

13 November 2015

Global Mindset, Asian Insights

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

RESPONSE TO EXPOSURE DRAFT – CLARIFICATIONS TO IFRS 15

ISCA sought views from its members on the above ED through a one-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

IASB had considered the implementation issues identified by the Transition Resource Group (TRG) for Revenue Recognition and had proposed clarifications in three areas – identifying performance obligations; principal versus agent considerations; and licensing. These clarifications were effected through amending the application guidance in the Standard, (without affecting the body of the Standard) and the illustrative examples. We noted that this is the result of the application of a high hurdle in IASB's consideration of whether to amend the Standard so as not to be disruptive to the implementation process.

We are generally supportive of the proposed clarifications to IFRS 15 as these would be helpful to preparers and users in their understanding and application of IFRS 15 for the first time. However, we believe that additional clarity could be achieved in some areas, in particular the principal versus agent considerations. We also share below other matters which we consider pertinent for your consideration.

Singapore 2018 IFRS Convergence

On 29 May 2014, the Singapore Accounting Standards Council announced that Singapore-incorporated companies listed on Singapore Exchange will apply a new financial reporting framework identical to IFRS for annual periods beginning on or after 1 January 2018. This coincides with IFRS 15's effective date of 1 January 2018. As a result, Singapore listed companies that do not early adopt IFRS 15 and apply IFRS 1 *First-time Adoption of Financial Reporting Standards* in 2018 would be required to apply IFRS 15 retrospectively to each prior reporting periods presented. Retrospective application with the cumulative effect recognised in the current period ('cumulative catch-up') would not be made available to these Singapore listed companies. In addition, these companies cannot apply the transitional provisions in paragraph C7 of IFRS 15 which allows an entity to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).

Instead, the entity would be required to restate contracts that were not completed before the earliest period presented.

We understand that IASB had decided not to permit the use of the 'cumulative catch-up' transition method as it is not consistent with the principles in IFRS 1 (IFRS 15 Basis for Conclusions paragraph BC508). IASB shared that this would eliminate comparability within a first-time adopter's first IFRS financial statements by providing relief from restating comparative years. However, this may not be true for financial statements prepared under Singapore financial reporting framework as Singapore financial reporting framework is substantially aligned with IFRS. By allowing Singapore's first-time adopters of IFRS in 2018 the same transitional methods that are available to existing IFRS reporters, it will not result in less comparability as compared to existing IFRS reporters.

Considering the significant impact of IFRS 15 to most, if not, all preparers in Singapore, we are of the view that first-time adopters should be allowed to apply the 'cumulative catch-up' transition method so as to be consistent with existing IFRS preparers in other jurisdictions.

IASB & FASB Converged Revenue Standard

Lastly, we are concerned that IASB and FASB appeared to be reaching different conclusions on certain matters such as shipping and handling activities or that FASB is issuing amendments without mirroring amendments being made to IFRS 15. Given that IFRS 15 and Topic 606 *Revenue from Customers with Customers* are substantially converged, we believe that the two Boards should do their best to maintain the consistency and comparability between these two standards and only diverge if there is a need to do so.

Our detailed comments and responses to specified questions in the ED are set out below.

Question 1—Identifying performance obligations

IFRS 15 requires an entity to assess the goods or services promised in a contract to identify the performance obligations in that contract. An entity is required to identify performance obligations on the basis of promised goods or services that are distinct.

To clarify the application of the concept of 'distinct', the IASB is proposing to amend the Illustrative Examples accompanying IFRS 15. In order to achieve the same objective of clarifying when promised goods or services are distinct, the FASB has proposed to clarify the requirements of the new revenue Standard and add illustrations regarding the identification of performance obligations. The FASB's proposals include amendments relating to promised goods or services that are immaterial in the context of a contract, and an accounting policy election relating to shipping and handling activities that the IASB is not proposing to address. The reasons for the IASB's decisions are explained in paragraphs BC7–BC25.

Do you agree with the proposed amendments to the Illustrative Examples accompanying IFRS 15 relating to identifying performance obligations? Why or why not? If not, what alternative clarification, if any, would you propose and why?

We welcome IASB's attempts to clarify the application of the concept of 'distinct' which appeared to be a significant implementation issue. However, we have concerns about whether the proposed illustrative examples would provide the needed clarity as intended by IASB. For example, the proposed Illustrative Example 10 Case B *Significant Integration Service (multiple items)* is intended to provide clarification on the application of IFRS 15 paragraph 27(b). But it is not clear whether the notion of a 'significant integration service' in IFRS 15 paragraph 29(a) should be applied broadly to any manufacturing processes that include overall management of activities as per those described in the illustrative example. Furthermore, entities may attempt to compare their fact patterns to those within these illustrative examples and derive at inappropriate conclusions.

We are of the view that IASB should consider redrafting the analysis within these examples to be explicitly linked to the principles or even consider revising the requirements in the Standard jointly with FASB.

Question 2 - Principal versus agent considerations

When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent. To do so, an entity assesses whether it controls the specified goods or services before they are transferred to the customer.

To clarify the application of the control principle, the IASB is proposing to amend paragraphs B34–B38 of IFRS 15, amend Examples 45–48 accompanying IFRS 15 and add Examples 46A and 48A.

The FASB has reached the same decisions as the IASB regarding the application of the control principle when assessing whether an entity is a principal or an agent, and is expected to propose amendments to Topic 606 that are the same as (or similar to) those included in this Exposure Draft in this respect.

The reasons for the Boards' decisions are explained in paragraphs BC26–BC56.

Do you agree with the proposed amendments to IFRS 15 regarding principal versus agent considerations? In particular, do you agree that the proposed amendments to each of the indicators in paragraph B37 are helpful and do not raise new implementation questions? Why or why not? If not, what alternative clarification, if any, would you propose and why?

We generally agree with the proposed amendments to IFRS 15 regarding principal versus agent considerations, notwithstanding that such considerations are inherently judgmental in practice.

IFRS 15 Basis for Conclusion paragraph BC35 states that "IASB had intended for the indicators in IFRS 15 paragraph B37 to support an entity's assessment of whether it controls a specified good or service. These indicators do not override the assessment of control, should not be viewed in isolation and also not considered as a checklist of criteria to be met,

or factors to be considered. Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.” We believe IFRS 15 paragraph BC35 provides useful guidance for the principal versus agent considerations. Accordingly, this should be included within the application guidance of the Standard.

Illustrative Examples 47 (airline tickets) & 48 (meal vouchers)

From these illustrative examples, it is not clear when entities would conclude that the specified good or service is the actual good or service, or the right to a good or service. The application of the requirement in IFRS 15 paragraph B34A(a) is not explained in both examples, in which the specified good or service are determined to be the right to the service and not the actual service that the customer wants to obtain. We recommend that IASB could consider providing clarity on the above either in the application guidance or within the illustrative examples of the standard.

Estimating revenue as a principal (BC 53 to BC 56)

IASB had decided not to provide guidance on the issue described in IFRS 15 paragraph BC53 whereby an entity that is a principal would have to estimate the amounts of revenue to recognise if it were not aware of the amounts being charged to customers by an intermediary that is an agent. IASB was of the view that this issue is expected to arise only in a narrow set of circumstances. However, we believe that this implementation issue is commonly seen in service transactions involving intermediaries in many industries (e.g. virtual gaming).

IFRS 15 paragraph BC 55 states that the entity would generally be expected to be able to apply judgment and make estimates about the consideration for which it is entitled using all relevant facts and circumstances. However, such an approach would be difficult to apply in practice when the principal has no visibility to the amounts charged by the agent (when the agent has the liberty to set prices). In addition, the relevance of making such estimates may be questioned as the amounts charged to the agent would be more reflective of the consideration received by the principal, rather than the amounts charged to end customers by the agents. Hence, we recommend that the transaction price of the principal should be the amounts entitled from the intermediary under such circumstances. Correspondingly, the fee retained by the agent should not be included as part of the selling expense of the principal.

Question 3 - Licensing

When an entity grants a licence to a customer that is distinct from other promised goods or services, IFRS 15 requires the entity to determine whether the licence transfers to a customer either at a point in time (providing the right to use the entity's intellectual property) or over time (providing the right to access the entity's intellectual property). That determination largely depends on whether the contract requires, or the customer reasonably expects, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. IFRS 15 also includes requirements relating to sales-based or usage-based royalties promised in exchange for a licence (the royalties constraint).

To clarify when an entity's activities significantly affect the intellectual property to which the customer has rights, the IASB is proposing to add paragraph B59A and delete paragraph B57 of IFRS 15, and amend Examples 54 and 56–61 accompanying IFRS 15. The IASB is also proposing to add paragraphs B63A and B63B to clarify the application of the royalties constraint. The reasons for the IASB's decisions are explained in paragraphs BC57–BC86.

The FASB has proposed more extensive amendments to the licensing guidance and the accompanying Illustrations, including proposing an alternative approach for determining the nature of an entity's promise in granting a licence.

Do you agree with the proposed amendments to IFRS 15 regarding licensing? Why or why not? If not, what alternative clarification, if any, would you propose and why?

We agree with the proposed amendments to IFRS 15 regarding licensing. However, we note that the notion of 'predominant' in paragraph B63A is new to IFRS 15 and should be clarified so as to reduce the risk of inconsistencies in its application or interpretation.

Question 4 – Practical expedients on transition

The IASB is proposing the following two additional practical expedients on transition to IFRS 15:

- (a) to permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price.
- (b) to permit an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts (as defined in paragraph C2) at the beginning of the earliest period presented.

The reasons for the IASB's decisions are explained in paragraphs BC109–BC115. The FASB is also expected to propose a practical expedient on transition for modified contracts.

Do you agree with the proposed amendments to the transition requirements of IFRS 15? Why or why not? If not, what alternative, if any, would you propose and why?

We agree with both practical expedients on transition to IFRS 15.

Question 5 – Other topics

The FASB is expected to propose amendments to the new revenue Standard with respect to collectability, measuring non-cash consideration and the presentation of sales taxes. The IASB decided not to propose amendments to IFRS 15 with respect to those topics. The reasons for the IASB's decisions are explained in paragraphs BC87–BC108.

Do you agree that amendments to IFRS 15 are not required on those topics? Why or why not? If not, what amendment would you propose and why? If you would propose to amend IFRS 15, please provide information to explain why the requirements of IFRS 15 are not clear.

As shared in the beginning of our comment letter, we are of the view that both Boards should endeavor to keep their respective Standards converged and only diverge if there is a need to do so.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Financial Reporting Standards & Corporate Reporting, or Ms Jezz Chew, Manager, Financial Reporting Standards & Corporate Reporting, from ISCA via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg respectively.

Yours faithfully,



Mr Titus Kuan
Director
Technical Advisory and Professional Standards