

The Institute of Public Accountants



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS®

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The Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom	The Chairperson Australian Accounting Standards Board PO Box 204 Collins Street West Victoria 8007 Australia
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Dear Sir and Madam

Exposure Draft 2015/6 Clarifications to IFRS 15

Thank you for the opportunity to comment on Exposure Draft 2015/6 “Clarifications to IFRS 15”. With the exception of the proposed changes relating to transition requirements, the IPA does not support the proposed amendments to IFRS 15 set-out in ED 2015/6.

The IPA is of the view the changes proposed are not substantive in nature as they do not materially expand upon the principles already espoused in IFRS 15. As such, the proposed changes do not warrant the amendment to IFRS 15.

Furthermore the IPA, as previously indicated, does not support the delay in the effective date of IFRS 15 and the nature of the proposed “enhancements” to IFRS 15 only strengthen this view.

While the Transition Implementation Group fulfils a useful role in the implementation of the new standard, it should not be seen as further due process in the development of the standard and as such effectively re-expose the standard for comment and amendment. The IPA is of the view that after appropriate due process standards should be allowed to be implemented and further “tinkering” must be avoided.

Standards should be allowed to be “bedded down” and practices emerge. Only at such time should amendments be considered either through the IFRIC process in relation to urgent and substantive matters or through a proper post implementation review of the standard.

Finally, as it is evident that neither the FASB or the SEC is committed to “convergence” with IFRS, the IPA sees little benefit in amendments to IFRS 15 that are largely responsive to peculiarities of previous US GAAP requirements, even when such considerations are banished to the Basis of Conclusions.

If there is no longer an imperative to issue converged standards, the IPA is of the view the Basis of Conclusions should not mention FASB amendments that were not adopted.

Our comments and responses to the questions in the Exposure Draft are set out in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'V. Stylianou', with a stylized flourish at the end.

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix A

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 in relating to identifying performance obligations? Why or why not? If not, what alternative clarification, if any, would you propose and why?

IPA Response

The IPA does not support the proposed amendments to IFRS 15 to clarify the “separately identifiable” criteria by revision to existing illustrative examples and the addition of further examples.

Please refer to our comments in the covering letter.

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?

IPA Response

The IPA does not support the proposed clarifications to IFRS 15.B37 and the addition IFRS 15.B35A.

Please refer to our comments in the covering letter.

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 or 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?

IPA Response

The IPA does not support the clarification to licencing arrangements proposed in the exposure draft.

Please refer to our comments in the covering letter.

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 IFRS15 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?

IPA Response

The IPA supports the proposed additional practical expedients on transition.

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 BX87-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.

IPA Response

The IPA supports the exclusion of the FASB guidance on collectability, measurement of non-cash consideration and the presentation of sales taxes. Furthermore, the IPA believes decisions made by the FASB not implemented by the IASB do not necessarily require explanation in the Basis of Conclusions.

Please refer to our comments in the covering letter.