing whether a SaaS arrangement (that conveys rights beyond a right to future access to software) contains a software lease.

Examples discussed at the September 2018 Committee meeting

41. At the September meeting, Committee members mentioned features of some SaaS arrangements that could affect the assessment of whether a customer obtains a software asset at contract commencement. The features mentioned included:
 - (a) exclusive use;
 - (b) rights to download software; and
 - (c) rights to take possession of software and use it on the customer's (or another party's) hardware.

42. If a customer has exclusive use of software for the contract term, then the customer has the right to obtain substantially all the economic benefits from use of the software for that term (a necessary element of the definition of a lease). However, exclusivity alone would not be sufficient to conclude that the customer has a software lease. In addition to exclusive use, the customer would need to have the right to direct the use of the software throughout the contract term.

43. If the customer has the right to download or otherwise obtain a copy of software, that may be an indication that the customer has a software lease or controls the copy of the software at contract commencement. However, it is important to always assess the rights the customer has over the software. We think the ability to download, or not download, the software is not a determining factor in assessing whether the customer has a right-of-use.

44. US GAAP (Accounting Standards Update 2015-05) requires an entity to recognise a software licence in a cloud computing arrangement if both (a) the customer has the right to take possession of the software at any time during the hosting period without a significant penalty; and (b) it is feasible for the customer to run the software on its

hardware or contract with another party to host the software. We think, in this situation, the customer is likely to have a software lease—ie the customer is likely to have the right to obtain substantially all the economic benefits from use of the software, and to direct the use of the software, throughout the contract term.

Question 3: How does the customer measure any asset (and related liability) recognised as an intangible asset applying IAS 38?

45. Based on outreach (summarised in September 2018 Agenda Paper 5), the Committee’s discussion in September and our analysis, we think a customer would not recognise a software intangible asset at contract commencement for most SaaS arrangements.
46. Nonetheless, if the customer has a software lease or otherwise obtains control of software at contract commencement then it would recognise an intangible asset applying IAS 38 (subject to the recognition criteria in paragraph 21).
47. Paragraph 24 of IAS 38 requires an entity to measure an intangible asset initially at cost. The Standard does not specify how to determine cost when, for example, the consideration (or part of it) is variable or when the contract includes options to extend beyond the initial non-cancellable period. It also does not explicitly specify how to allocate consideration when a contract contains both an intangible asset and other service components.
48. In the absence of specific measurement requirements in IAS 38, the customer would first refer to, and consider the applicability of, requirements in other IFRS Standards dealing with similar and related issues (paragraph 10-11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). We note that IFRS 16 includes measurement requirements that deal with these features of a lease contract.
49. The Board also has a project on its research pipeline on variable and contingent consideration.

Staff conclusion

50. A SaaS arrangement that conveys to the customer the right to receive access to the supplier’s application software in the future is a service contract. The customer

receives the service—the access to the software—over the contract term. In such arrangements, the customer does not receive a software asset at contract commencement.

51. A customer receives a software asset at contract commencement if either (a) the contract contains a software lease, or (b) the customer otherwise obtains control of software at contract commencement.
52. If a SaaS arrangement contains a software lease (as defined in IFRS 16), the customer receives the right to use the software at contract commencement and recognises it as an intangible asset applying IAS 38 (subject to the recognition criteria in that Standard). Leases of software are not within the scope of IFRS 16.
53. Assessing whether a customer's rights are sufficient for it to receive a right-of-use at contract commencement requires judgement considering the terms and conditions of the contract. Requirements in IFRS Standards that are helpful in this respect include the application guidance in (a) paragraphs B9-B30 of IFRS 16 on the definition of a lease, and (b) paragraphs B58-B62 of IFRS 15 on licences. Related illustrative examples accompanying those Standards may also be helpful.
54. If a customer recognises an intangible asset applying IAS 38, it measures that asset initially at cost. If the cost of the asset is uncertain because, for example, the consideration is variable or the customer has an option to extend the contract term, in the absence of specific requirements in IAS 38 the customer applies paragraphs 10-11 of IAS 8 in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and reliable.

Question 1 for the Committee

Does the Committee agree with our analysis of the requirements in IFRS Standards outlined in paragraphs 11-54 of this paper?

Should the Committee add this matter to its standard setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?⁵

55. Based on our analysis, we think that the requirements in existing IFRS Standards provide an adequate basis for the customer to account for rights to access the supplier’s application software in SaaS arrangements.

Staff recommendation

56. Based on our assessment of the Committee’s agenda criteria in paragraphs 5.16-5.17 of the Due Process Handbook (discussed in paragraphs 55 above), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing an agenda decision that explains how an entity applies IFRS Standards in accounting for its rights to the supplier’s software in a SaaS arrangement.
57. Appendix A to this paper sets out the proposed wording of the tentative agenda decision.

Questions 2 and 3 for the Committee
<p>2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?</p> <p>3. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?</p>

⁵ Paragraph 5.16(b) of the *Due Process Handbook*.

Appendix A—proposed wording of the tentative agenda decision**Customer’s right to access the supplier’s software hosted on the cloud****(IAS 38 *Intangible Assets*)**

The Committee received a request about how a customer accounts for ‘Software as a Service’ cloud computing arrangements. In these arrangements, the customer contracts to pay a fee in exchange for a right to access the supplier’s application software for a specified term. The supplier’s software runs on cloud infrastructure managed and controlled by the supplier. The customer accesses the software on an as-needed basis over the internet or via a dedicated line.

Does the customer receive a software asset at the contract commencement date or a service over the contract term?

The first step is to decide whether the customer receives a software asset at the contract commencement date or a service over the contract term.

The Committee noted that a customer receives a software asset at the contract commencement date if either (a) the contract contains a software lease, or (b) the customer otherwise obtains control of software at the contract commencement date.

A software lease

IFRS 16 *Leases* defines a lease as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. Paragraphs 9 and B9 of IFRS 16 explain that a contract conveys the right to use an asset if, throughout the period of use, the customer has *both*:

- (a) the right to obtain substantially all the economic benefits from use of the asset (an identified asset); and
- (b) the right to direct the use of that asset.

Paragraphs B9-B30 of IFRS 16 provide application guidance on the definition of a lease. Among other requirements, that application guidance specifies that a customer generally has the right to direct the use of an asset by having decision-making rights to change how and for what purpose the asset is used throughout the period of use. Accordingly, in a

contract that contains a lease the supplier has given up those decision-making rights and transferred them to the customer at the lease commencement date.

The Committee observed that, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the contract does not contain a lease. A right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not give the customer any decision-making rights about how and for what purpose the software is used—the supplier would have those rights by, for example, deciding how and when to update or reconfigure the software or deciding how the software can be used and by whom.

A software intangible asset

IAS 38 defines an intangible asset as 'an identifiable non-monetary asset without physical substance'. It notes that an asset is a resource controlled by the entity and paragraph 13 specifies that an entity controls an intangible asset if it has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The Committee observed that, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the customer does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

Consequently, the Committee concluded that a contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract. The customer receives the service—the access to the software—over the contract term. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.

If the contract contains a software lease, does the customer apply the requirements in IFRS 16 or IAS 38?

If the contract contains a software lease, the next step would be to consider whether the customer applies IFRS 16 or IAS 38 to account for the lease.

Paragraph 6 of IAS 38 states that ‘rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are within the scope of this Standard and are excluded from the scope of IFRS 16’. Paragraph 3(e) of IFRS 16 similarly excludes such rights from its scope.

IAS 38 does not define a licensing agreement. However, IFRS 15 *Revenue from Contracts with Customers* specifies that a licence (including a licence of software) establishes a customer’s rights to the intellectual property of a supplier. IFRS 15 also identifies that a licence can provide the customer with a right to use the supplier’s intellectual property.

Consequently, the Committee concluded that a software lease is a licensing agreement within the scope of IAS 38, and not IFRS 16.

Is a right to use software recognised as an intangible asset at the contract commencement date?

A right to use software is an identifiable non-monetary item without physical substance. A customer controls that right-of-use if it has the power to obtain the future economic benefits flowing from the right-of-use and to restrict others’ access to those benefits (paragraph 13 of IAS 38).

To have the right to use software, the customer must have *both* (a) the right to obtain substantially all the economic benefits from use of the software, and (b) the right to direct the use of that software throughout the contract term. Having those rights would mean that the entity also controls the software applying the criteria for control in IAS 38.

Consequently, the Committee concluded that, if the customer has the right to use software, it recognises that right-of-use as an intangible asset at the contract commencement date (subject to the recognition criteria in paragraph 21 of IAS 38).

Assessing whether a customer’s rights are sufficient to give it the right to use software requires judgement considering the terms and conditions of the contract. Paragraphs B9-B30 of IFRS 16 and paragraphs B58-B62 of IFRS 15 include application guidance that might be helpful in making this assessment.

How does a customer measure an intangible asset recognised applying IAS 38?

If the customer recognises an intangible asset applying IAS 38, the next step would be to measure the asset.

Paragraph 24 of IAS 38 requires intangible assets to be measured initially at cost. IAS 38 does not specify whether the cost of an intangible asset includes some of the payments that might be required in Software as a Service arrangements, for example variable payments or fees payable during periods covered by an option to extend or terminate the contract. In the absence of specific requirements in IAS 38, the customer applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and reliable. In that situation, the customer first refers to, and considers the applicability of, the requirements in IFRS Standards dealing with similar and related issues.

The Committee concluded that the requirements in existing IFRS Standards provide an adequate basis for an entity to account for fees paid or payable to access the supplier's application software in Software as a Service arrangements. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.