
IASB[®] meeting

Date	February 2024
Project	Post-implementation Review of IFRS 15
Topic	Licensing
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. This paper provides a summary of the feedback and staff analysis on question 6 *Licensing* of the [Request for Information: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (the RFI). This paper excludes the feedback on identifying performance obligations in licensing arrangements—the analysis of this matter is included in paragraphs 17–40 of Agenda Paper 6A together with other feedback on identifying performance obligations.
2. At this meeting, the IASB will be asked to decide whether to take further action on application matters related to licensing and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).¹
3. This paper provides:
 - (a) [summary of staff recommendations](#);
 - (b) [background](#) to IFRS 15 licensing requirements;
 - (c) [overview of the feedback](#); and

¹ See Agenda Paper 6 for the framework.

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- (d) [summary of the feedback and staff analysis of the specific application matters](#).

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB take no further action on the matters raised by respondents related to:
- (a) accounting for licence renewals;
 - (b) determining the nature of a licence;
 - (c) determining the scope of licensing guidance;
 - (d) accounting for sales-based or usage-based royalties; and
 - (e) other aspects of licensing described in Appendix A.

Background

5. IFRS 15 provides application guidance for licences of intellectual property (IP). The guidance is intended to help an entity identify performance obligations in a licensing arrangement and to determine the timing of revenue recognition based on the nature of the entity's promise (whether it is a 'right to use' or 'right to access' licence).
6. On issuance of IFRS 15 in 2014, IFRS 15 guidance on licensing was largely converged with the respective guidance in the FASB's ASC Topic 606, Revenue from Contracts with Customers. However, clarifications issued by the IASB and the FASB following the discussions of Transition Resource Group (TRG) resulted in some differences in the guidance on licensing between IFRS 15 and Topic 606.² Specifically, the FASB:

² The IASB and FASB's joint Transition Resource Group was formed to support implementation of IFRS 15 and Topic 606 and discussed potential implementation issues submitted by stakeholders. [FASB ASU 2016-10](#), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing included amendments to licensing requirements.

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- (a) developed an alternative approach to determining the nature of an entity's promise in granting a licence of IP, based on classifying the IP as either 'functional' or 'symbolic' IP;
 - (b) specified that the entity would recognise revenue from a licence renewal no earlier than the beginning of the renewal period;
 - (c) clarified that the nature of an entity's promise in granting a licence is considered when applying general revenue recognition requirements to a single performance obligation that includes a licence and other goods or services;
 - (d) clarified that contractual restrictions (for example, a restriction to show content only once per year in a three-year licence) do not replace the requirement for the entity to identify the number of licences promised in the contract (ie one licence or three licences).³

Overview of the feedback

7. As discussed in January 2024 [Agenda Paper 6A](#), most respondents commented on accounting for licensing arrangements. Some of the respondents (mostly standard-setters) said that the requirements on accounting for licensing arrangements are generally clear, although some challenges remain. A few respondents (mostly standard-setters and accounting bodies) said they identified no significant matters related to this topic to raise in this PIR. An accounting firm said that they do not believe that the licensing guidance would benefit from significant further time and effort by the IASB.
8. However, many respondents commented on challenges applying judgement when analysing complex licensing arrangements. Most of the challenges related to identifying performance obligations in licensing arrangements and are covered in Agenda Paper 6A. Others reported challenges related to:

³ Paragraph 9 of the January 2024 [Agenda Paper 6C Plan for PIR Phase 2](#) discusses our planned approach to matters related to convergence with the FASB's ASC Topic 606.

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- (a) the clarity of the accounting requirements for licence renewals;
 - (b) determining the nature of a licence (the ‘right to access’ versus the ‘right to use’);
 - (c) determining the scope of licensing guidance; and
 - (d) accounting for sales-based or usage-based royalties.
 9. Generally, in outreach meetings and in comment letters users of financial statements said they are aware of challenges entities face in accounting for licensing arrangements. However, they did not report significant issues with the information disclosed about those arrangements. A few users said that most software entities make disclosures about licensing arrangements and related significant judgements that are helpful in understanding the entities’ businesses and their accounting for licences. Another user said that when software entities transition from on-premise contracts to cloud-based solutions, users find additional non-GAAP indicators helpful in valuing those entities.
 10. A few users said that the quality of disclosures varies and some entities do not disclose enough information about their licensing arrangements. Given the complexity of licensing arrangements and the judgments that entities need to make, users emphasised the importance of disaggregated revenue information and detailed information about judgements.
 11. In its post-implementation review, the FASB also identified challenges in identifying performance obligations in licensing arrangements as a major application matter. The FASB also received some feedback on accounting for modifications to licensing arrangements and for sales-based and usage-based royalties—see Appendix B.

Summary of the feedback and staff analysis of specific application matters

12. Based on the feedback the staff have identified four main application matters:

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- (a) [accounting for licence renewals](#);
 - (b) [the nature of a licence \(the ‘right to access’ versus ‘the right to use’\)](#);
 - (c) [determining the scope of licensing guidance](#); and
 - (d) [accounting for sales-based or usage-based royalties](#).
13. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:
- (a) there are fundamental questions about the clarity and suitability of the requirements;
 - (b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or
 - (c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the new requirements consistently).
14. In addition, [Appendix A](#) summarises feedback on other matters raised by one or a few respondents and provides staff responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity or suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

Accounting for licence renewals

Summary of IFRS 15 requirements

Paragraphs 20–21 of IFRS 15 provide requirements for accounting for a contract modification as either:

- (a) a separate contract;
- (b) a termination of the existing contract and the creation of a new contract; or
- (c) as if it were a part of the existing contract.

Paragraph B61 of the application guidance on licensing states that revenue cannot be recognised for a licence that provides a right to use the entity's IP before the beginning of the period during which the customer is able to use and benefit from the licence.

Feedback

15. Some respondents (mostly standard-setters and accounting firms) said that entities find it challenging to determine the timing of revenue recognition for licence renewals. A few respondents said judgements in accounting for licence renewals can be particularly complex and lead to additional costs (such as costs of external experts) if the extension of a licence term is combined with other changes to terms and conditions (such as price, scope, etc.). Two standard-setters identified the topic as a major application matter.
16. A few respondents said the lack of specific guidance creates diversity in practice. For example, in the software industry contract renewals for right to use licences are often agreed before the end of the current contract period and:
 - (a) some entities recognise revenue from the renewal starting at the beginning of the renewal period as if it was a new contract; and
 - (b) others recognise revenue from the renewal starting from the date the renewal is agreed as if it was a change of one of the attributes of the existing contract.

17. Many of the respondents commenting on this matter suggested the IASB consider the FASB's amendment to Topic 606, which requires an entity to recognise revenue from a licence renewal no earlier than the beginning of the renewal period.⁴ In these respondents' view, the amendment would significantly simplify accounting by removing the need for complex judgments, reduce diversity in practice and improve convergence with Topic 606.

Staff analysis

Clarity and suitability of the requirements

18. The question about accounting for licence renewals is not new. The TRG discussed this matter in November 2015. In January 2016 the IASB and the FASB (the boards) observed that the application guidance on licensing does not override the five-step revenue recognition model in IFRS 15. An entity is expected to apply the general requirements for identifying performance obligations to identify whether a contract includes one or multiple licences. Similarly, the entity would evaluate whether a licence renewal or extension should be treated as a new licence or as a modification to a licensing contract, to which the contract modifications guidance of IFRS 15 should be applied. The FASB also clarified that the use and benefit guidance [see paragraph B61 of IFRS 15] applies to both the initial licence of IP and renewals of that licence.⁵ The FASB decided to include additional clarifications for licence renewals in Topic 606:

... revenue cannot be recognized from a license of [IP] before both—an entity provides a copy of the [IP] to the customer and the beginning of the period during which the customer is able to use and benefit from its right to access or its right to use the [IP]. That is, an entity would not recognize revenue before the beginning of the license period even if the entity provides a copy of the [IP]

⁴ See paragraph 606-10-55-58C(b) of [FASB ASU 2016-10](#), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

⁵ [November 2015 Meeting—Summary of Issues Discussed and Next Steps \(April 2016\)](#)

before the start of the license period or the customer has a copy of the [IP] from another transaction. For example, an entity would recognize revenue from a license renewal no earlier than the beginning of the renewal period.

19. The IASB decided that a clarification about the application of the contract modifications requirements specifically for renewals of licensing arrangements was not necessary.⁶
20. The boards acknowledged that in some cases this might result in the recognition of revenue with respect to the renewal or extension at a later date using Topic 606 than using IFRS 15.
21. The feedback received during the PIR provided no evidence of widespread diversity in accounting for renewals of IP licences applying IFRS 15 with only a few respondents highlighting the diversity. We note that a few respondents find it most challenging to make judgements in cases when the extension of a contract term is combined with other changes to terms and conditions of a licence. In such complex cases, it is to be expected that the entity would be required to make more difficult judgements.
22. For the reasons discussed in paragraphs 18–21, the staff think that the feedback does not provide sufficient evidence to suggest that there are fundamental questions about applying IFRS 15 requirements in accounting for licence renewals or that the requirements are not working as intended.

Benefits to users of financial statements

23. We heard no specific concerns about the accounting for licence renewals from users of financial statements.
24. A few non-user respondents said there is diversity in accounting for licence renewals. However, diversity in this matter is difficult to establish without carefully considering

⁶ See paragraph BC414T of the Basis for Conclusions on IFRS 15.

the terms and conditions of each arrangement, especially where a term extension is combined with other changes to terms and conditions. This is because, observed diversity could be due to differences in contract terms rather than entities reaching different conclusions on the same fact pattern.

25. Including in IFRS 15 guidance on contract renewals similar to that provided by the FASB would lead to increased convergence and potentially better comparability between entities applying IFRS 15 and those applying Topic 606. However, it might reduce comparability of information about contract modifications for licence renewals and renewals of other types of contracts.
26. For the reasons discussed in paragraphs 23–25, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information about licence renewals are significantly lower than expected.

Costs of applying the requirements

27. The feedback received from a few respondents suggests that accounting for licence renewals is more costly for more complex renewals that combine the term extension with changes to other terms and conditions. Accounting for complex renewals would be expected to require more analysis and judgement, and therefore be more costly than accounting for simple transactions. However, there is no evidence that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected. In addition, the staff note that including in IFRS 15 specific guidance on accounting for licence renewals would cause disruption for entities with established accounting policies.

Staff recommendation and question for the IASB

28. Based on the analysis in paragraphs 18–27, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action in relation to accounting for licence renewals.

Question 1 for the IASB

Do IASB members agree with the staff recommendation in paragraph 28 of this paper?

The nature of a licence (the ‘right to access’ versus the ‘right to use’)**Summary of IFRS 15 requirements**

For contracts that grant licences of IP to customers, paragraphs B53–B56 of IFRS 15 require an entity:

- (a) to determine whether the promise to grant a licence is distinct from other goods or services promised in the contract; and
- (b) to consider the nature of the licence to determine whether the licence transfers to a customer either at a point in time or over time.

Paragraph B56 of IFRS 15 provides criteria to determine whether the nature of a licence is to provide:

- (a) a right to access an entity’s IP as it exists throughout the licence period—in which case the licence is accounted for as a performance obligation satisfied over time; or
- (b) a right to use the entity’s IP as it exists at the point in time at which the licence is granted—in which case the licence is accounted for as a performance obligation satisfied at a point in time.

Paragraph B58 states that the nature of an entity’s promise is to provide a right to access the IP if all of the following criteria are met:

- (a) the contract requires that the entity will undertake activities that significantly affect the IP to which the customer has rights;
- (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity’s [above] activities; and
- (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur.

Paragraph B59A explains that an entity’s activities significantly affect the IP when either:

Summary of IFRS 15 requirements

- (a) those activities are expected to significantly change the form or the functionality of the IP; or
- (b) the ability of the customer to obtain benefit from the IP is substantially derived from, or dependent upon, those activities.

Accordingly, if the IP has significant stand-alone functionality, a substantial portion of the benefit of that IP is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that IP would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of IP that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

Feedback

- 29. A few respondents (mostly standard-setters and accounting firms) said that some entities find the requirements on determining whether a licence is a right to access or a right to use IP difficult to understand and apply. Two standard-setters identified the topic as a major application matter.
- 30. Reported challenges related mostly to complex contracts in software, media, entertainment and pharmaceutical industries. A standard-setter said that the assessment requires significant technical business knowledge and involvement of product experts, which, in their view, shows the complexity of the requirements. A few respondents specified that it is challenging to determine whether a stand-alone functionality is significant.
- 31. Two respondents said there is diversity in practice in determining the nature of a licence, in particular in accounting for cloud-based solutions and licences with a promise of continuous updates and upgrades.

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32. A few respondents (mostly standard-setters) suggested the IASB add further guidance, illustrative examples and/or educational materials (including flow charts) on how to determine the nature of a licence, for example, for software licences or cloud-based software solutions sold with continuous updates.
33. Two accounting firms said the guidance in Topic 606 includes clearer or more comprehensive guidance on determining the nature of a licence than IFRS 15. They suggested the IASB consider either adopting the FASB approach or adding more guidance to IFRS 15. One of the accounting firms said that unless a decision is taken to achieve greater convergence, they would not favour amending IFRS 15 because the improved clarity would not outweigh the associated disruption.

Staff analysis

Clarity and suitability of the requirements

34. Questions about identifying the nature of a licence were raised in the TRG discussions. In April 2016 the IASB issued *Clarifications to IFRS 15*, including:
- (a) additional application guidance on when activities change the IP to which the customer has rights in such a way that the ability of the customer to obtain benefit from the IP is significantly affected; and
 - (b) clarifications to the Illustrative Examples accompanying IFRS 15, to illustrate when the IP to which the customer has rights might have significant stand-alone functionality.
35. The following examples accompanying IFRS 15, might also help clarify how to determine the nature of a licence of IP that includes a promise of continuing updates:
- (a) Example 55 illustrates how an entity determines the nature of a licence for a design and production process with a promise to provide ‘when-and-if-available’ updates; and

- (b) Example 58 illustrates how an entity determines the nature of a licence for images and names of comic strip characters, which are developed, and new characters added throughout the term of the licence.
36. We acknowledge that the illustrative examples accompanying IFRS 15, might be relatively simple examples, as they are intended to illustrate how a requirement could be applied in a variety of fact patterns. The feedback from respondents suggests that their challenges are often linked to more complex arrangements. More challenging fact patterns are expected to require more detailed analysis and judgement. We think that providing illustrative examples for specific complex fact patterns would be unlikely to help many stakeholders as the outcome could be dependent on specific facts and circumstances.
37. For the reasons discussed in paragraphs 34–36, the staff think the feedback to the RFI provides no evidence that there are fundamental questions about the clarity and suitability of the requirements of IFRS 15 on determining the nature of a licence.

Benefits to users of financial statements

38. We heard no specific concerns about the timing of revenue recognition from users of financial statements which could be related to determining the nature of a licence.
39. A few non-user respondents said there is diversity in practice resulting from determining the nature of a licence. However, diversity in this matter is difficult to establish without carefully considering the terms and conditions of each arrangement—observed diversity could be due to differences in contract terms rather than entities reaching different conclusions on the same fact pattern. In addition, we received no evidence that the diversity is widespread.
40. As for the suggestions to amend licensing guidance in IFRS 15 to align it with the FASB’s Topic 606 guidance, we can see that the increased convergence potentially could lead to better comparability between entities applying IFRS 15 and those applying Topic 606. However, the amendments would cause widespread disruption for entities with established accounting policies.

41. For the reasons discussed in paragraphs 38–40, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information about the nature of a licence are significantly lower than expected.

Costs of applying the requirements

42. The feedback on the RFI suggests that determining the nature of a licence is more costly for specific types of contracts involving continuous updates, in particular in the software industry. However, the concerns raised were not widespread. In addition, the staff note that including any additional guidance or examples for respondents' suggested more complex specific fact patterns would be unlikely to help many stakeholders as the outcome could be dependent on specific facts and circumstances. The changes might also cause disruption for entities with established accounting policies for determining the nature of a licence.
43. For the reasons discussed in paragraph 42, the staff think that there is no evidence that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Staff recommendation and question for the IASB

44. Based on the analysis in paragraphs 34–43, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no action in relation to determining the nature of a licence.

Question 2 for the IASB

Do IASB members agree with the staff recommendation in paragraph 44 of this paper?

Determining the scope of licensing guidance

Summary of IFRS 15 requirements

Paragraph B52 states that a licence establishes a customer's rights to the IP of an entity. Licences of IP 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
- (d) patents, trademarks and copyrights.

Feedback

45. A few respondents (mostly standard-setters and accounting firms) said that in some cases entities are unsure whether to apply the specific IFRS 15 guidance on licensing or the general requirements of IFRS 15, in particular, for software as a service (SaaS) arrangements. Two accounting firms identified the topic as a major application matter.
46. In the respondents' views, challenges arise because of the lack of a clear definition of a licence and lack of explicit guidance on the scope of the licensing guidance. These respondents say that the explanation of a licence in paragraph B52 of IFRS 15 includes a limited list of examples of licences of IP.
47. A few respondents said there is diversity in practice. For example, some entities account for cloud-based software arrangements as a provision of a service—for example, entities that turn to US GAAP industry-specific guidance on software and conclude that a cloud-based arrangement does not meet the criteria in paragraph 985-20-15-5 of Topic 985, Software—and others as a licence.
48. A few respondents said the lack of definition of a licence makes it challenging to differentiate a licence from a sale of an IP, in particular to determine whether a contract that has a legal form of a licence can be in-substance a sale of IP. For

example, such contracts are observed in the pharmaceutical industry—the diversity in classification of the contracts also results in diversity in accounting for sales-based royalties which are common in the industry (see paragraphs 62–75).

49. The respondents suggested that the IASB provide a definition of a licence and additional guidance and/or illustrative examples on determining when to apply the IFRS 15 application guidance for licensing.

Staff analysis

Clarity and suitability of the requirements

50. Paragraph B52 of IFRS 15 explains that a licence is a contract that establishes a customer's rights to the IP of an entity. The list of examples of licences provided in that paragraph is not an exhaustive list, therefore entities need to exercise judgement to determine the nature of their contract, for example, whether it is a licence or a service.
51. On issuing ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, the FASB added an exception to software examples in paragraph 606-10-55-54(a) [equivalent of paragraph B52(a) of IFRS 15]:
- ... Software (other than software subject to a hosting arrangement that does not meet the criteria in paragraph 985-20-15-5 [of Topic 985, Software]) and technology...
52. The IASB did not include such exception in IFRS 15. However, in paragraph BC406(b) of the Basis for Conclusions on IFRS 15 the IASB provides an example of some hosting or storage arrangements that enable a customer to use a software licence only by accessing the entity's infrastructure. The paragraph explains that the customer cannot benefit from (or use) the licence on its own without the hosting service, therefore the licence is not separately identifiable from other goods or services in the

contract. Entities need to exercise judgement when applying the principle-based requirements to their cloud-based software and other arrangements.

53. Similarly, an entity would need to consider the terms and conditions of a contract to determine whether it sells its IP or grants a licence of the IP.
54. The IASB considered the matter of determining whether an arrangement is a licence or an in-substance sale of IP before issuing *Clarifications to IFRS 15*. In December 2015 the IASB decided against developing guidance on determining what type of licences might be defined as ‘in-substance sales’, because doing so would be difficult and could raise new questions and create unintended consequences (see paragraphs 62–63 of December 2015 Agenda Paper 7C).⁷
55. Considering that only a few respondents commented on difficulties with determining the scope of licensing, we conclude the requirements in IFRS 15 are sufficient for most entities to exercise judgement.
56. For the reasons discussed in paragraphs 50–55, the staff think the feedback to the RFI provides no evidence that the requirements are not working as intended and that there are fundamental questions about the clarity or suitability of the requirements of IFRS 15 on determining whether a contract is a licence of IP.

Benefits to users of financial statements

57. A few respondents said there is diversity in practice resulting from determining whether a contract is a licence, which might also affect accounting for the sales-based or usage-based royalties (see paragraphs 62–75). However, diversity in this matter is difficult to establish without carefully considering the terms and conditions of each arrangement and we received no evidence that any diversity is widespread.
58. For the reasons discussed in paragraph 57, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information resulting

⁷ [Agenda Paper 7C Licensing—feedback on ED Clarifications to IFRS 15 and redeliberations \(December 2015\)](#)

from determining whether a contract is a licence are significantly lower than expected.

Costs of applying the requirements

59. The feedback on the RFI suggests that determining the nature of a contract is more costly for specific types of contracts, in particular in software and pharmaceutical industries. However, the concerns raised are not widespread and it is likely that most entities have already developed accounting policies on the matter. In addition, the staff note that defining a licence and developing additional guidance as requested by a few respondents could lead to a widespread disruption for entities with established accounting policies for determining whether a contract is a licence.
60. For the reasons discussed in paragraph 59, the staff think that there is no evidence that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Staff recommendation and question for the IASB

61. Based on the analysis in paragraphs 50–60, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action in relation to determining the scope of licensing guidance.

Question 3 for the IASB

Do IASB members agree with the staff recommendation in paragraph 61 of this paper?

Accounting for sales-based or usage-based royalties

Summary of IFRS 15 requirements

Paragraph 50 requires an entity to estimate the variable amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

Summary of IFRS 15 requirements

Paragraph B63 provides an exception for recognising revenue for a sales-based or usage-based royalty promised in exchange for a licence of IP. Such revenue is recognised only when (or as) the later of the following events occurs:

- (a) the subsequent sale or usage occurs; and
- (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Paragraph B63A limits the scope of the exception to a licence of IP or to cases when a licence of IP is the predominant item to which the royalty relates (for example, the licence of IP may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

Feedback

62. A few respondents suggested the IASB broaden the scope of the royalty exception in paragraph B63 of IFRS 15. Specifically:
- (a) one accounting firm suggested amending IFRS 15 requirements on variable consideration to align them with the royalty exception requirements for licences of IP in paragraph B63 of IFRS 15.
 - (b) one standard-setter suggested extending the royalty exception to sales of IP. The standard-setter identified the topic as a major application matter.
63. A few respondents suggested the IASB add application guidance on how to determine whether a licence of IP is the predominant item to which the royalty relates, noting that transactions involving a sale of a good and a software licence as one performance obligation are increasingly common. They also suggested the IASB provide a more complex example than Illustrative Example 60 accompanying IFRS 15. One standard-setter noted that the Standard does not provide any specific criteria for making the

assessment of whether the licence is the predominant component of a single performance obligation, although there is some discussion in paragraph BC414X of the Basis for Conclusions on IFRS 15.

64. One accounting body asked the IASB to clarify whether the royalty exception is applicable to a principal only or to both a principal and an agent.

Staff analysis

Clarity and suitability of the requirements

65. In developing IFRS 15 and Topic 606, the IASB and the FASB considered:
- (a) expanding the scope of paragraph B63 of IFRS 15 to constrain all estimates of variable consideration when that consideration depends on the customer's future actions; or
 - (b) developing general principles that could be applied to all contracts that would achieve broadly the same outcomes, for example, on the basis of the timing of satisfaction of a performance obligation.
66. Paragraphs BC417–BC421 explain that the boards decided against these options because:
- (a) the first option would have prevented an entity from recognising any revenue in cases when the entity could estimate the variable consideration and meet the objective of constraining estimates of variable consideration. It would also have required the boards to create another exception to maintain the requirements for accounting for customer rights of return, which also results in consideration that is dependent on the customer's future actions.
 - (b) the second option would have added complexity to the model that would outweigh the benefit.
67. The boards acknowledged that the requirements in paragraph B63 constitute an exception that might not be consistent with the principle of recognising some or all of

the estimate of variable consideration. However, they decided that this disadvantage was outweighed by the simplicity of these requirements, as well as by the relevance of the resulting information for licences of IP. The boards also noted that because this is a specific requirement intended only for limited circumstances, entities should not apply it by analogy to other types of promised goods or services or other types of variable consideration.

68. The feedback on the RFI (including the feedback on variable consideration reported in paragraphs 30–31 of January 2024 Agenda Paper 6A) does not suggest that there are significant issues with accounting for sales-based or usage-based royalties in other types of arrangements.
69. With respect to requirements for determining whether a licence of IP is the predominant item to which the royalty relates:
- (a) paragraph B63A gives an example of determining that the licence of IP is a predominant item to which the royalty relates. It is based on a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates.
 - (b) this approach is illustrated in Example 60 accompanying IFRS 15, where an operator of cinemas concludes that a licence is a predominant component of a promise to provide a film licence, promotional goods and sponsoring of radio advertisements in exchange for royalties based on sales of cinema tickets. This example is relatively simple, but it is intended to help entities make judgements in a variety of fact patterns.
70. The staff acknowledge that IFRS 15 does not provide specific guidance on accounting for sales-based or usage-based royalties for agents. However, this matter was raised by only one respondent and there are no indications that the matter is widespread.
71. For the reasons in paragraphs 65–70, the staff think that the feedback provides no evidence that there are fundamental questions about the clarity or suitability of the requirements of IFRS 15 on accounting for sales-based or usage-based royalties.

Benefits to users of financial statements

72. The feedback suggests the different requirements for sales-based or usage-based royalties could result in different amounts of revenue recognised, for example, for licences of IP and for sales of IP, which could affect the usefulness of information for users of financial statements. However, as discussed in paragraph BC415 of the Basis for Conclusions on IFRS 15, the limited exception for licences of IP was developed specifically in response to users' and preparers' concerns. They argued that applying the general variable consideration requirements to licences of IP would have required the entity to report, throughout the life of the contract, significant adjustments to the amount of revenue recognised at contract inception as a result of changes in circumstances, even though those changes in circumstances are not related to the entity's performance. The boards observed that such significant adjustments to revenue would not result in relevant information, particularly in contracts in which the sales-based or usage-based royalty is paid over a long period. The feedback to the RFI does not suggest that users have significant concerns about the usefulness of information about royalties related to other types of contracts.
73. For the reasons discussed in paragraph 72, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information resulting from accounting for sales-based or usage-based royalties are significantly lower than expected.

Costs of applying the requirements

74. The feedback on the RFI (including the feedback on variable consideration reported in paragraphs 30–31 of January 2024 Agenda Paper 6A) does not suggest that there are significant issues with accounting for sales-based or usage-based royalties in other types of arrangements. Therefore, the staff think that there is no evidence that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Staff recommendation and question for the IASB

75. Based on the analysis in paragraphs 65–74, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, we recommend the IASB take no further action in relation to accounting for sales-based or usage-based royalties.

Question 4 for the IASB

Do IASB members agree with the staff recommendation in paragraph 75 of this paper?

Question 5 for the IASB

As explained in paragraph 14, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	A few respondents suggested the IASB add guidance to clarify how to account for an option to revoke licensing rights. For example, a contract for an on-premise software licence might include an option that allows the customer to migrate the on-premise software to a SaaS or hybrid cloud computing arrangement (that is the on-premise licence is revoked). This continues to be an area of significant judgement.	Accounting for an option to revoke licensing rights would depend on the terms and conditions of the contract. The staff suggest no action because only a few respondents commented on difficulties with accounting for an option to revoke a licence, which suggests the matter is not widespread.
2	One preparer suggested the IASB add examples of accounting for software licence cancellations and replacements, such as: <ul style="list-style-type: none"> (a) cancelling licence and maintenance rights with one duration (for example, perpetual licences) and replacing them with the same licence and maintenance rights but with a different duration (for example, term licences); and (b) cancelling licences with one functionality and replacing them with licences that substantively transform the original licences. 	The staff suggest no action because the application of modification requirements depends on specific terms and conditions of a contract and only a few respondents commented on difficulties with accounting for complex contract modifications, which suggests the matter is not widespread.
3	One accounting firm said that licensing guidance is not aligned with the requirements for recognising revenue over time during development of an asset which leads to	Determining the nature of an arrangement depends on the terms and conditions of the contract. The feedback on the RFI suggests that

<p>tension in determining which requirements to apply—for example, in film production when an original script provided by a customer is being transformed into a film. In the respondent’s view such film development could meet the criterion for revenue recognition over time in paragraph 35(c) of IFRS 15, but the requirements in paragraph 35(c) would not apply if the contract between the entity and its customer qualifies as a licensing arrangement. For licensing arrangements, paragraph B61 of IFRS 15 states that ‘revenue cannot be recognised for a licence that provides a right to use the entity’s IP before the beginning of the period during which the customer is able to use and benefit from the licence’. The respondent suggested the IASB align the licensing guidance with the general requirements.</p>	<p>respondents generally agree with the principles for revenue recognition for licensing arrangements. Therefore, the staff suggest no action.</p>
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Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes⁸

Discussion materials

Area E: Sales-Based or Usage-Based Royalties

44. Stakeholders told the staff that the expected benefit of the sales-based or usage-based royalty exception in paragraph 606-10-55-65 may be lessened when a contract includes two performance obligations, one of which is a license subject to the sales-based or usage-based royalty exception. That is, if a contract includes two performance obligations and one of those performance obligations is a license of IP subject to the sales-based or usage-based royalty exception, an entity must still perform an estimation of future consideration to determine how the transaction price should be allocated to the non-license component in the contract. In addition, stakeholders noted support for expanding the sales-based or usage-based royalty exception beyond licenses of IP, to other economically similar arrangements (for example, the sale of IP or software as a service with contractual pricing based on usage).

45. When a license of IP is subject to a sales-based or usage-based royalty, the guidance in Topic 606 does not require that an entity estimate the expected future royalty payments to be included in the transaction price. However, for other transactions within the scope of Topic 606, an entity is generally required to estimate the variable consideration when determining the transaction price in accordance with paragraph 606-10-32-5 (unless the variable consideration allocation exception or the right to invoice practical expedient applies). Therefore, the sales-based or usage-based royalty exception benefits entities as estimation of future variable amounts is not necessary.

Minutes

Licensing

Many participants highlighted the challenges of implementing the guidance for term licenses and related services (for example, cloud-based services), particularly the determination of whether the license and services are distinct. Several participants observed that determining whether a license and related services are highly interdependent or highly interrelated can be challenging, especially in the technology industry where a detailed understanding of a software's design and engineering may be needed. A few participants questioned whether the costs of implementing the licensing guidance were reasonable or justifiable. Several investor participants expressed support for additional disclosures that disaggregate the amount of revenue recognized at a point in time and over time

⁸ See November 2023 Public Roundtable [Discussion Materials](#) and [Meeting Minutes](#).

during the period. Those participants explained that the disaggregated information would allow them to better compare revenues across entities and better project future revenue amounts. Several other participants discussed implementation challenges related to the modification of licensing arrangements and the resulting accounting diversity in practice. Although the licensing guidance was noted to be challenging and require significant judgment, participants generally agreed that no significant changes to Topic 606 are needed in this area.

Variable Consideration

... A few participants expressed a desire to expand the sales-based or usage-based royalty exception or provide a practical expedient that would allow private companies to expand the use of the sales-based or usage-based royalty exception to other arrangements beyond licensing.