



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



IASB
30 Cannon Street
London EC4M 6XH
UK

October 28, 2015

Dear Mr Hoogervorst,

Re: ED Clarifications to IFRS 15

Whilst we appreciate the efforts the Board is making to clarify various aspects of the standard while changing as little as possible, we are very concerned about the divergences that are being created between the IASB and the FASB versions of the two standards.

This revision of IAS 18 / IAS 11 had as its origin a desire to develop a common standard with the FASB to provide robust principles which would be applied to all revenue-generating activities. This project, in our view, thus responded more to a specific issue with US GAAP, whose accounting literature on revenue recognition had become far too bulky and rule-based with numerous specific treatments developed for each business sector.

We are therefore very disappointed to see that after so many years of effort and compromise from all parties, the IASB and FASB appear to be withdrawing rapidly from convergence. We are also very concerned to see how quickly the FASB has already reintegrated rules, exemptions and practical expedients in a principle-based standard.

Today users expect common approaches by sector and should be warned more clearly of the risk that the FASB has departed from a common IFRS 15 standard.

The IASB should therefore proceed to a comprehensive review of the current divergences (and perhaps any impending further divergence) to allow constituents to understand the magnitude of the divergence. If the IASB considers that certain differences should not lead to different conclusions, it would be useful to clearly state this and, on the contrary, all substantive differences could be also identified and highlighted. In the absence of such a statement we would be very concerned that the FASB standard, including the interpretations that will be made by the authorities on the US side, might

become the “default standard” for IFRS constituents as well, because of the weight of the SEC and of the US accounting firms’ technical departments in the implementation process.

Finally, although we wish to conserve a principle-based standard that leaves room for judgment, at this stage of the joint work of the two Boards we believe that some pragmatic solutions proposed by the FASB in response to requests from its stakeholders could also be considered by the IASB so as not to "penalise" its stakeholders. The FASB proposes some practical expedients that avoid some costly analyses, and a systematic materiality assessment, both of which could also be of benefit to IFRS preparers by facilitating the implementation of the new standard.

Yours sincerely,

ACTEO

AFEP

MEDEF

Patrice MARTEAU
Chairman

François SOULMAGNON
Director General

Agnès LEPINAY
Director of economic
and financial affairs



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?

Concerning the additional amendment proposed by the FASB in relation to immaterial promised goods and services, we can understand this proposal because of the different context in which materiality is assessed under USGAAP and we hope that this will not lead to significant divergence.

Concerning both the principle and the factors used to identify goods and services that are distinct within the context of the contracts, we wonder whether wording differences may lead to different interpretations or conclusions.

Firstly, we note that the FASB has specified in paragraph 27 (b) that it is the “promise to transfer” goods and services that may be distinct within the contract, whereas the IASB is referring only to the underlying goods and services.

Furthermore, the FASB has decided to change the perspective from which factors described in paragraph 29 should be read. The FASB now specifies which factors indicate that a promise is not separately identifiable whereas the same factors are used by the IASB to indicate in which cases a promise is separately identifiable. We believe that the Boards should be very cautious with such differences in perspective as they often lead to “grey areas” and leave room for different conclusions.

We also wonder why the IASB has decided not to improve the understanding of this principle by introducing the notion of a “combined item”, in the way the FASB proposes when explaining the objectives of the assessment whether goods or services are separately identifiable. We find this proposed introduction to paragraph 29 helpful.

“The objective when assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b) is to determine whether the nature of the entity’s overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the promised goods or services are inputs.”

To conclude on this area, we therefore ask the Boards to maintain strictly the same wording. Nevertheless, if the Boards decide not to converge, we urge the IASB both to explain in the Basis for Conclusions why the text is different and to be clear that it does not change in any way the conclusions that should be reached.

We have a stronger reservation concerning the accounting policy election that the FASB intends to provide to its constituents relating to shipping and handling activities, as it could distort the level playing field. Because we share the IASB’s conceptual reservations, we encourage the Board to ask the FASB not to pursue this amendment. However, if the FASB wishes to maintain its position, we see no reason to impose additional operational costs on IFRS stakeholders by requiring them to undertake an analysis of contracts not required in the US standard.

Finally, concerning the additional illustrative examples, we welcome the efforts made by the Boards but also believe that every effort should be made to maintain convergence in this area as well.

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 welcome the perfect convergence on the proposed amendments between the two Boards. We also welcome the clarifications and additional examples provided especially with regard to the “rights to goods or services” and for outsourcing issues.

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 believe that there is a risk that the difference between the FASB and IASB approaches will arise in more than few cases (in contrast to the statement in BC70) and that the Boards should finalise their respective proposals before undertaking a more comprehensive analysis of both the reasons for a different approach and the consequences this may have in terms of comparability.

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?

Although we welcome the new practical expedients provided, we believe that the IASB should be more explicit. In fact, in respect of modified contracts, we believe that the IASB should provide an illustrative example to paragraph C5(c) to explain more clearly which solution is acceptable and which method is not, since the current drafting may be interpreted as being the solution that the Board has rejected in BC113.

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.

Presentation of sales taxes

We believe that the presentation of sales taxes is a real issue that the IASB should deal with since the current standard does not provide any more guidance than the previous one and because that agent / principal analysis is quite difficult to apply to such transactions. It would be useful to add an illustrative example to explain how the analysis of agent / principle can be applied to sales taxes. However, we agree that IASB should not provide a practical expedient.

Non-cash consideration

We welcome the fact that the IASB acknowledges in the Basis for Conclusions that the use of a measurement date other than the contract inception date would not be precluded in IFRS 15.

Collectability (IFRS 15 9(e))

Whilst we agree that the objective of the collectability assessment is still quite clear in IFRS 15, especially when read in the light of paragraph BC46 (that might usefully be integrated in the core standard), we are quite concerned by the conclusions reached in the Basis of the exposure draft and especially with paragraph BC92 of the ED which states that the population of contracts to which any clarification of paragraph 9(e) might apply is small. In making this statement, the Board gives the impression that it has significantly reduced the scope of this criterion which nonetheless remains very important for certain groups, perhaps for internal control purposes, since it precludes recognising revenue for very uncertain outcomes.