pwc

Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

13 November 2015

Dear Kris

Re: Exposure drafts 266, 267 and 268

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's documents:

- ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan* (ED 266)
- ED/2015/6 *Clarifications to IFRS 15* (ED 267), and
- ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28* (ED 268).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment
We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 7104 if you would like to discuss our comments further.

Yours sincerely,

Paul Shepherd
Partner, PricewaterhouseCoopers

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

28 October 2015

Exposure Draft ED/2015/6 – Clarifications to IFRS 15

We are pleased to respond to the invitation by the IASB to comment on the Exposure Draft, 'Clarifications to IFRS 15' ('the Exposure Draft'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Exposure Draft.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the efforts of the IASB and the FASB ('the boards') to respond to concerns raised by constituents about the revenue standard. We commend the boards for their ongoing collaboration, and encourage the boards to continue to work towards converged solutions to implementation issues related to the revenue standard whenever possible.

We believe the converged revenue standard is a significant achievement for financial reporting that will provide substantial benefits to both preparers and users over the long run. We are concerned that those benefits may be eroded if the boards decide to adopt different solutions to implementation issues. We acknowledge that the financial reporting outcomes might not be significantly different, even if the boards pursue different approaches. However, we believe that the outcomes will not be the same in all cases, and the risk of divergence over time is much greater. We are also concerned that using different words to clarify or amend the standard will introduce additional complexity, particularly for those organisations that have reporting obligations under both IFRS and US GAAP, as well as for users that follow peer companies reporting under both IFRS and US GAAP. In our view, if the boards agree on the underlying principles and intend the financial reporting outcomes to be the same, they should make the same amendments to maintain a converged standard.

We support the objectives of many of the proposals in the Exposure Draft; however, we have several specific observations. We also refer to the comments made in our letters to the FASB, copied to the IASB, dated 30 June 2015 and 13 October 2015.

Identifying performance obligations

We support the IASB's objective to clarify the concept of 'distinct' through further application guidance. However, we recommend that the IASB more clearly articulate in the standard the 'separately identifiable' principle, similar to the amendments proposed by the FASB. We encourage the boards to make the same amendments to the guidance and the same changes to the related examples. We are particularly concerned that differences in the examples will create confusion and increase the risk of divergence. We observe that this area of the guidance will continue to require significant judgement.

Principal versus agent considerations

We support the proposed amendments to the principal versus agent guidance. We believe the amendments will help clarify the guidance and promote consistency in its application. However, we have certain observations and recommendations for the boards' consideration, which are included in the Appendix to this letter.

Licensing

We believe that both the IASB's and FASB's proposed approaches to clarify the licensing guidance would be an important improvement to the standard. We encourage the boards to agree on one alternative and make consistent amendments to the guidance to avoid the risk of divergence on this topic.

Practical expedients on transition

We encourage the boards to adopt a consistent approach to transition options and the related practical expedients. This will reduce complexity and minimise inconsistencies between the accounting applied by different entities. Given the importance of revenue to an entity's financial reporting, we support an approach that results in similar accounting in periods after the initial application of the new standard, regardless of the transition approach an entity selects. We therefore suggest that the IASB amend the definition of 'completed contract' to be consistent with the definition proposed by the FASB.

Collectability

The discussion of collectability in the basis for conclusions of the IASB's Exposure Draft is helpful to address the concerns raised by constituents and discussed by the Transition Resource Group (TRG). We suggest that both boards should include this clarification in the standard itself or, alternatively, that both boards should include the clarification in the basis for conclusions, using the same words.

Measuring non-cash consideration

We acknowledge the IASB's reasons for not addressing the date on which non-cash consideration is measured. However, we believe that divergence in this area will result in less useful information. We therefore recommend that both boards clarify the measurement date of non-cash consideration. We support a measurement date that is the earlier of when the consideration is received or receivable and when the performance obligation is satisfied.

Presentation of sales taxes

The analysis required to assess the substance of each sales tax can be extensive. It is not clear that the cost of doing this work outweighs the financial reporting benefit if the alternative approach is supplemented by disclosure explaining which policy the entity has applied and the impact of that policy. We therefore suggest the IASB include the same expedient that has been proposed by the FASB.

Our detailed responses to the IASB's questions are included in the Appendix to this letter.

If you have any questions, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322), Tony de Bell (+44 207 213 5336) or Brett Cohen (+1 973 236 7201).

Yours faithfully,

PricewaterhouseCoopers

PricewaterhouseCoopers
cc: Financial Accounting Standards Board

Appendix

***Question 1** – 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 believe that a converged standard will bring significant benefits to both preparers and users over the long run. We are concerned that using different words to clarify or amend the standard will introduce additional complexity. In our view, if the boards agree on the underlying principles and intend the financial reporting outcomes to be the same, they should make the same amendments to maintain a converged standard.

We support clarification of the 'separately identifiable' principle in paragraph 29 and believe that this would improve the operability of the standard. We believe that the FASB's proposed revisions to the equivalent paragraph in ASC 606 are helpful. We also believe, as explained in our comment letter to the FASB, that the 'highly interdependent or highly interrelated' indicator in paragraph 29(c) is not necessary if the principle and the other indicators are amended as proposed. We believe that the 'highly interdependent or highly interrelated' indicator may continue to create confusion, and we suggest that it is deleted.

We feel strongly that it is important for the boards to include the same examples with the same wording. We believe that differences in the examples will create complexity and significant challenges in practice. Different examples or differences in the fact patterns may lead to a focus on different aspects of the standard to support the conclusion, which will make it more difficult to understand which facts are determinative. For example, the FASB has proposed an Example 10, Case C, but the IASB has not. We are concerned that this will create divergence in the application of the guidance on identifying performance obligations to software licence arrangements. We also note that the amendments proposed by the boards result in the examples having differing fact patterns (for example, Example 11, Case E) or using different language to explain conclusions (for example, Example 10, Case B). Such differences may create confusion and diversity in practice. We therefore recommend that the examples be aligned.

We have the following observations and recommendations on the new examples.

Example 10, Case B—Significant integration service (multiple items)

We note that the explanation for the conclusion differs from the equivalent FASB example. We also note that the explanation in the IASB's Exposure Draft could help mitigate the risk of the conclusion being applied too broadly. However, we suggest that the following amendments would add further clarity to the last sentence in paragraph IE48C and better reflect what we believe to be the boards' intentions: 'The entity's performance obligation is the overall production of the units, including establishing and maintaining a production process solely for the purpose of producing units in accordance with the agreed upon customer specifications ~~of this contract.~~'. We suggest that the boards should use the same wording in both standards.

Example 11, Case E—Promises are separately identifiable (consumables)

We note that the conclusion in Example 11, Case E, is that the customer is able to benefit from the equipment because it will be able to use it in conjunction with consumables, which can only be obtained from the entity that sells the equipment (paragraph IE59I). Example 56 concludes that the customer is not able to benefit from the licence because it can only benefit from the licence in conjunction with manufacturing services that can only be obtained from the entity that sells the licence (paragraph IE283). We suggest that the IASB explain more clearly how these conclusions have been reached, to better illustrate the principle being applied. For example, it might help to clarify that the delivered item (for example, the equipment in Example 11, Case E) is capable of being distinct, because the customer could also obtain benefit by selling the asset for more than scrap value in a secondary market or because the entity commonly sells the proprietary goods/service (for example the consumables in Example 11, Case E) to customers that have not also purchased the asset from the entity. This clarification should indicate that judgement is required to determine when an asset that is used in conjunction with proprietary goods and services is capable of being distinct.

***Question 2** – Do you agree with the proposed amendments to IFRS 15 relating to 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 believe that stating that the 'unit of account' is a 'distinct specified good or service (or distinct bundle of goods and services)' adds clarity to the principal versus agent assessment. We believe the proposed amendments will improve the operability and understandability of the principal versus agent guidance.

We believe the proposed amendments to paragraph B35A will clarify the application of the control principle to the principal versus agent assessment, and will improve the operability and understandability of the guidance.

We believe the proposed amendments to the indicators improve the operability and understandability of the principal versus agent guidance. However, we have certain recommendations for further improvement to the indicators and the examples.

Primary responsibility for fulfilling the promise

We recommend providing further clarification of the indicator in paragraph B37(a) regarding which entity is 'primarily responsible for fulfilling the promise'. The similar indicator in today's guidance, regarding whether the entity has 'primary responsibility' is not always interpreted consistently. Inconsistent application of this indicator is likely to continue under the new standard, unless further clarification is provided. Specifically, we have the following recommendations.

When the specified good or service is a right to a good or service (for example, a voucher that is a 'right to a meal'), it is unclear whether this indicator should be evaluated in the context of the 'right' (the voucher) or the underlying good or service (the meal). For example, the 'right to a meal' is the specified good or service in Example 48, which suggests that the indicator requires assessment of which entity is responsible for fulfilling the promise to provide the voucher. However, paragraph IE247B(c) appears to focus on fulfilment of the promise to provide the meal.

We acknowledge that the assessment of which entity is 'primarily responsible for fulfilling the promise' is not necessarily determinative in Example 48. However, we are concerned that the inconsistencies described above will result in confusion regarding whether to assess which entity is responsible for fulfilling the promise to provide a 'right' or to provide the underlying good or service. We recommend the boards clarify how this assessment should be done.

We note that the entity that is primarily responsible for fulfilling the promise might be different from the entity that is responsible for acceptability. For example, a retailer that sells a good is typically responsible for fulfilment by transferring the good to the customer; however, the manufacturer is often responsible for acceptability of the good. We suggest acknowledging that different parties might perform these functions and, as a result, the indicator might not be persuasive in some cases.

We also recommend incorporating the notion of 'supplier discretion' in this indicator, as we believe it will help entities determine if they are directing another entity to perform and therefore control the specified good or service. For example, we observe that the entity has supplier discretion in Example 46A, which supports the conclusion that the entity is directing the service provider to provide the specified services on the entity's behalf.

Lastly, we recommend clarifying how this indicator relates to the definition of control, similar to the proposed amendments to paragraph B37(b) and (c).

Pricing discretion
We recommend moving the discussion in paragraph B37(c) regarding an agent's discretion in establishing pricing into the basis for conclusions. We agree with the statement that an agent could have pricing discretion in some cases. However, we are concerned that this statement, which follows immediately after the description of why pricing discretion is an indicator that an entity is the principal, appears to contradict or 'dilute' the indicator in general. We do not believe this is the boards' intention. We therefore believe this discussion should be included in the basis for conclusions along with an example to provide the appropriate context.

Credit risk
We recommend removing 'credit risk' as an indicator. This indicator is almost never persuasive and does not appear to directly relate to the control principle. However, if the boards decide to retain this indicator, we suggest moving the last sentence of paragraph B37(d) into the basis for conclusions, similar to our recommendation regarding the pricing discretion indicator.

Example 46 (specialised equipment)

We recommend removing the discussion about the activities being 'highly interrelated' in paragraph IE237A and the last three sentences in paragraph IE237B. We believe this discussion is not necessary to the analysis and could be confusing. We also observe that the discussion in the basis for conclusions (paragraph BC43) states that the analysis may be 'straightforward' when the entity provides a significant service of integrating two or more goods or services into the combined output that is the specific good or service for which the customer contracted. Our recommendation would result in a simplified analysis in Example 46, which would better reflect the boards' intention that the analysis should be straightforward in this fact pattern.

Example 47 (airline tickets) and Example 48 (meal vouchers)

We recommend placing less focus on the timing of the creation of the 'right' (the ticket or voucher) in these examples. We believe the key factor in these cases is whether the entity has committed to purchase the 'right' before it is sold to the customer, and not when the ticket or voucher is created.

Other observations—estimating gross revenue as a principal

We have the following additional observation regarding the discussion included in the basis for conclusions on estimating gross revenue as a principal (paragraphs BC53–BC56).

We understand that this discussion is intended to address a narrow fact pattern; however, we are concerned about the implications of differing guidance on this topic in the IASB's and FASB's basis for conclusions. We disagree with the statement in paragraph BC36 of the FASB's Exposure Draft that the transaction price should be reported net in cases 'when the entity is (and expects to remain) unaware of the amount the intermediary charged to the end customer', and are concerned about the implications of setting a precedent that a lack of access to data is a basis for not making estimates.

If the boards decide to retain this discussion, we recommend that both boards use the IASB's proposed language.

Question 3 *– 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?*

Nature of a licence
We believe that both the approach proposed by the IASB and the approach proposed by the FASB would clarify and improve the operability of the licensing implementation guidance. Both alternatives clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property (IP) or to provide a right to use the entity's IP as it exists at the point in time the licence is granted.

Each alternative has its own merits and disadvantages. The IASB's proposal is consistent with the principles in the standard, but will require more judgement to apply. The FASB's proposed approach, of classifying licences as either functional or symbolic, appears easier to apply and will reduce the possibility of different accounting for similar fact patterns. However, this model is rules-based and varies from the principles in the standard, which increases the risk of unintended consequences. We also observe that there is a subset of arrangements (specifically, symbolic licences for which the entity has no ongoing obligations) for which the FASB's proposed approach will result in an outcome (over time recognition) that is not consistent with the principles. We are also aware that there may be certain licences of IP for which the distinction between functional and symbolic will still require significant judgement (for example, a licence to broadcast a movie together with the rights to display the related character images on the licensee's website) and that a more principles-based approach might be easier to apply in those circumstances.

We acknowledge that, in many cases, both proposed licensing models may result in similar accounting; but we are concerned that, if the boards use different models, the outcomes will not be the same in all cases. We therefore recommend that the boards select one alternative and make the same amendments to both standards.

If the IASB decides to adopt the FASB's approach, we recommend that both boards consider requiring immediate recognition of revenue associated with a symbolic licence in situations where the licensor is clearly performing no activities associated with the IP.

Scope of the licensing guidance

We recommend that the boards consider specifying in the standard that the licensing guidance should be applied only when the licence is the predominant component of the performance obligation, rather than including this concept only in the basis for conclusions.

We also suggest clarifying, in the basis for conclusions, how the notion of 'predominant' should be applied. We understand the 'predominant item' in a performance obligation is the item with the most importance or influence. However, it is not clear whether it is the boards' intention that the licence must constitute 'most' (for example, greater than 50 percent of the value) of the promise, or whether the expected threshold is closer to 'nearly all' of the promise.

Sales- and usage-based royalties

We believe the proposed amendments clarify when to apply the sales- and usage-based royalties exception if a licence is not distinct, consistent with the amendments proposed by the FASB. We support these amendments, which resolve a significant implementation issue. However, other questions remain, related to the scope of the sales- and usage-based royalties exception, that could result in diversity in practice. For example, it is unclear whether an 'in-substance' sale (such as an exclusive perpetual licence) would qualify for the exception. This lack of clarity could result in accounting, in some cases, that does not reflect the underlying economics of the transaction. For example, an entity that had previously acquired IP would presumably be required to derecognise and expense any related intangible asset following an 'in-substance' sale; however, the entity would be precluded from recording future royalties, even when such amounts would otherwise satisfy the constraint on variable consideration.

We also note that the revisions to Example 60 state that it is not necessary to determine the nature of the licence because the consideration is in the form of a sales-based royalty. We believe it would be necessary to determine the nature of a licence in order to apply the guidance in paragraph B63, which states that recognition of the royalty is at the later of when the subsequent sale occurs and when the performance obligation has been satisfied. In order to determine whether the performance obligation has been satisfied, we believe it is necessary to first determine the nature of the licence (that is, whether it is the right to use or the right to access IP). We also recommend clarifying how the guidance in paragraph B63 (the 'later of' timing) should be applied when the licence is a right to access IP. For example, an entity could license a right to access IP in exchange for a royalty that is only earned during a portion of the total licence period.

Contractual restrictions

We note the IASB's discussion in the basis for conclusions (paragraphs BC80–BC82) of the impact of contractual restrictions in a licence, and in particular the conclusion that contractual restrictions define attributes of the licence and do not change the number of promises in the contract. This is consistent with the FASB's proposed revisions, which clarify that restrictions of time, geographical region or use in a licence do not affect the number of promises in a contract.

We agree with this conclusion and believe that it is important for the boards to clarify this concept, either in the standard itself or in the basis for conclusions, using the same words. We note from paragraph BC82 that some believe that a contractual provision can be a revocation of the customer's rights, and not simply a restriction of the right granted. We are concerned that a lack of clarity about whether and when a contractual provision might be a revocation of rights will create additional complexity and diversity in practice. For example, some have questioned whether a licence to right of use IP should be separated into multiple promises if the geographical restrictions in the licence change during the licence term. We believe that a lack of clarity in this area is also likely to lead to differing views on how to account for modifications to a licence to change restrictions. We therefore suggest that the boards clarify the accounting in these situations.

We encourage the boards to include the same examples in both standards. However, we note that Example 61B in the FASB Exposure Draft provides an example of a licence that appears, on its face, to contain a restriction of time (restricting the customer's rights to broadcast the movie to Years 1-3 and Years 8-10). We observe that the example does not explain how the conclusion (that the provision is not a restriction) is consistent with the principle on restrictions within a licence. If this example is included, we recommend clarifying the guidance or the example to explain the factors that lead to the conclusion that the contractual provision in this example is not a restriction in a single licence, but is instead a separate performance obligation.

Question 4 *– 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 support providing entities with transition options and practical expedients to reduce the cost and complexity of transitioning to the new standard. However, we believe that the differing transition options currently proposed by the boards will create additional complexity, for example, where a group includes entities that are required to report under both IFRS 15 and ASC 606 and will reduce comparability between entities that choose different transition approaches and expedients. This lack of comparability might not be resolved for several years. We therefore encourage the boards to provide the same transition options and expedients.

We support the proposed expedient that allows entities to use hindsight to account for modified contracts. We encourage both boards to align the date at which this expedient would be applied.

We also support an expedient to allow entities to avoid revisiting 'completed' contracts. However, we encourage the IASB to consider revising the definition of a 'completed contract', similar to the revisions proposed by the FASB. Given the importance of revenue to an entity's financial reporting, we support an approach that results in similar accounting after transition, regardless of the transition approach that an entity selects. The current definition of a 'completed contract' might mean that an entity recognises revenue under its previous accounting policies for several years post transition. This would result in a lack of comparability between similar transactions, and could require an entity to maintain two systems after adoption until all revenue for legacy contracts has been recognised. We believe that the revisions proposed by the FASB (that is, defining a 'completed contract' as a contract for which all, or substantially all, of the revenue has been recognised under current GAAP) would help an entity to achieve consistent accounting once IFRS 15 has been adopted. We also believe that, similar to the FASB proposal, an entity should be permitted to apply the new guidance retrospectively to all contracts when the modified retrospective approach to transition is adopted.

Question 5 *– Do you agree that amendments to IFRS 15 are not required with respect to collectability, measuring non-cash consideration and the presentation of sales taxes? 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.*

Collectability
We believe that the discussion regarding collectability in the basis for conclusions in the IASB's Exposure Draft is helpful in addressing the concerns raised by constituents and discussed by the TRG. We encourage both boards to include this clarification in the standard itself or, alternatively, to include the clarification in the basis for conclusions, using the same words. We also strongly suggest that the boards include the same examples for this guidance with the same wording.

Measuring non-cash consideration
We believe there is confusion regarding the date that an entity should use to measure the fair value of non-cash consideration. We therefore recommend that both boards clarify the measurement date of non-cash consideration, using the same words. We are concerned that if the boards take different approaches, it will create further divergence and differences between the standards. We are particularly concerned that Example 31 will have a different conclusion in each standard.

We observe that the FASB has proposed to use contract inception as the measurement date. We recommend the boards define the measurement date as the earlier of when the consideration is received or receivable and when the performance obligation is satisfied. We are concerned that the FASB's proposed approach might raise further implementation questions, such as how to account for changes in value prior to the receipt of consideration and how to identify the 'contract inception' date. We believe that defining the measurement date as the earlier of when the consideration is 'received or receivable' and when the performance obligation is satisfied would be consistent with the proposed interpretation of IAS 21 and would minimise the risk of unintended consequences.

Presentation of sales taxes
We believe that, in some circumstances, the cost of undertaking a principal versus agent assessment for each sales tax might not outweigh the benefits to users of obtaining that information. We further note that the election proposed by the FASB would impact presentation in the income statement, but not the timing of revenue recognition. We therefore recommend that the IASB amend IFRS 15 to include the same election proposed by the FASB (that is, to permit entities to elect to present sales taxes, and similar taxes, collected from customers on a net basis). We recommend that entities using this election be required to include transparent disclosure that makes it clear which policy has been applied and the impact of that policy to aid comparability.