STAFF PAPER

April 2022

IFRS® Interpretations Committee meeting

Project	**Principal versus Agent: Software Reseller (IFRS 15)**	
Paper topic	Comment letters	
CONTACT	Wei Shun Tan	wtan@ifrs.org
	Jenifer Minke-Girard	jminke-girard@ifrs.org

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Principal versus Agent: Software Reseller (IFRS 15)' published in December 2021.

Name: Sounder Rajan SP

M no 237299

Place: Chennai

Mail: sounderrajansubramanian2709@gmail.com

Mobile: 9940153273

Subject: Comments on Tentative Agenda Decision and comment letters: Principal versus Agent: Software Reseller IFRS 15

1) I welcome the opportunity provided for sending comments on Tentative Agenda Decision and comment letters: Principal versus Agent: Software Reseller IFRS 15
2) My view considering fact pattern

IFRS 15

My Comments

As per the current fact pattern reseller has no risk of inventory, no risk of servicing to customer and price negotiation is not a material element of work. Further the obligation is only to discuss with customer understand the requirements and place the order with manufacturer, with no option to direct to other manufacturers. Accordingly, reseller acts of bridging between customer and manufacturer.

Facts to consider

a) Billing - 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.
b) Billing name - 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. Basis fact patterns it infers as reseller will bill to customer
c) Collection from customer – inferences like risk of reseller
d) Cost of reseller and payment - inferences like risk of reseller and no back-to-back coverage of non-collection from customer
e) Servicing - 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.
f) Risk of bad debts – Risk of full collections infers to be with reseller in full
g) Risk of return – risk of return is minimal for placing order wrongly and non-functionality risk is with manufacturer, but if reseller has paid the money to manufacturer and customer has not paid to reseller due to non-functionality, details of right of recourse if not clear. The right of recourse if important to assess the risk of bad debts.
h) Risk of legal non compliances of licenses – Not to the account of reseller, it is the responsibility of manufacturer
i) Customer agreement breach by manufacturer - if reseller has paid the money to manufacturer and customer has not paid to reseller due to non-functionality, details of right of recourse if not clear. The right of recourse if important to assess the risk of bad debts.

j) Advances from customer – No clarity on facts, if reseller gets advances, pays to manufacturer and if manufacturer has not serviced or not provided requisite licenses, details of right of recourse if not clear. The right of recourse if important to assess the risk of bad debts.
k) Payment to manufacturer – Not clear if payment will be done after confirmation from customer on acceptance of license, the risk of bad debts is minimal. Further it is also not clear whether money will be paid by reseller only on receipt of money from customer or else risk is high.

Fact patter of billing, collection, payment and recovery is more important to assess the revenue recognition model.

Further following details of agreement terms are required for assessment: -

- duties & responsibility of manufacturer & customer is important [Performance obligation].
- duties & responsibility of manufacturer and reseller is important [Performance obligation].
- details of Termination clause, time line for delivery, documentation required between reseller & customer to ensure order requested is tracked, placed appropriately.
- details of rate card vs price negotiation % variances allowed to reseller if any is required to understand the profit/loss margins of reseller to assess the implications of price negotiation clause as per para 37 C

Five steps of IFRS 15

a) identify the contract(s) with a customer. - If purchase is agreed reseller enters into agreement with customer & Billing is done by reseller which can be construed as legal document. Further there is also a legal agreement between customer & manufacturer.
b) identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct. – Major details not clear
c) determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer. - Price is decision of reseller but few clarifications required on discount %
d) allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. – Multiple licenses allocation can be determined based on rate card and discount model agreed, basis of negotiation with customer, for which information's are not clear
e) recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied – Revenue can be recognised as per pattern of performance obligation fulfilment by manufacturer, whether it's built & transferred or sold as is where is for assessment of Para 35 clubbed with other details which are pending as discussed above.

IFRS 15 paras

Principal versus agent considerations–

B34

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised 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 (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A

To determine the nature of its promise (as described in paragraph B34), the entity shall:

(a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and

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

(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

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.

B35

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

As per the fact goods are not controlled by reseller, reseller works with customer to identify customer needs and informs the manufacturer to selling directly to customers. Accordingly, goods are not controlled as any issue in the license if order is placed as per customer requirements will be handled by manufacturer directly. Accordingly, there is no control for reseller.

B35A

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.

In the given fact reseller doesn't get goods or assets from manufacturer and then transfers to customers

(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.

No service provided by reseller

(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. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

No value addition by reseller

B35B

When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

B36

An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. 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. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

B37

Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

(a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. 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). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

Responsibility of reseller is only to order correct requirements of customer after discussion with customer. 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 entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

No inventory risk except in case of rejection due to wrong ordering by reseller

(c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

Not a major role for assessment

B37A

The indicators in paragraph B37 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. In addition, different indicators may provide more persuasive evidence in different contracts.

B38

If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (i.e., the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (i.e., whether the entity is acting as an agent).

Basis all the above information reseller can decide as principal or agent after giving due weightage for collectability risk and cancellation risk.

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

Sounder Rajan

M No 237299

February 4, 2022

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decisions (TAD) reached by the IFRS Interpretations Committee (the Committee) in its meetings on November 2021. That TAD deals with the issue of Principal versus Agent in a Software Reseller arrangement.

Set forth below you will find our comments on the conclusions reached in the TAD.

Overall comments

We agree with the conclusion reached by the Committee in the TAD that the principles and requirements in IFRS 15 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 licenses provided to a customer. Consequently, we agree with the decision not to add a standard-setting project to the work plan of the IASB.

Specific comments

Our local outreach indicated unanimous agreement that in the situation described, the guidance in IFRS 15 is sufficient.

We agree that the essential aspect to analyze in relationship to the definition of whether an entity is a principal or an agent is the determination of whether the entity controls the specified good or service before that good or service is transferred to a customer.

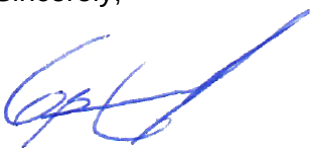
IFRS 15 establishes that an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer; on the other hand, an entity that is a principal does have such control.

We also agree that the evaluation will ultimately 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.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,



C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

Comments on “IFRIC Tentative AD- Principal vs Agent: Software Reseller IFRS 15”

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina
Cristian_munarriz@yahoo.com.ar

5 February 2022

Dear IFRIC members,

I appreciate the opportunity to comment on “IFRIC Tentative AD- Principal vs Agent: Software Reseller IFRS 15”. My comments are included below.

I support the analysis and conclusions about the fact pattern submitted in the request as they are outlined on the tentative agenda decision. I also support the tentative decision to not add a standard-setting project to the work plan for the reasons mentioned in the tentative agenda decision.

Nonetheless I think the IFRIC should consider including in the text of the final agenda decision a brief comment about, even if assuming the pre-sales advice qualifies as a promised good or promise in the contract why the reseller would not be providing a significant integration service. The reason why I am recommending its inclusion is because it was a question where submitter put special emphasis, so the analysis may be useful for this and other preparers, and also the staff already included a brief discussion of those arguments in paragraphs 22 to 25 of the agenda paper 2 of November 2021 IFRIC meeting.

All opinions and points of view outlined in this document are my own and they do not necessarily represent the views of any company, employer, organisation or committee.

If you have any questions, please contact me at cristian_munarriz@yahoo.com.ar.

Yours faithfully,

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina

February 5, 2022

I appreciate the opportunity to comment on Tentative Agenda Decision and comment letters: Principal versus Agent: Software Reseller IFRS 15.

I would like to ask the IFRS Interpretations Committee to provide an explanation about whether paragraphs B52-B63B of IFRS 15 (Licensing) are applied to a software reseller. I understand that paragraphs B52-B63B of IFRS 15 (Licensing) are not applied to a software reseller regardless of whether the software reseller is a principal or agent because software licences a software reseller resells are not licences which establish a customer's right to intellectual property of the software reseller.

Yours faithfully,
國見　琢

February 6th, 2022

Dear members of the International Accounting Standards Board,

We appreciate the opportunity to comment on the *Tentative Agenda Decision and comment letters: Principal versus Agent: Software Reseller IFRS 15.* We are faculty members of the Financial Economics and Accounting Department at Universidad Loyola Andalucía (Spain).

We agree with the decision not to add a standard-setting project to the work plan. In our opinion, the specific circumstances of each contract influence its accounting qualification, and these may vary from one case to another.

The circumstances surrounding the case lead to the following conclusions:

1.- **We share the TAD's view on the pre-consultancy activities. They are not a performance obligation of the contract**. When these activities are performed, there is no contract, nor does the entity have the ability to require the customer for any payment; therefore, they are not a performance obligation. In our opinion, the specialized selling that the reseller engages in requires a commercial effort of customization. In other business activities, such as construction or engineering, it is common to perform this type of service before contracting the work or service.

2.- **The analysis on the qualification as principal or agent is pertinent**, although we make some observations by way of adding nuances. In TAD's view, the transfer of control of the asset to the reseller is only possible for three indicators of the four it analyzes:

> a) The reseller is **involved in the process of transferring the licenses to the client** and is therefore responsible for the fulfilment the performance obligation (IFRS15.B37.a). In our opinion, the reseller's involvement lies in assuming the risk of returning the licenses, which we discuss in the next section. The installation process is developed by the manufacturer and the reseller's involvement in the delivery is totally marginal.
>
> b) The **reseller has inventory risk after the transfer of the licences** (IFRS 15.B37.b). As explained by the TAD, the reseller does not acquire a pool of licences but advises on the purchase needed by the customer and only in case of mistake would the reseller acquire control of those licences. **If the repurchased licenses cannot be directed to another customer, they would not be assets but losses; there is no risk after the sale.** Only if the repurchased licences could be directed to another customer, the reseller would assume inventory risk after the sale. However, that risk would have no economic substance if the probability of return were remote. In addition, we believe that returns should be rare because it makes little sense that customers, once they have accepted the licences and signed the contract, can later claim that the reseller has engaged in misconduct.

(c) the **reseller's ability to set the price is substantial** (IFRS 15.B37.c). As facts of the case indicate, in this market, prices are rigid for resellers and they have little ability to set them freely.

In our opinion, the indicator in IFRS15.B37.d is not met, as it is not a commission that the reseller receives, but the difference between the sales price to the customer and the purchase price to the manufacturer. The other indicators (IFRS15.B37.a and e) clearly show that the reseller is an agent. **In our opinion, except for the reseller's actual ability to set prices, and the mechanism for charging customers, all indicators point to the reseller's role as an agent.**

3.- The circumstances suggest that we are dealing with the **transfer of a right of use over an intangible asset** and not with the right to access the software. Should the reseller's activity be treated differently? The effects would be pervasive. If the reseller qualifies as principal and it is a right of access, revenue is deferred over de period of the licence, whereas if the reseller qualifies as an agent, income is immediately recognized for the margin earned. The value contribution of a reseller that distribute rights to use or rights to access would be the same (or similar), but the accounting treatment would be different if the reseller were considered a principal. However, if the reseller were identified as an agent, the accounting would be the same regardless of whether the reseller distributes a right to use or to access.

4.- The overall interpretation of the case leads us to the conclusion that the two circumstances described in point 2 (b and c) rarely occur. Consequently, the **reseller must be qualified as an agent** that makes it possible for the manufacturer to distribute its products. We consider these Agenda Decisions to be helpful in interpreting the principles and an opportunity to set out how the principles are applied in specific circumstances.

Please do not hesitate to contact us for any clarification or further information.

Sincerely,

PhD Horacio Molina-Sánchez **PhD Marta de Vicente-Lama** **PHD Mar Ortiz-Gómez**

Loyola University Andalusia

February 07, 2022

IFRS Foundation
7 Westferry Circus, Canary Wharf
London E14 4HD, United Kingdom

SOCPA Comments on *Tentative Agenda Decision, Principal versus Agent: Software Reseller IFRS 15*

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision, Principal versus Agent: Software Reseller- IFRS 15*.

We concur with the Committee's conclusion that the principles and requirements in IFRS 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.

However, we have the following observations about the Tentative Agenda Decision analysis of the fact pattern:

1. Paragraph (c) under the heading "*Assessing whether the reseller controls the standard software licences before they are transferred to the customer*" the TAD stated that "*in the event of non-acceptance by the customer, the reseller has inventory risk after the transfer (paragraph B37(b))*". According to the fact pattern described in the request "*the reseller is unable to return unaccepted licences to the software manufacturer or sell them to another customer*". 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 costumer. 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.

2. The Tentative Agenda Decision stated that "*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)*". In our view, since the aforementioned requirement in IAS 1 has not come into effect yet, it may be more appropriate to direct the inquirer to existent requirements in IFRS standards as of the date of the Agenda Decision.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
Chief Executive Officer

Date: February 07, 2022

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Principal versus Agent: Software Reseller IFRS 15.

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

In this regard, we agree with the analysis that the standard software licences are the only promised goods in the given fact pattern that are distinct goods to be provided to the customer. However, with regard to the conclusion that whether the reseller is a principal or an agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts, we note that paragraphs B34-B38 of IFRS 15 provide guidance to determine whether an entity is a principal or an agent. We are of the view that it will be appropriate if the TAD can provide guidance as to how to apply the provisions of paragraphs B34-B38 in the given fact pattern. 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 to determine whether reseller is a principal or an agent. Accordingly, it is suggested that language of the Agenda Decision may be revised in this regard.

With kind regards,

CA. Parminder Kaur
Secretary,
Accounting Standards Board
Institute of Chartered Accountants of India

Deloitte.

Deloitte Touche Tohmatsu Limited
Hill House
1 Little New Street
London
EC4A 3TR

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 0112
www.deloitte.com/about

Direct phone: 020 7007 0884
vepoole@deloitte.co.uk

07 February 2022

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Ms Lloyd

Tentative agenda decision – Principal versus Agent Software Reseller (IFRS 15)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the December 2021 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's agenda the request for clarification on whether, in applying IFRS 15, a reseller of software licences is a principal or agent.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda.

We believe that the IFRS 15 framework provided in the decision for determining whether an entity is acting as principal or agent is an effective tool in helping to make this judgement. We also agree that it is appropriate not to reach a conclusion on whether the reseller is principal or agent given the limited fact pattern provided in the request.

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.

If the Committee decides to retain these observations in the agenda decision, we believe it should reconsider the analysis presented in item c. of the analysis of the indicators of control. As part of its observation in this item, the Committee has concluded that the reseller has inventory risk in the event of non-acceptance by the customer. 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. We believe that the wording in this section should be updated accordingly.

Deloitte.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

8 February 2022

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decision

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the Tentative Agenda Decision—Principal versus Agent: Software Reseller (IFRS 15 *Revenue from Contracts with Customers*).

We agree with the Interpretations Committee's reasons set out in the Tentative Agenda Decision for not adding this item onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

International Financial Reporting Standards Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

08 February 2022

Dear IFRS Interpretations Committee members,

Invitation to comment – Tentative Agenda Decision (TAD): Principal versus Agent: Software Reseller (IFRS 15 *Revenue from Contracts with Customers*)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the December 2021 *IFRIC Update*.

The Committee discussed a question about whether, in applying IFRS 15, a reseller of software licences is a principal or an agent.

We agree that an entity needs to identify the specified good(s) or service(s) to be provided to the customer and assess whether it controls each specified good or service before that good or service is transferred to the customer, using the framework and requirements set out under IFRS 15 that are discussed in the TAD.

For the fact pattern in the request, we agree with the Committee's conclusion that the promised good or service is the standard software licences. We 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, including the terms and conditions of the relevant contracts, and that judgement is required to determine whether the reseller is the principal or an agent.

The TAD includes considerations for the indicators. While this is helpful, no similar observations are included about the transfer of control in relation paragraph B35A of IFRS 15. 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).

We note that the TAD refers to "... but, in the event of non-acceptance by the customer, the reseller has inventory risk after the transfer (paragraph B37(b))". While we agree this is relevant information to consider, we do not believe it should be characterised as inventory risk in the fact pattern in the submission. While IFRS 15 allows for inventory risk after transfer of control, in our view, the reseller getting the software back from the customer does

not necessarily indicate the company has obtained control of the licences. In this fact pattern, the reseller is not able to on-sell or redirect the software upon return by the customer

The TAD sates that, "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 …". While we agree in principle, we recommend that the Committee clarifies the type(s) of information that would be needed and emphasises that the conclusion is based on the weight of evidence available.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Buenos Aires, Argentina, January 28, 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

REF: IFRS IC Tentative Agenda Decisions reached in the November 30 and December 1, 2021 meetings

Dear Board Members,

The "Group of Latin American Standards Setters"[1] (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meetings on November 30 and December 1, 2021, which included the following topic:

- **Principal versus Agent: Software Reseller (IFRS 15)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the TAD of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchanged among its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments:

GLASS agrees that, in the situation described, the essential aspect to analyze in relationship to the definition of whether an entity is a principal or an agent, is the determination of whether the entity controls the specified good or service before that good or service is transferred to a customer.

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); on the other hand, an entity that is a principal does (paragraph B35).

Therefore, 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.

It also agrees that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate to specify through the Agenda Decision (AD) procedure an answer on the reasoning to be used, and therefore the description of the proper application of the accounting treatment that should be given to the subject.

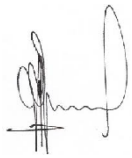
[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and Tentative Agenda Decisions issued by the IFRS IC. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Vice Chairman), Chile (Board), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

It is also agreed that IFRS provide the appropriate basis for an entity to determine when an entity is acting as agent or principal in a particular transaction with a customer.

Contact

If you have any questions about our comments, please contact glenif@glenif.org .

Sincerely yours,



Jorge José Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

PO Box 1411
Beenleigh QLD 4207
8 January 2022

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/principal-versus-agent-software-reseller-ifrs-15/

Dear Sue

Tentative agenda decision - Principal versus Agent - Software Reseller (IFRS 15)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Principal versus Agent - Software Reseller (IFRS 15).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I agree with the IFRS Interpretations Committee's decision not to add this item as a standard-setting project to the work plan.

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.

I have the following comments:

- Diversity
- Inventory risk

Diversity

> While principal versus agent is a common and very judgemental area to apply, I did not identify a specific reference to diversity in practice in the submission.

The closest was the following in section 1 of the submission (Appendix B of the staff paper):

> While the affected value-added resellers of the entire IT industry usually assume that a significant integration service is on hand – which would imply classification as principal – [another party] published indications to be used for the assessment, which imply that in general, the goods and services are separable.

Given the above views of the submission (of a significant integration service), and the wording of the TAD that states that the good or service to the customer is only the standard software licence (i.e. no integration), then I agree that an agenda decision should be issued on the subject.

Inventory Risk

The TAD states that "in the event of non-acceptance by the customer, the reseller has inventory risk after the transfer". I do not agree with this conclusion. I do not believe that the reseller has inventory risk on a failed sale, as it does not control the licence. IFRS 15 paragraph 33 states:

> … 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.

Given the facts, I do not believe that the reseller has control over the licence on a failed sale, as the reseller cannot do anything with the 'returned' licences. The licence is not like a physical widget. A licence is not even given on the basis of one key = one licence.

I acknowledge that the reseller has a penalty (of an unknown volume based amount).

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA | Accuracy and Integrity
OFFICE OF THE REGISTRAR/CHIEF EXECUTIVE

February 7, 2022

ICAN/TA/R&T/FEB/07/2022

International Financial Reporting Standard
Columbus Building, 7 Westferry Circus,
Canary Wharf, London,
E14 4HD.

Dear Sir,

Re: TENTATIVE AGENDA DECISION AND COMMENT LETTERS: PRINCIPAL VERSUS AGENT: SOFTWARE RESELLER IFRS 15

Please find below our response to the Exposure Draft named above:

Response:

i. **We agree with the position of the Committee with respect to the conclusion that the pre-sales advice cannot be accounted for as a performance obligation as there is no evidence of a contract with the customer.**

ii. **While we agree that the application guidance and relevant IFRS 15 paragraphs provide clarification and requirements in the assessment of a principal and agency relationship, the Committee should provide additional guidance on how to address instances where the cases are not clear cut. For example, should preparers of financial statements assign more weights to some indicators versus other indicators when assessing principal and agency relationship?**

We appreciate the privilege to contribute to the Exposure Draft and we are available should there be need for further clarification.

Yours faithfully,
For: Registrar/Chief Executive

IOAnaso

Ijeoma O. Anaso (PhD) FCA
Deputy Registrar, Technical Services

Head Office
Plot 16, Idowu Taylor Street,
Victoria Island Lagos.
P.O. Box 1580, Lagos

ANNEX OFFICE
82, Murtala Mohammed Way,
Opposite Denton Police Station,
Ebute Metta, Lagos.

+234 0905 384 7513, +234 0905 384 7514
+234 0905 384 7510, +234 09053 847 511

info.ican@ican.org.ng

www.icanig.org

mazars

Mrs Sue Lloyd

IFRS Interpretations Committee Chair

Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

La Défense, 8 February 2022

Tentative Agenda Decision – Principal versus Agent: Software Resellers (IFRS 15 Revenue from Contracts with Customers)

Dear Sue,

MAZARS is pleased to comment on the above mentioned IFRS Interpretations Committee Tentative Agenda Decision, published in the November 2021 *IFRIC Update*.

We acknowledge that the fact pattern described in the submission may not have been detailed and precise enough to enable the Committee to provide a clear answer on the qualification of the reseller as either an "agent" or a "principal" in the transaction.

In this context, we therefore agree with the Committee's conclusion of recalling that such an analysis requires judgement and 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*".

In addition, we agree with the key steps provided by the Committee when conducting such an analysis:

1) Identifying each distinct good or service (or distinct bundle of goods or services) to be provided to the customer (i.e. identifying distinct performance obligations)
2) Conduct an "agent vs principal" analysis at performance obligation level:
    a. First, assess whether, by applying IFRS 15 general principles on control (paragraph 33), the entity can clearly determine whether it controls the software licenses before they are transferred to the customer,
    b. Then, if it cannot clearly make that determination, consider the indicators listed in paragraph B37 to assess whether the reseller controls the software licenses before they are transferred to the customer.

However, we have some concerns as regards the way B37 indicators have been analysed by the Committee:

Primary responsibility - IFRS 15.B37(a): in general, we believe that it is not always clear to determine what is meant by "the entity is primarily responsible for fulfilling the promise to provide the specified good or service".

If primary responsibility means being at risk on 100% of the selling price to the end customer

Then in the case submitted to the IFRS IC, both the reseller and the software manufacturer bear such a risk – but for different reasons:

- the reseller bears such a risk because:
  - as any professional intermediary, it may be held responsible for damages resulting from unprofessional or fraudulent advice provided to the end customer, or;
  - as is usually the case in this industry, it bears the credit risk on the end customer (which sometimes materializes in the fact that the customer wrongly claims that the advice provided by the seller was unprofessional);
- the software manufacturer bears such a risk because it is responsible for the software to fulfil its promised functionalities (this responsibility is the software manufacturer's alone as the transaction is the sale of a standard software license).

It is necessary to distinguish situations based on the reason why the end customer is not accepting the licenses as, depending on the situation, the responsibility could fall either on the reseller or on the software manufacturer. The analysis presented by the Committee fails to make that distinction which thus creates further confusion on the analysis of the "primary responsibility" indicator.

If primary responsibility means the responsibility for providing a good or service that corresponds to its promised characteristics under the contract

Then we believe that in the case submitted to the IFRS IC, the software manufacturer has that responsibility.

If primary responsibility means being the entity to turn to in case of any problem or difficulty encountered by the customer

Then we believe that in the case submitted to the IFRS IC, the reseller has that responsibility. Indeed, usually the customer has no other choice but to turn to the reseller.

If the Committee chooses to maintain a detailed analysis of the B37(a) indicator in its final agenda decision (see our comment below), we encourage the Committee to clarify its analysis of the responsibilities in the fact pattern and what is generally meant by "primary responsibility".

Inventory risk - IFRS 15.B37(b): we believe it is non-sense to consider, as an indicator that the reseller is an agent, that it does not bear inventory risk before the software licenses are transferred to the customer, rather it bears that inventory risk only after the software licenses are transferred to the customer.

We believe that the software manufacturer does not bear inventory risk as soon as it has obtained a firm commitment from the reseller and/or the customer that all the licenses in the contract will be paid. From that date, it has transferred the inventory risk, and it has transferred it to the reseller if the reseller is contractually obliged to pay for any license refused by the customer. It is not different from a contract to deliver goods, where the reseller places a firm order to the manufacturer and asks for a direct delivery to the customer's premises. The reseller does not take physical possession of the goods, but it does not prevent it from bearing the inventory risk of the transaction. and acting as a principal.

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.

Since we had the opportunity to investigate similar questions for groups operating in this industry, we would like to share with you other thoughts and findings related to this subject.

1) We made the same observations each time:
   - Resellers usually (and historically) consider themselves as principal when selling software licenses to end-customers or to other distributors.
   - By performing a quick benchmark on software manufacturers, a consistent position emerges – namely: software manufacturers consider themselves as principal vis à vis their reseller.
   - Getting to this position was probably easier in the past, as software licenses were transferred to customers using floppy disks or CDs (i.e. a tangible support). Resellers ordered quantities of licenses in advance and bore inventory risk on those licenses before they receive an order from a customer (which is generally no longer the case, in our opinion).

2) We also identified the following issue we would like to share with you: in case it is concluded - after having conducted an IFRS 15 analysis - that a reseller acts as an agent:
   - Then, consistently with that analysis, the software manufacturer would be principal vis à vis the end customer. In that case, a software manufacturer would be required to gross-up its revenue (and concomitantly its expenses) to include the reseller's margin.
   - We believe this accounting treatment to be impracticable/unworkable for software manufacturers, as they do not know (and may not be contractually authorized to access) the price billed by the resellers to the end-customers.
   - In addition, we wonder whether such a gross-up in revenue and expenses provides relevant information to users of the financial statements when the software manufacturer is not involved in determining the reseller's margin.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully,

Michel Barbet-Massin

Edouard Fossat

Financial Reporting Advisory

Name : elsayed shabaan eid
Address : Egypt
Email address : sayedshabaancpa@gmail.com

Dear, IFRS Interpretations Committee members,

Tentative agenda decision – Principal versus Agent Software Reseller (IFRS 15)

I appreciate to have the opportunity to comment on the the Tentative Agenda Decision, Principal versus Agent: Software Reseller- IFRS 15.

I agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda.

However, I would like to offer my opinion:

-the pre-sales consulting service, as the the reseller obligated to perform the service contractually because of the agreement with the software manufacturer, and as a necessary service to determine the nature of the license, and also the customer cannot benefit from it separately and because determining the nature of the program depends directly on the pre-sales advice service Without it, it is not possible to determine the type of license that meets the needs of the client, and therefore it is not possible to obtain a contract with a client.

So in my opinion, It is not possible to separate the promise to provide software licenses and the consulting service, and together they represent one performance obligation, According to paragraphs 24 : 30 IFRS15 .

-Assessment of whether the seller controls the service or commodity before transferring it to the customer , According to parB37 IFRS15 .

1 - The reseller guarantees that software licenses are compatible with the customer's requirements and bears the risk of refunding them in the event that they do not meet the customer's requirements. Therefore, in my opinion, he is mainly responsible for fulfilling the commitment.

2 - The reseller responsible in the event that the customer does not accept software licenses because he does not meet the customer's needs. The reseller cannot return it to the software factory or sell it to another customer. Therefore, in my opinion, he bears the risks related to the stock from the moment he places the license application according to his assessment of the nature and needs of the customer.

3- The reseller has the authority to set the price in the invoice submitted to the customer.

In my opinion, the reseller is Principal.

Yours sincerely ,,

elsayed shabaan eid

Name : elsayed shabaan eid
Address : Egypt
Email address : sayedshabaancpa@gmail.com