

26 October 2015

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Re: Comments on IASB's Exposure Draft Clarifications to IFRS 15

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the International Accounting Standards Board’s (the “IASB”) Exposure Draft (the “ED”) *Clarifications to IFRS 15*.
2. We understand that the ED proposes to clarify or amend some of the requirements in IFRS 15 *Revenue from Contracts with Customers* in an attempt to address the concerns from stakeholders where some entities may have already applied IFRS 15. Taking these situations into account, as a general principle, we agree that the IASB should apply a relatively high hurdle when considering amendments to the Standard. With this in mind, we support many of the proposals in the ED, because we find they would help entities to apply the principles of IFRS 15 when implementing the requirements of the Standard, while avoiding the risk of significant confusion that may arise from changing the requirements of the Standard after it is issued.
3. Nevertheless, we believe that the proposals contained in the ED should be improved in the following areas:
 - (a) A requirement of and relevant guidance in IFRS 15 intended to assist an entity to determine whether the good or service is distinct within the context of the contract (see our comments on Question 1);
 - (b) Guidance in the ED proposed to assist an entity to determine whether it is a principal or an agent (see our comments on Question 2);
 - (c) Guidance in the ED proposed to assist an entity to determine whether an entity’s promise to grant a licence provides a right to access the entity’s intellectual property or a right to its use (see our comments on Question 3); and

- (d) Other matters, including guidance in IFRS 15 regarding the determination of collectability (see our comments on Question 5).
4. In addition, given that IFRS 15 and Topic 606 *Revenue from Contracts with Customers* are now substantially converged, we believe it is highly desirable for the IASB and the Financial Accounting Standards Board (the “FASB”) to put substantial effort into maintaining the consistency between the two Standards as much as possible, such that resulting financial information from the two Standards would not be different. Notwithstanding the challenges to address differing needs of respective constituents, we believe that this would contribute to increased comparability of revenue amounts between different entities, while precluding unnecessary practical burdens. Accordingly, we urge the IASB to finalise the proposed amendments only after the IASB sufficiently consults with the FASB on the optimal scope and contents of possible changes to the two standards.
 5. Furthermore, if the IASB and the FASB reach different conclusions in wordings, we suggest that the Boards clearly explain the nature of the differences, for example, by updating “A comparison of IFRS 15 and Topic 606” in the Basis for Conclusions - Appendix A of the existing IFRS 15 so that IFRS constituents can readily understand whether they are intended to result in the same financial information.
 6. For our comments on specific questions to the ED, please refer to the Appendix of this letter.
 7. The ASBJ hopes that our comments will be helpful for the IASB’s future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely



Atsushi Kogasaka

Vice Chairman of the Accounting Standards Board of Japan

Chairman of the Technical Committee for Revenue Recognition in the ASBJ

Comments on Specific Questions in the ED**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?

8. We do not support the proposals in the ED in the following three respects:
- (a) Identifying performance obligation;
 - (b) Promised goods or services that are immaterial in the context of a contract; and
 - (c) A series of distinct goods or services as a single performance obligation.

Identifying performance obligation

9. We believe that the IASB’s proposal to revise illustrative examples is not sufficient for easing the determination as to whether an entity’s promise to transfer goods or services to the customer is separately identifiable, due to their non-authoritative status and lack of prominence with a wide range of the Standard’s audience. Instead, we believe that the proposal to revise paragraph 606-10-25-21 in the FASB’s Proposed Accounting Standards Update (the “FASB’s ED”) *Identifying Performance Obligations and Licensing – Revenue from Contracts with Customers (Topic 606)* would be more effective in improving operability of the requirements to

determine whether an entity's promise to transfer goods or services to the customer is separately identifiable.

10. Although we understand that the IASB and the FASB are responding to different demands from respective constituents, we encourage the IASB to closely work with the FASB so as to ensure that revenue amounts resulting from the application of the two Standards will be consistent.

Promised goods or services that are immaterial in the context of a contract

11. We believe the IASB's intention not to require an entity to individually identify every possible promised good or service (see paragraph BC20 of the ED) should be made clear in the Standard itself as opposed to in the Basis for Conclusions (BC), taking into account its non-authoritative nature.
12. Without clarifications to the Standard, we believe there still remains a risk that IFRS stakeholders might interpret the way the US stakeholders once interpreted. As different interpretations of the requirement would result in a significant amount of workload of preparers that would have a marginal impact on the quality of financial information, we believe that the Standard level clarification would be desirable. We also believe that making changes to the Standard for the sake of clarification would be justified because the incremental benefit is expected to outweigh the costs of doing so.

A series of distinct goods or services as a single performance obligation

13. Although it is not explicitly asked in questions in the ED, we think that the requirement that a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer must be identified as a single performance obligation (see paragraphs 22(b) and 23 of IFRS 15) should be changed to an option.
14. Paragraphs 22(b) and 23 of IFRS 15 require an entity to identify a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as a single performance obligation if these two conditions are met. Paragraph BC113 of IFRS 15 explained that this requirement was included as part of the definition of a performance obligation, so as to (i) simplify the application of the model and (ii) to promote consistency in the identification of performance obligations in circumstances in which the entity provides the same good or service consecutively over a period of time. Paragraph BC114 of the IFRS 15 also explained that the allocation of the overall consideration

to each increment of service to be provided in the contract would not be cost-effective.

15. We are not convinced that the explanations stated in the BC of IFRS 15 sufficiently justify the requirements set forth in paragraphs 22(b) and 23 of IFRS 15 for the following reasons:

(a) While the BC explained that the intention of the requirement is to simplify the application of the model, there are cases where the requirement does not significantly alleviate the operational complexity regarding the application of the accounting model.

(b) The BC explained that the requirement would promote consistency in the identification of performance obligations when the entity provides the same good or service consecutively over a period of time. Although we agree that the requirement would promote accounting consistency between different entities, seeking consistency may sometimes fail to faithfully represent the economic substance (see more detail in paragraph 16 of this letter).

(c) Solely for the purpose of addressing the cost-effectiveness, it would seem to be appropriate to grant an entity the choice of whether to identify each distinct goods or services or a series of distinct goods or services as a performance obligation.

16. Furthermore, the discussion of the Transition Resource Group has revealed specific cases where a transfer of a good or service would be more faithfully represented if an entity identifies each distinct good or service as a performance obligation, even when the conditions set out in paragraph 23 are met. In our view, even when the two conditions are met, an entity should not be precluded from identifying a promise to transfer a distinct good or service to the customer as a performance obligation if the substance of the transaction would be more faithfully represented with this more granular approach.

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?

17. We greatly appreciate that the IASB and the FASB have made a consistent proposal to revise the guidance for determining whether an entity is a principal or an agent. As the determination of whether an entity is a principal or an agent would have significant effects on the entity's revenue amount recognised, we believe that it is highly desirable to maintain the proposed level of convergence when finalising the Standard. At the same time, however, we believe that further improvement should be considered taking into account the importance of the determination.
18. The following paragraphs will explain our views as to how paragraphs B35A and B37 of the ED could be amended.

Paragraph B35A of the ED

19. On deliberating our comments on the ED, we found it difficult to understand the interaction between paragraph B35A (that explains when an entity obtains control of either a good or service, a right to service, the specified good or service to the customer) and paragraph B37 (that provides indicators for an entity to determine if it controls the specified good or service).
20. We find paragraph B35A(c) of the ED especially confusing because the paragraph seems to explain that an entity controls the specified good or service when an entity provides a significant service of integrating goods or services provided by another party into the specified good or service that the customer has contracted, while not

explaining if “significant service of integrating goods or services” is intended to convey the same meaning of the term as used in paragraph 29 of IFRS 15.

21. In addition, we are not sure if paragraph B35A (c) of the ED is intended to presume that an entity *always* controls the specified good or service when it provides a significant service of integrating goods or services provided by another entity, because the paragraph and the relevant Basis for Conclusions do not sufficiently explain how the provision of significant integration service should (or is likely to) satisfy the notion of ‘control’ set forth in IFRS 15.
22. Accordingly, we suggest the IASB consider making the following changes to paragraph B35A of the ED:
 - (a) Clarifying the focus of the paragraph to be more in line with the intention of the paragraph. As we reviewed the paragraph, we find that there is a disconnect between the proposal and the reasons that the IASB proposes to add the paragraph (which we understand is to explain how the control principle could be applied to services to be provided to a customer.) Specifically, the second and third sentences of paragraph B35A (c) of the ED seems to provide guidance to determine *when* control is obtained as opposed to *how* control is obtained. In addition, some of the wordings (such as “another asset”) of paragraph B35A (a) are difficult to understand. It might be helpful if the IASB redraft paragraph B35A to better align it with the intended purpose.
 - (b) Relocating the essence of the second and third sentences of paragraph B35A (c) to paragraph B37 so as to better explain whether and how an entity obtains control of the specified good or service when the entity provides a significant service of integrating goods or services provided by another party. We think that there is a potential conflict between paragraphs B35A and B37 of the ED in terms of roles and contents, and relocating these sentences will make it easier for an entity to understand how to determine whether an entity controls the specified good or service before it is transferred to the customer.

Paragraph B37 of the ED

23. We understand the IASB’s intention to amend paragraph B37 of IFRS 15 is to address questions regarding a relationship between the control principle and indicators set forth in the paragraph. However, we think that the proposed amendments to paragraph B37 in the ED may not have been sufficiently aligned with the notion of ‘control’ which is a key requirement of IFRS 15. We worry

that the proposed indicators may still be seen to have been derived from ‘risks and rewards’ concept of the previous revenue Standards (including IAS 18 *Revenue*).

24. As for the notion of ‘control’, paragraph 33 of IFRS 15 explains that for an entity to control an asset, the entity must have both (i) the ability to direct the use of the asset and (ii) the ability to obtain substantially all of the remaining benefit from the asset. Considering the fundamental importance of the notion, we believe that there should be a clearer link between the two factors of ‘control’ and relevant guidance to support an entity’s judgment as to whether control exists. In order to accomplish the objective, we suggest the following changes to paragraph B37 of the ED:

- (a) Explaining the two factors of the notion of ‘control’ explicitly;
- (b) Replacing indicator (a) of paragraph B37 of the ED with two separate indicators;
- (c) Incorporating the essence of the second and third sentences of paragraph B35A (c) of the ED into the factors for the notion of ‘control’ (see paragraph 22 (b) of this letter.);
- (d) Adding other indicators that would assist an entity to determine whether it controls the specified good or service to paragraph B37 of the ED;
- (e) Expanding the explanations of the indicators, where they are deemed necessary or helpful; and
- (f) Adding a new paragraph B37B to acknowledge that an entity is presumed not to control the specified good or service thus is an agent, unless the entity is able to demonstrate that it controls the specified good or service.

25. Although there is not a consensus among market constituents in Japan as to how to make wording changes to the proposals in the ED, as an example, alternative wordings may look like as follows (underlines and strikeouts are added by us from the proposal in the ED):

~~B37 Indicators that an entity controls the specified good or service before it is transferred to the customer include, but are not limited to, the following:~~ In order for an entity to decide whether it is a principal or an agent, the entity shall assess whether it controls each specified good or service before it is transferred to the customer. In the assessment, the entity shall consider both (i) whether it has the ability to direct the use of the specified good or service and (ii) whether it has the ability to obtain substantially

all of the remaining benefits from the specified good or service. Indicators that would assist the entity's determination include, but are not limited to, the following:

- (a) where an entity provides a service of integrating goods or services provided by another party into the specified good or service for which the customer has contracted, the entity's service of integrating goods or services involves a significant degree of transformation. In that case, the entity has the ability to control the specified good or service, because the other entity is considered to provide inputs to the specified good or service as a combined item before that good or service is transferred to the customer.
- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after that transfer (for example, on return). ~~For example, if~~ The inventory risk encompasses the risk of incurring potential losses from a loss or damage of inventories as well as those from a decay of unsold items. The degree of the inventory risk should be assessed based on its substance rather than solely based on a contractual arrangement between an entity and another party. If the entity obtains, or commits to obtain, the specified good or service before obtaining a contract with the customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
- (c) the entity has a legal title to the specified good or service without granting substantive rights to other parties. If the entity has such a legal title, this may indicate that the entity has the ability to direct the use of the specified good or service. However, when it obtains the legal title only momentarily before the specified good or service is transferred to the customer, it does not necessarily control the specified good or service.
- (d) the entity is primarily responsible for deciding the timing and manner in which the specified good or service is deployed as part of its sales activities. This typically includes the entity's ability to decide when and how it will allocate the specified good or service as part of its sales activities. If the entity is primarily responsible for making the decision, this may indicate that the entity has the ability to direct the use of that good or service.
- ~~(e)~~ (e) the entity has discretion in establishing prices for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service.

However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

~~(a)-(f)~~ the entity is primarily responsible for ~~fulfilling promise to provide the specified good or service.~~ providing assurance that the specified good or service complies with an agreed-upon specification. ~~This typically includes responsibility for the acceptability of the specified good or service.~~ The entity's responsibility is typically demonstrated by its acceptance of the responsibility to replace or repair a defective good that it has provided to a customer or re-perform a service to a customer when the service is found not to be in compliant with the agreed-upon specification. ~~If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.~~ providing assurance that the specified good or service complies with an agreed-upon specification, this may indicate that the entity has the ability to obtain substantially all of the remaining benefits from the good or service before it is transferred to the customer.

~~(d)-(g)~~ the entity is exposed to credit risk for the amount receivable from the customer in exchange for the specified good or service. For example, if the entity is required to pay the other party involved in providing the specified good or service regardless of whether it obtains payment from the customer, this may indicate that the entity is ~~directing the other party to provide goods or services on the entity's behalf.~~ exposed to substantial risks, and has the ability to obtain substantially all of the remaining benefits from the specified good or service before it is transferred to the customer. However, in some cases, an agent may choose to accept credit risk as part of its overall service of arranging for the provision of the specified good or service.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B37B Sometimes, the determination of whether an entity controls the specified good or service is equivocal, when another party is involved in providing the specified good or service to a customer by the entity. For example, as the degree of significance of an

entity's additional service using good or service provided by another party becomes higher, the more likely that the entity concludes that it controls the specified good or service. However, unless the entity is able to demonstrate that the entity controls the specified good or service, there is a presumption that the entity does not control the specified good or service thus is an agent.

26. In addition, although we agree with the proposal to remove the indicator relating to a form of consideration (which corresponds to paragraph B37(d) of IFRS 15), we suggest that the IASB sufficiently explain why it is deleted. We understand that a form of consideration would not fit well in the context of the discussion as to whether 'control' exists or not; however, this indicator has been a good reference point in practice when determining whether an entity is a principal or an agent, and it may continue to be the case in some practical applications of IFRS 15. Therefore, it would be helpful if paragraph BC37 (c) of the ED could be redrafted to better communicate the reasons for deletion.
27. Lastly, we suggest that the IASB consider making conforming amendments to explanations in relevant Illustrative Examples (Examples 45 to 48A). We have the impression that explanations given in these examples are somewhat random, in that some examples support the conclusion almost solely by reference to an entity's ability to direct the use of goods or services whereas others explain the conclusion by reference to two factors of 'control' more extensively. Although we generally agree with the conclusions in the examples themselves, we think that our proposal could help the IASB provide insights in a more consistent manner in the examples.

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?

Determining when an entity’s activities significantly affect the intellectual property

28. As for clarifying when an entity’s activities significantly affect the intellectual property to which the customer has rights, we agree the IASB’s proposal to add paragraph B59A and to delete paragraph B57 because the proposed amendments would help an entity to clearly understand the IASB’s intention as stated in paragraphs BC63 and 66 of the ED.
29. However, when classifying a licence of intellectual property into an entity’s promise to provide a right to access its intellectual property and the one to use its intellectual property, we find that the proposal in the FASB’s ED for determining whether a licence constitutes a right to access or a right to use based on the nature of the intellectual property (i.e., functional intellectual property or symbolic intellectual property) is worthy of consideration, because it has a potential to significantly promote the operability of the implementation guidance, while we believe that it would require fine-tunings in some respects. Please see our specific suggestions to the FASB’s proposal in our letter to the FASB’s ED¹.
30. In line with our comments in the covering letter, we encourage the IASB to closely work with the FASB so that the two boards maintain the consistency between the two Standards as much as possible, such that the resulting financial information from the two Standards would not be different.

Sales-based or usage-based royalties

31. We agree with the proposal to add paragraphs B63A and B63B, because it would help to clarify the scope and applicability of the guidance on sales-based and

¹ For details, please see our response to Question 5 of the FASB’s ED.
https://www.asb.or.jp/asb/asb_e/international_activities/comments_fasb/20150703_e.pdf

usage-based royalties promised in exchange for a licence of intellectual property, while maintaining the consistency between IFRS 15 and Topic 606.

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?

- 32. We generally agree with the proposed amendments to the transition requirements of IFRS 15.
- 33. We understand that the proposed additional practical expedients on transition may reduce the comparability of financial statements of a reporting entity across different periods. However, we think that the benefits of the proposal are likely to outweigh the costs resulting from the expedients, because they would be helpful in addressing the challenges that have been identified when transitioning to the new revenue Standard (especially where the term of contracts is relatively long and contract modifications frequently occur), while minimising the effect on loss of comparability.
- 34. However, as for the proposed practical expedient that would allow an entity to reflect the aggregate effect of all of the contract modifications that occurred before the earliest date presented, we believe it would be helpful if the IASB adds illustrative examples showing how it can be applied because our constituents have found it challenging to understand how the proposal would work without the benefit of illustrative examples.

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.

Collectability

35. As for assessing collectability in paragraph 9(e) of IFRS 15, we do not agree with the IASB's decision that amendments to IFRS 15 are not required. Similar to the FASB's proposal, we suggest that the explanation of paragraph BC46 of IFRS 15² be included in the Standard, rather than keeping it as part of the Basis for Conclusions. We think that paragraph BC46 provides effective and valuable guidance for stakeholders to properly understand how to assess the requirement.
36. As for the accounting requirements of contract terminations stated in paragraph 15 of IFRS 15, we agree with the IASB's decision that amendments to IFRS 15 are not required. We do not think it necessary to give additional clarification on judgment of when a contract is considered to be terminated at this stage, because that consideration is required only when an entity concludes it failed the criteria of the Step 1, which we believe is limited in Japanese practice. We think any clarification on such limited situations may have greater potential giving rise to unintended consequences than providing clarifications to practice.

Presentation of sales taxes

37. We agree with the IASB's decision that amendments to IFRS 15 on presentation of sales taxes would be unnecessary for the reasons explained in paragraph BC108 of the ED. In addition, we have not heard significant call to amend the guidance on presentation of sales taxes when we reached out to our stakeholders in Japan.

² Paragraph BC46 of IFRS 15 states "if the customer were to fail to perform as promised and consequently the entity would respond to the customer's actions by not transferring any further goods or services to the customer, the entity would not consider the likelihood or payment for those goods or services that would not be transferred."