

26 October 2015

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

Comment Letter on the Exposure Draft on Clarifications to IFRS 15

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this ED. Our response (in the appendix) has been prepared in conjunction with our member companies.

Yours sincerely

SwissHoldings

Federation of Industrial and Service Groups in Switzerland



Felix R. Ehrat
Chair



Christian Stiefel
Director

cc SH Board

APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

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 acknowledge that the distinct criterion in paragraph 27 and following continue to require judgment even with the additional clarifications. The TRG discussions highlighted that there might be potential diversity in stakeholders’ understanding of paragraphs 27(b) and 29. These two paragraphs outline whether or not goods and services are separately identifiable (i.e. distinct in the context of the contract). Therefore, we generally support the IASB’s objective to clarify the guidance in paragraphs 27(b) and 29.

We further agree with the IASB’s position described in paragraph 12 of the July 2015 *Basis of Conclusion* (‘BC’) that the indicators in paragraph 29 should be regarded as supporting factors and not be seen as a series or criteria. We also support the IASB’s position described in BC11 that it depends not merely on whether one item depends on another, i.e. whether two items have a “functional relationship”, rather on the “transformative relationship” in fulfilling the contract, i.e. to transform two items into a different output. From the wording in BC11, it seems that the “transformative relationship” is a key factor in evaluating whether goods or services are separately identifiable. However, paragraph 29(c) still highlights that two items could simply be highly dependent on each other and therefore are separately identifiable as per paragraph 27(b) although they are not transformed into a different output. It seems that none of the examples address a situation in which items are highly dependent, but are not transformed together. Such a discussion would be helpful, also to obtain a better understanding of the difference between paragraph 27(a) and paragraph 29(c). We recommend that the IASB considers adding an additional example to address this topic.

We note that the FASB proposed amendments to the wording in the standard itself (equivalent of paragraph 29) and the wording in some of the amendments are not identical with those proposed by the IASB. As we believe that a converged standard is a significant achievement for financial reporting that will provide substantial benefits to both preparers and users, we are concerned that adopting different solutions in ASC 606 and IFRS 15 will partially reduce some of those benefits. We understand the IASB’s view that the outcome might not be significantly different, and that IFRS preparers should reach consistent conclusions. However, there is a risk that IFRS preparers might look at ASC 606 where there is no similar guidance in IFRS 15. Using different wording may even result in further complexity or confusion. As an example, the wording in ASC 606.10-25-21.c (equivalent to paragraph 29(c)) specifies that goods or services are not distinct if “each of the goods or services is significantly affected by the other goods or services”, i.e. there is a mutual dependence between two items. We are not sure if the “transformative relationship” described in BC11 should be understood the same way as in ASC 606, i.e. that each of two items specified in a contract transforms the other item into something that is greater than (or substantively different

from) the sum of both underlying items. Therefore, we would have preferred that the wording in the amendments proposed by both the IASB and FASB are identical.

We also generally support the IASB's objective to better illustrate the guidance in paragraphs 27(b) and 29 in the amended and new examples. However, it appears that some of those examples have become very lengthy and include facts and analysis that are very specific to an individual situation and not easy for preparers to transfer to their specific situation. These examples appear to add even more complexity as preparers attempt to determine which example is closer to their fact pattern. Preparers in some industries are very supportive of the new or amended examples while other preparers in different industries consider that the number of examples is detrimental to a principle-based standard. In addition, it seems that the amendments made to Example 11 Case A (IE 49) do not add significant value as, regardless of the sequence of physical transfer of the distinct goods or services to the customer, they retain the distinct and separable characteristics in the context of the contract. On the other hand we support the new Example 11 Case C (IE 58A) as it well explains the general points.

We also agree with the IASB's view that it is not necessary to clarify explicitly in the standard criteria that would allow entities not to identify promises that are immaterial in the context of the contract as it should be assumed that an IFRS preparer can use appropriate judgment in assessing what is material or not.

With respect to shipping and handling activities, we believe that such activities are in most cases promises that are immaterial in the context of the contract and therefore would not normally be assessed as separate performance obligations. Therefore, we agree with the IASB's view that it is not necessary to provide additional guidance in the standard and believe the context given in BC22 to BC24 is sufficient to clarify the IASB's intention. However, discussions of some preparers with their auditors indicate that it is necessary to support the assessment that such promises are indeed immaterial. This requires a lot of data collection which is not easy to obtain. Given the underlying immateriality of the topic this additional work appears burdensome. Therefore, we suggest the inclusion of a similar paragraph in IFRS 15 as ASC 606-10-25-18A as it would provide a substantial relief for IFRS preparers.

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 strongly support the IASB's objective to clarify the guidance on principal versus agent considerations. The amended paragraph B34 clearly better depicts that control of the goods and services prior to transfer to the customer is the determinant of the principal in a contract.

We further support that the control determination needs to be applied to each performance obligation. The new paragraph B35A is very clear on the determination of which party is responsible for the performance obligation and the determination of control of these items before transfer to the customer. In addition, the new paragraph B35A addresses that the principal is ultimately responsible for the performance of the obligation performed by another party on its behalf if it receives the goods prior to transfer to the customer (control) and it directs the service provided by the other provider (control) and integrates other goods and services from other providers to deliver a combined product (single performance obligation). BC35 states that the new indicators in paragraph B37 were included to support an entity's assessment of control over the goods or services before transfer to a customer in situations where it was difficult to evaluate. The new paragraph B37A clarifies the confusion from the issues discussed by the TRG on how preparers have to apply the control principle and how the indicators in paragraph B37 work together. We consider that the amended paragraph B37 is akin to IAS 18 IE paragraph 21 and far superior and less confusing. In our view, the indicators in paragraph B37 are a helpful guidance in a complex assessment. Preparers in some industries however have raised concerns why the commission fee indicator was deleted as the fact that an entity's consideration is in the form of a commission in some industries is indeed indicative of a situation where the entity is an agent. For example, paragraph BC380 in IFRS 15 states that "the transaction price attributable to an agent's performance obligation is the fee or commission that the agent receives for providing those services". We therefore recommend that the IASB reconsiders the deletion of this indicator.

We believe that the new and amended guidance in the standard makes it clearer how to assess the principal versus agent considerations. Nevertheless, this assessment remains complex and difficult. We consider in particular that this assessment is difficult when the promise is to provide a service or in "hybrid" situations (i.e. where the entity is both principal and agent). As an example, consider the following situation where an entity supplies its own products to a customer (i.e. is acting as a principal). In addition, this entity further awards the customer an incentive to offer additional products from a third party. For this, current guidance would suggest that the entity acts as an agent for a third party service provider. The original wording in IFRS 15 did not seem to change this treatment. However, the completely revised examples 46A, 47 and 48 (IE238 -248) appear to suggest that this entity is no longer an agent for a third party service provider if it makes the contractual arrangement with the provider to provide the services to the customer as a reward in a loyalty program, even when the service provider provides the service directly to the customer. This would require grossing up sales and cost of goods sold because the contract with the service provider is likely to be interpreted as giving the entity control over the service. We recommend that the staff clarify if this is indeed the board's intention.

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 support the IASB's objective to clarify when an entity's activities significantly affect the intellectual property to which the customer has rights. We agree with the deletion of paragraph B57 and the new definition in paragraph B59A. This new concept of "utility" clarifies the questions that arose from the wording in the deleted paragraph B57. It is principle based and more consistent than the approach proposed by the FASB. We also believe it is helpful that BC65 lists some typical examples of intellectual property ('IP') that have often significant stand-alone functionality. The new utility concept is confirmed and explained through realigned wording in some illustrative examples which is also very helpful. The definition in the new paragraph B59A is exactly what was proposed in the joint FASB & IASB meeting in February 2015. However we note there is an inconsistency for brands between the solutions proposed by the IASB and FASB in this area. Although we acknowledge that the difference is likely to have a very limited impact we nevertheless suggest that the FASB and IASB standards are aligned on this matter.

We support the IASB's position described in BC85 that it might be necessary for an entity to consider the nature of its promise in granting a license when a licence is not distinct but rather is combined with a service into one performance obligation. This could affect the assessment in step five of the revenue model when an entity satisfies the combined performance obligation (i.e. over time or at a point in time). We suggest that the IASB's position is highlighted in an amendment to the standard itself (as the FASB proposed) or illustrated in an example.

We strongly support the inclusion of the additional paragraphs B63A and B63B in the standard which reflects what was proposed in the joint FASB & IASB meeting in February 2015.

We believe the amendments in the standard itself and in the related examples are an improvement. However, there are areas of further revisions that we would like the IASB to consider as highlighted below:

- In BC85 it is described that it was not intended for an entity to disregard the licence guidance on determining the nature of its promise in granting a licence combined with a service in one performance obligation when determining in step five of the revenue model when this combined performance obligation is satisfied. In some cases, it might be necessary for an entity to consider the nature of its promise in granting a licence even when the licence is not distinct. BC407 of IFRS 15 highlights that an entity would consider the nature of its promise in granting the licence if the licence is the primary or dominant component of a combined performance obligation. This may raise a question how to apply the guidance in situations in which the licence is neither predominant nor insignificant. We recommend the IASB to consider clarifying this aspect.
 - We acknowledge the purpose to illustrate a specific situation in the pharmaceutical and life science industry in Example 56 Case A (IE283). However, we note that the situation in this example is simplified and does not contain all the details to fully assess the impact. Also, it appears to describe a situation that is rather rare in this industry. Typically, such a license grants rights to the licensee to commercialise and manufacture a drug product. However, the example places a lot of emphasis on whether the manufacturing process is highly specialised or unique. Typically this is only a transitory issue as usually a pharmaceutical company cannot transfer the manufacturing process "on day one" for regulatory approval reasons so the technical transfer takes a while (ranging from a couple of months up to two or three years). However, in our view this should not impact the assessment of whether the license is distinct or not and so suggest that the example is amended to make it more realistic.
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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 strongly support the additional practical expedients proposed.

With respect to your question 4 (a), the proposal allows an entity to use hindsight for contract modifications that relate to (i) the identification of performance obligation and (ii) determining the transaction price. As per paragraph 18, contract modifications change the scope (i.e. what are promises made in the contract) or price (i.e. what is the amount of consideration agreed in the contract). However, we also believe that transition reliefs should not only allow the use of hindsight for changes to scope or price made to a contract but also to address low relevance of information provided by applying IFRS 15 to contract terms that effectively ceased to be in force before the adoption date. For example, when general sales terms and conditions that apply to entire portfolios of similar contracts are changed before adoption, but during the comparative period, and this affects when revenue for those contracts is recognised under IFRS 15. It seems that if IFRS 15 is applied to contracts made under terms that are already superseded at the date of adoption that it will not provide relevant information and could be misleading. We believe that the relief should also allow reflecting all changes made to a contract before the start of the year of adoption, including terms that are already superseded at that date. In our view, this would reduce the burden of restatement work even further.

We also are supportive of Mr. Ochi's dissenting views that for entities that have already early adopted the standard that these additional changes to the standard should not force entities to do a restatement of a restatement. We consider that the consequences of these amendments would likely not be that significant in the context of the financial statements for an entity that has already early adopted IFRS 15 so that the transition arrangements for these amendments should require only prospective adoption of these amendments to IFRS 15 where an entity has already early adopted the initial standard.

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.

Assessing collectability:

We support the IASB's position that no further guidance is required to assess collectability taking into account the existing guidance in the standard and the explanation in the BC. We agree that

generally entities only enter into contracts for which it is probable that the entity will collect the amount to which it will be entitled, and agree that there are not many contracts that fail the condition.

Contract termination:

We support the IASB's view described in BC94 to BC 96 that a contract terminates when an entity stops providing goods or services to the customer (i.e. it is able to stop delivery and has stopped delivery) and agree with the IASB that no additional guidance in the standard is required.

Despite this we suggest that the standard clarifies that an entity should be able to recognise payments received as revenue for the performance obligation that an entity has satisfied or for that part of for the performance obligation that an entity partially satisfied.

Non-Cash consideration:

The measurements date for non-cash consideration could be (a) at contract inception, (b) when the non-cash consideration is received, or (c) at the earlier of when the non-cash consideration is received (or receivable) and when the related performance obligation is satisfied. The FASB however has proposed an amendment of the standard requiring measurement at the contract inception.

Whilst we are generally supportive of the FASB position we agree with the IASB that there could be unintended consequences with other IFRS standards if this were introduced into this standard and we therefore support the decision to refrain from proposing a specific guidance and, if needed, issues should be considered more comprehensively in a separate project. We also concur with the IASB view that while there might be diversity between IFRS and US GAAP going forward, it will not produce greater diversity than exists today and that any practical effect of different measurement dates would arise in only limited circumstances.

Presentation of sales taxes:

Different to the FASB (as there is specific guidance under current US-GAAP), the IASB does not propose an amendment to the standard. Whilst we can accept the IASB views that existing guidance for sales taxes under today's standards are similar to those in IFRS 15 this is nevertheless an important area. We therefore suggest that the standard introduces some criteria under which circumstances sales and similar taxes can be retained in recognising "net sales" as this is an important key performance indicator for most companies and comparability across entities is important.

We also suggest that there should be a requirement for entities to disclose the principles that they adopt in this area in their description of their significant accounting policies.
