



STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	Principal versus Agent: Software Reseller (IFRS 15)	
Paper topic	Comment letters on tentative agenda decision	
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Introduction

1. In December 2021, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) in response to a submission asking whether, in applying IFRS 15 *Revenue from Contracts with Customers*, a reseller of software licences is a principal or agent.
2. The objectives of this paper are to:
 - (a) analyse comments on the tentative agenda decision (paragraphs 9–43); and
 - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 44).

Structure of the paper

3. This paper includes:
 - (a) background information (paragraphs 5–8);
 - (b) comment letter summary (paragraphs 9–14);
 - (c) staff analysis (paragraphs 15–43); and
 - (d) staff recommendation (paragraph 44).
4. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Background information

The fact pattern

5. In the fact pattern described in the submission and in the tentative agenda decision:
- (a) the reseller has a distribution agreement with a software manufacturer that:
 - (i) gives the reseller the right to grant (sell) the manufacturer's standard software licences to customers;
 - (ii) requires the reseller to provide pre-sales advice to each customer—before the sale of the software licences—to identify the type and number of software licences that would meet the customer's needs; and
 - (iii) provides the reseller with discretion in pricing the software licences for sale to customers.
 - (b) the nature of the pre-sales advice varies depending on the customer's needs. If the customer decides:
 - (i) not to purchase software licences, it pays nothing. The reseller and the customer do not enter into an agreement.
 - (ii) to purchase a specified type and number of software licences, the reseller negotiates the selling price with the customer, places an order with the software manufacturer on behalf of the customer (and pays the manufacturer), and invoices the customer for the agreed price.
 - (c) the software manufacturer provides the customer with the software licences ordered—issued in the customer's name—via a software portal and with the key necessary for activation. The software manufacturer and the customer enter into an agreement specifying the customer's right to use the software, a warranty covering the software's functionality and the term of the licence.
 - (d) if the reseller advises the customer to order an incorrect type or number of software licences (that fails to meet the customer's needs), the customer may not accept the licences. The reseller is unable to return unaccepted licences to the software manufacturer or sell them to another customer.

Committee's tentative decisions

6. In determining the nature of its promise (and thus whether it is a principal or agent), the reseller:
 - (a) first identifies the specified goods or services to be provided to the customer. The Committee concluded that, in the submitted fact pattern, the promised goods in the reseller's contract with the customer are the standard software licences, which are therefore the specified goods to be provided to the customer.
 - (b) then assesses whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. If—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent, the reseller considers the indicators in paragraph B37.

7. The Committee observed that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. The reseller would apply judgement in making its overall assessment of whether it is a principal or agent—including considering the relevance of the indicators to the assessment of control and the degree to which they provide evidence of control of the standard software licences before they are transferred to the customer—within the context of the framework and requirements set out in paragraphs B34–B38 of IFRS 15.

8. Based on its analysis, the Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a reseller to determine whether—in the submitted fact pattern—it is a principal or agent for the standard software licences provided to a customer. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the tentative agenda decision for comment.

Comment letter summary

9. We received 15 comment letters on the tentative agenda decision by the comment deadline. All comments received, including any late comment letters, are available on our [website](#).¹ This agenda paper includes analysis of only the comment letters received by the comment deadline, which are reproduced in Agenda Paper 2A.
10. Ten respondents agree with the Committee's analysis and conclusions in the tentative agenda decision. Most of these respondents provide comments on aspects of the tentative agenda decision.
11. Two respondents agree with the Committee's conclusion that standard software licences are the only promised goods in the reseller's contract with the customer, but suggest that the Committee provide a conclusion or additional guidance on whether the entity in the submitted fact pattern is a principal or agent.
12. Two respondents do not express a view on the Committee's technical analysis and conclusions. One respondent provides additional indicators to consider in assessing whether an entity is a principal or agent while another respondent asks whether the requirements in IFRS 15 about licensing are applicable to the submitted fact pattern.
13. One respondent agrees with the Committee's decision not to add a standard-setting project to the work plan but disagrees with the Committee's technical analysis and conclusions. That respondent says the reseller is a principal in the submitted fact pattern.
14. Further details about the matters raised by respondents, together with our analysis, are presented below.

¹ At the date of posting this agenda paper, there were no late comment letters.

Staff analysis

15. We have analysed separately comments related to:
- (a) identifying the specified goods or services to be provided to the customer (paragraphs 16–21);
 - (b) assessing whether the reseller controls the standard software licences before they are transferred to the customer (paragraphs 22–42); and
 - (c) other comments (paragraph 43).

Identifying the specified goods or services to be provided to the customer

16. The tentative agenda decision states:

In the fact pattern described in the request, the reseller's contract with a customer includes an explicit promise to transfer a specified type and number of standard software licences to the customer.

The Committee observed that the pre-sales advice the reseller provides—under the distribution agreement between the software manufacturer and the reseller—is not an implicit promise in a contract with a customer. At the time of entering into a contract with a customer, the reseller has already provided the advice. There is no further advice to be provided by the reseller and the advice already provided will not be transferred to the customer after contract inception. Consequently, at the time of entering into a contract with a customer, there is no valid expectation of the customer that the reseller will transfer a good or service to the customer other than the standard software licences.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the promised goods in the reseller's contract with the customer are the standard software licences. Because the standard software licences are the only promised goods in the contract with the customer, they are distinct goods

to be provided to the customer. Those licences are therefore the specified goods to be provided to the customer as described in paragraph B34A(a).

Respondents' comments

17. Most respondents agree with the Committee's conclusion that the standard software licences are the only promised goods in the reseller's contract with the customer. In contrast, Elsayed Shabaan Eid disagrees with the Committee's technical analysis and conclusion. The respondent says the reseller is contractually obliged to perform the pre-sales advice because of the reseller's agreement with the software manufacturer, and it is not possible to separate the promise to provide the pre-sales advice from the promise to provide standard software licences.
18. Cristian E. Munarriz suggests that the agenda decision explain why—assuming the pre-sales advice is a promised service in the contract—the reseller does not provide a significant service of integrating the pre-sales advice and the standard software licences into a combined output (discussed in paragraphs 22–25 of the [November 2021 agenda paper](#)). The respondent says the submitter had placed special emphasis on this and that including this analysis may be useful to preparers.

Staff analysis

19. We continue to agree with the Committee's analysis and conclusion on identifying the specified goods or services to be provided to the customer. We therefore recommend no change to the tentative agenda decision in this respect.
20. As explained in paragraphs 16–17 of the November 2021 agenda paper, pre-sales advice—while important—is not an implicit promise in the contract. This is because, at the time of entering into a contract with a customer, the reseller has already provided the advice. There is no further advice to be provided by the reseller and the advice already provided will not be transferred to the customer after contract inception. Consequently, at the time of entering into a contract with a customer, there

is no valid expectation of the customer that the reseller will transfer a good or service to the customer other than the standard software licences.²

21. The staff discussed aspects of the application of paragraphs 27–30 of IFRS 15³ in the November 2021 agenda paper by assuming the promised goods and services in the reseller’s contract with the customer comprise (a) the standard software licences, and (b) advisory services with respect to the type and number of licences ordered. The staff included that analysis in the November 2021 agenda paper in the light of considerations set out in the submission. The Committee decided not to include that analysis in the tentative agenda decision because it had concluded that the standard software licences are the only promised goods in the reseller’s contract with the customer. Although one respondent says including that analysis in the agenda decision might be helpful, we think it would potentially be confusing to hypothetically discuss a contract with two promises when the Committee has concluded that there is only one promise in the reseller’s contract with the customer.

Assessing whether the reseller controls the standard software licences before they are transferred to the customer

22. The tentative agenda decision states:

In the fact pattern described in the request, the reseller assesses whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. That assessment of control requires consideration of the specific facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer and the software manufacturer and the customer.

² Paragraph 24 of IFRS 15 states: ‘...a contract with a customer may...include promises that are implied by an entity’s customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer.’

³ Paragraphs 27–30 of IFRS 15 set out the requirements on assessing whether a good or service that is promised to the customer is distinct.

If—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent, the reseller considers the indicators in paragraph B37 in assessing whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. In the fact pattern described in the request, the Committee observed that:

- a. the software licences provided to the customer exist only after the reseller places an order with the software manufacturer and the software manufacturer issues the software licences in the customer's name. The software manufacturer is responsible for the software's functionality as well as issuing and activating the licences. The software manufacturer is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).
- b. the reseller is the party that engages with the customer both before and after the software licences are transferred to the customer, taking responsibility for unaccepted licences. The reseller is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).
- c. the reseller does not control a pool of standard software licences before entering into the contract with the customer and cannot, for example, direct the software licences to another customer. The reseller therefore has no inventory risk before the licences are transferred to the customer but, in the event of non-acceptance by the customer, the reseller has inventory risk after the transfer (paragraph B37(b)).
- d. the reseller has discretion in establishing the price for the software licences (paragraph B37(c)). Pricing discretion may be less relevant to the assessment of control if, for example, the market for the software licences is such that

the reseller, in effect, has limited flexibility in establishing the price.

The Committee observed that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. The reseller would apply judgement in making its overall assessment of whether it is a principal or agent—including considering the relevance of the indicators to the assessment of control and the degree to which they provide evidence of control of the standard software licences before they are transferred to the customer—within the context of the framework and requirements set out in paragraphs B34–B38 of IFRS 15.

Respondents' comments

Whether to analyse application of the indicators

23. Many respondents agree that it is appropriate for the tentative agenda decision to include discussion of the indicators in paragraph B37 of IFRS 15 and for the Committee to provide observations about how the reseller in the submitted fact pattern would consider those indicators.
24. In contrast, two respondents say the tentative agenda decision contains detailed analysis of the application of paragraph B37 of IFRS 15 that might be inappropriate without more complete information about the fact pattern. In particular:
 - (a) Deloitte Touche Tohmatsu Limited (Deloitte) says:

However, we believe that the analysis of the indicators of control in IFRS 15:B37 under the heading 'Assessing whether the reseller controls the standard software licences before they are transferred to the customer' may be too definitive in indicating whether the reseller is principal or agent. We have some concerns that without a holistic conclusion it is difficult to understand the relative weightings of these criteria and how they

fit in to the bigger picture of determining whether an entity is principal or agent.

Given the lack of detailed facts in the request background, we believe it would be appropriate to either remove the observations on control or to consider each factor without stating definitively whether the analysis of each factor indicates that the entity is principal or agent.

(b) Mazars says:

Based on the above and because the Committee does not seem to have all the information necessary to complete the analysis, we are not entirely convinced that the Committee needs to go into a detailed analysis of the B37 criteria in its final agenda decision. In addition, the agenda decision will be seen as a guidance on how to assess whether a software reseller acts as an agent or a principal, and we fear that it could lead to misinterpretations if it stays as it is.

25. Ernst & Young Global Limited (EY) observes that the tentative agenda decision includes considerations for the indicators in paragraph B37 and says ‘while this is helpful, no similar observations are included about the transfer of control in relation [to] paragraph B35A... We are concerned that including considerations for the indicators only may be confusing and potentially misleading since the indicators supplement the evaluation of control (and do not replace it)’.

Whether to conclude on principal or agent

26. Most respondents agree with the Committee’s observation that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, and the reseller would apply judgement in making its overall assessment. For example:

a) David Hardidge says:

I also agree with the decision not to reach a conclusion on whether the reseller is a principal or agent, given that small changes in facts could change the conclusion, and the need for

judgement as to whether some of the clauses in the agreements have substance.

b) the Consejo Mexicano de Normas de Información Financiera and the Group of Latin American Standard Setters say:

... the evaluation will...depend on the particular characteristics of each contract, especially when there are clauses that deviate from the typical conditions of the principal-agent relationship and the evaluation must be made by applying the judgment of the entity issuer of the financial information, weighing the significance of the clauses on this central aspect of control prior to the transference of the asset or service to the client.

27. However, the ICAI expressed a different view, stating ‘a clear conclusion in the given case will be helpful to provide guidance to the entities in exercising judgement for assessment of control based on facts and circumstances...Accordingly, it is suggested that language of the Agenda Decision may be revised in this regard.’.

Staff analysis

[Whether to analyse application of the indicators and whether to conclude on principal or agent](#)

28. In paragraph 43 of the November 2021 agenda paper, we recommended that the Committee publish a tentative agenda decision that sets out the applicable requirements in IFRS 15 and explains how a reseller might apply those requirements to the sale of standard software licences to a customer. We also stated that, in our view, the tentative agenda decision would be helpful in explaining how to ‘walk through’ the applicable requirements. In the light of the comments received on the tentative agenda decision, we continue to recommend this approach.

29. The Committee’s observations about applying the indicators in the submitted fact pattern are not, in our view, definitive. Those observations are largely factual—noting the particular facts that the reseller would consider in the context of each of the indicators in paragraph B37—and reach no conclusion on whether each indicator is more or less relevant to the assessment of control. We also observe that the

Committee did not intend to address the relative weightings of the indicators in assessing control. IFRS 15 does not provide such weightings but instead states that the indicators may be more or less relevant to that assessment depending on the nature of the specified good or service and the terms and conditions of the contract (paragraph B37A of IFRS 15). In our view, including some discussion about the relevant facts to consider in applying the indicators to the submitted fact pattern would help to improve the consistency of application of IFRS Accounting Standards without adding or changing requirements in the Standards.⁴

30. As explained in the tentative agenda decision, the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. If the Committee were to conclude on this highly-specific fact pattern, there is a risk that stakeholders around the world might inappropriately analogise to the conclusion when their fact patterns are similar but not the same as the submitted fact pattern.
31. Regarding the requirements on control in paragraph B35A of IFRS 15, the tentative agenda decision states ‘paragraph B35A sets out the circumstances in which an entity is a principal—one of which is when the entity obtains control of a good or another asset from the other party that it then transfers to the customer’.⁵ This highlights paragraph B35A(a), which is the applicable requirement in the submitted fact pattern. Paragraphs B35A(b) and B35A(c) are not applicable because the specified goods to be provided to the customer are the standard software licences. The tentative agenda decision then goes on to provide the Committee’s observations on the indicators in

⁴ Paragraph 8.4 of the [Due Process Handbook](#) states: ‘Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.’

⁵ Paragraph B35A of IFRS 15 states ‘When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity’s behalf.
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer....

paragraph B37, noting that those indicators are considered in assessing control if—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent.

32. Accordingly, we continue to agree with the Committee’s decision (a) to provide observations on the relevant facts to consider when applying the indicators in paragraph B37, and (b) not to provide a conclusion as to whether the reseller is a principal or agent in the submitted fact pattern. We therefore recommend no changes to these aspects of the tentative agenda decision.

Respondents’ comments

[Indicators relevant to the assessment of control](#)

33. Mazars suggests clarifying the meaning of ‘primary responsibility’ in paragraph B37(a).
34. Many respondents who provide comments on inventory risk in paragraph B37(b) have different views on how to apply this indicator in the submitted fact pattern. For example:

- (a) Deloitte says:

We believe that the inventory risk arises for the reseller at the point that the licence is created and transferred by the manufacturer and remains with the reseller until the customer accepts the inventory.

- (b) the Saudi Organization for Chartered and Professional Accountants (SOCPA) says:

In our view, this clause in the contract only sets a penalty on the reseller when it fails to provide the right advice to the [customer]. That is inferred by the fact that the reseller cannot resell these licences. The amount of the penalty is determined by reference to the price of the cancelled licences. Therefore, in the event of non-acceptance by the customer, the reseller does not have inventory risk after the transfer since it has no control over the licences after transfer.

(c) David Hardidge says:

I do not believe that the reseller has inventory risk on a failed sale, as it does not control the licence...the reseller cannot do anything with the 'returned' licences... I acknowledge that the reseller has a penalty (of an unknown volume based amount).

35. Several respondents provide comments on the relevance of the indicators in paragraph B37 and other indicators to the assessment of control. For example:

(a) EY suggests clarifying (i) the types of information needed to assess control, and (ii) that the assessment is based on the weight of evidence available.

(b) the Institute of Chartered Accountants of Nigeria suggests providing additional guidance, for example, whether more weight should be assigned to some indicators or whether other indicators should be considered.

(c) Sounder Rajan considers additional indicators such as billing, collection and risk of bad debts in determining whether an entity is a principal or agent.

36. Some respondents provide their own analysis of how to apply the indicators in the submitted fact pattern and provide their conclusion about whether the reseller is a principal or agent. For example, Elsayed Shabaan Eid says the reseller is a principal because the reseller guarantees that the software licences are compatible with the customer's requirements, is responsible for unaccepted software licences and has authority to price the software licences for sale to customers. In contrast, Universidad Loyola Andalucía says most of the indicators in paragraph B37 point to the reseller being an agent.

Staff analysis

[Indicators relevant to the assessment of control](#)

37. One of the indicators in paragraph B37 is responsibility for fulfilling the promise to provide the specified good or service (paragraph B37(a)). This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). In our

view, the Committee is not in a position to clarify the meaning of ‘primary responsibility’ beyond its observations set out in the tentative agenda decision. Those observations note that, in the submitted fact pattern, the software manufacturer is responsible for particular aspects of fulfilling the promise to the customer while the reseller is responsible for other aspects of fulfilling the promise to the customer. To say more than that said in the tentative agenda decision on primary responsibility would, in our view, add requirements to IFRS 15.

38. Another indicator in paragraph B37 is inventory risk (paragraph B37(b)), which can arise either before or after control of a specified good or service has been transferred to a customer (for example, if the customer has a right of return). We note that inventory risk arises not only in relation to physical or tangible goods. An entity might have inventory risk even if no physical good is sold, for example if an entity commits itself to obtain a service from a service provider before obtaining a contract with a customer to provide that service.
39. We continue to agree with the Committee’s observations that the reseller has inventory risk until acceptance of the standard software licences by the customer. Although the standard software licences are intangible in nature, the reseller nonetheless has inventory risk for any unaccepted licences. Because the software licences are issued in the customer’s name, the reseller is unable to return unaccepted licences to the software manufacturer or sell unaccepted licences to another customer.
40. We think however it would be helpful to clarify that the reseller has inventory risk after the transfer of the standard software licences until the customer accepts the licences. Appendix A to this paper includes our suggested edits to the tentative agenda decision in this respect.
41. For reasons similar to those in paragraphs 28–30 of this paper, we recommend no change to the agenda decision to clarify the types of information needed to assess control or provide additional guidance on the assessment.
42. Paragraph B37 states that ‘indicators...include, but are not limited to, the following’ and paragraph BC385J(e) explains that the indicators in paragraph B37 are not an exhaustive list. We acknowledge respondents’ comments that there might be other

indicators to consider besides those identified in paragraph B37. Accordingly, we propose to change the agenda decision to better reflect the ‘include, but are not limited to,’ wording in paragraph B37. Appendix A to this paper includes our suggested edits to the tentative agenda decision in this respect.

Other comments

43. The following table summarises respondents’ comments on other matters together with our analysis of those comments.

Respondents’ comments	Staff analysis and conclusions
<p><i>1. Reference to IAS 1 (as amended in 2021)</i></p> <p>The tentative agenda decision refers to IAS 1 <i>Presentation of Financial Statements</i> as amended in 2021 in the context of disclosing material accounting policy information. SOCPA suggests referring to existing requirements in IAS 1—rather than IAS 1 as amended in 2021—because the amendments are not yet effective.</p>	<p><i>We propose to change the wording of the tentative agenda decision.</i></p> <p>While at its November 2021 meeting the Committee decided to refer specifically to the amendments to IAS 1 issued in February 2021, we note that those amendments permit early application. Additionally, paragraph 117 of IAS 1 (before the February 2021 amendments) requires an entity to disclose its significant accounting policies. Consequently, we propose to change the wording of the tentative agenda decision to remove ‘as amended in 2021’.</p>
<p><i>2. Comments on other aspects of IFRS 15</i></p> <p>(a) Mazars highlights difficulties a software manufacturer (that is a principal) faces in estimating the amount of revenue to recognise if it is unaware of the amounts a reseller</p>	<p><i>We recommend no change.</i></p> <p>These comments raise questions on other aspects of IFRS 15 that go beyond determining whether the software reseller in the submitted fact pattern is a principal or agent. Addressing these broader questions</p>

Respondents' comments	Staff analysis and conclusions
<p>charges to customers. Mazars also asks whether such information provides useful information to investors.</p> <p>(b) Universidad Loyola Andalucía comments on the reseller's accounting for the right to access (rather than the right to use) the software manufacturer's intellectual property.</p> <p>(c) one respondent asks whether paragraphs B52–B63B of IFRS 15—which deal with licensing—are applicable to the submitted fact pattern.</p>	<p>would therefore go beyond the question asked in the submission. We recommend no change to the tentative agenda decision in this respect.</p>

Staff recommendation

44. Based on our analysis, we recommend finalising the agenda decision with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 44 of this paper?

Appendix A—proposed wording of the final agenda decision

- A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Principal versus Agent: Software Reseller (IFRS 15 *Revenue from Contracts with Customers*)

The Committee received a request asking whether, in applying IFRS 15, a reseller of software licences is a principal or agent. In the fact pattern described in the request:

- a. the reseller has a distribution agreement with a software manufacturer that:
 - i. gives the reseller the right to grant (sell) the manufacturer's standard software licences to customers;
 - ii. requires the reseller to provide pre-sales advice to each customer—before the sale of the software licences—to identify the type and number of software licences that would meet the customer's needs; and
 - iii. provides the reseller with discretion in pricing the software licences for sale to customers.
- b. the nature of the pre-sales advice varies depending on the customer's needs. If the customer decides:
 - i. not to purchase software licences, it pays nothing. The reseller and the customer do not enter into an agreement.
 - ii. to purchase a specified type and number of software licences, the reseller negotiates the selling price with the customer, places an order with the software manufacturer on behalf of the customer (and pays the manufacturer), and invoices the customer for the agreed price.
- c. the software manufacturer provides the customer with the software licences ordered—issued in the customer's name—via a software portal and with the key necessary for activation. The software manufacturer and the customer enter into an agreement

specifying the customer's right to use the software, a warranty covering the software's functionality and the term of the licence.

- d. if the reseller advises the customer to order an incorrect type or number of software licences (that fails to meet the customer's needs), the customer may not accept the licences. The reseller is unable to return unaccepted licences to the software manufacturer or sell them to another customer.

Applicable requirements in IFRS 15—Principal versus agent considerations

Paragraphs B34–B38 set out a framework to determine whether an entity is a principal or agent. When another party is involved in providing goods or services to a customer, an entity determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (the entity is a principal) or to arrange for those goods or services to be provided by the other party (the entity is an agent).

Paragraph B34A states that determining the nature of its promise requires an entity to:

- a. identify the specified goods or services to be provided to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (paragraph B34); and
- b. assess whether it controls each specified good or service before that good or service is transferred to the customer.

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer (paragraph B35). An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer (paragraph B36).

Identifying the specified goods or services to be provided to the customer

The first step in identifying the specified goods or services to be provided to the customer is to assess the goods or services promised in the contract with the customer. A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the contract may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at

the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer (paragraph 24).

Having assessed the goods or services promised in the contract with the customer, an entity then identifies—applying paragraphs 27–30—each distinct good or service (or distinct bundle of goods or services) to be provided to the customer.

Assessing whether an entity controls each specified good or service before that good or service is transferred to the customer

When another party is involved in providing goods or services to a customer, paragraph B35A sets out the circumstances in which an entity is a principal—one of which is when the entity obtains control of a good or another asset from the other party that it then transfers to the customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset; control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset (paragraph 33).

Paragraph B37 sets out indicators to help an entity determine whether it is a principal or agent, which ~~comprise~~ include, but are not limited to: (a) primary responsibility for fulfilling the promise to provide the specified good or service; (b) inventory risk before the specified good or service has been transferred to the customer or after transfer of control to the customer; and (c) discretion in establishing the price for the specified good or service. The indicators may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract, and different indicators may provide more persuasive evidence in different contracts (paragraph B37A).

Applying IFRS 15 to the fact pattern described in the request

Identifying the specified goods or services to be provided to the customer

In the fact pattern described in the request, the reseller’s contract with a customer includes an explicit promise to transfer a specified type and number of standard software licences to the customer.

The Committee observed that the pre-sales advice the reseller provides—under the distribution agreement between the software manufacturer and the reseller—is not an implicit promise in a contract with a customer. At the time of entering into a contract with a customer, the reseller has already provided the advice. There is no further advice to be provided by the reseller and the advice already provided will not be transferred to the customer after contract inception. Consequently, at the time of entering into a contract with a customer, there is no valid expectation of the customer that the reseller will transfer a good or service to the customer other than the standard software licences.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the promised goods in the reseller’s contract with the customer are the standard software licences. Because the standard software licences are the only promised goods in the contract with the customer, they are distinct goods to be provided to the customer. Those licences are therefore the specified goods to be provided to the customer as described in paragraph B34A(a).

Assessing whether the reseller controls the standard software licences before they are transferred to the customer

In the fact pattern described in the request, the reseller assesses whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. That assessment of control requires consideration of the specific facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer, and the software manufacturer and the customer.

If—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent, the reseller considers the indicators in paragraph B37 in assessing whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. In the fact pattern described in the request, the Committee observed that:

- a. the software licences provided to the customer exist only after the reseller places an order with the software manufacturer and the software manufacturer issues the software licences in the customer’s name. The software manufacturer is responsible for the

software's functionality as well as issuing and activating the licences. The software manufacturer is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).

- b. the reseller is the party that engages with the customer both before and after the software licences are transferred to the customer, taking responsibility for unaccepted licences. The reseller is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).
- c. the reseller does not control a pool of standard software licences before entering into the contract with the customer and cannot, for example, direct the software licences to another customer. The reseller therefore has no inventory risk before the licences are transferred to the customer but, ~~in the event of non-acceptance by the customer, the reseller~~ has inventory risk after the transfer until the customer accepts the licences (paragraph B37(b)).
- d. the reseller has discretion in establishing the price for the software licences (paragraph B37(c)). Pricing discretion may be less relevant to the assessment of control if, for example, the market for the software licences is such that the reseller, in effect, has limited flexibility in establishing the price.

The Committee observed that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. The reseller would apply judgement in making its overall assessment of whether it is a principal or agent—including considering the relevance of the indicators to the assessment of control and the degree to which they provide evidence of control of the standard software licences before they are transferred to the customer—within the context of the framework and requirements set out in paragraphs B34–B38 of IFRS 15.

The Committee also observed that the reseller would disclose (a) material accounting policy information in accordance with IAS 1 *Presentation of Financial Statements* (~~as amended in 2021~~), and (b) information required by IFRS 15, including about its performance obligations (paragraph 119) and the judgements made in applying IFRS 15

that significantly affect the determination of the amount and timing of revenue from contracts with customers (paragraph 123).

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a reseller to determine whether—in the fact pattern described in the request—it is a principal or agent for the standard software licences provided to a customer. Consequently, the Committee {decided} not to add a standard-setting project to the work plan.