

1 February 2019

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
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Comments on the Tentative Agenda Decision Relating to IAS 38 *Intangible Assets*
— Customers Right to Access Suppliers Application Software

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to IAS 38 *Intangible Assets* — Customers right to access suppliers application software, proposed in the November 2018 IFRIC Update.
2. We agree that the accounting for ‘Software as a Service’ (SaaS) contracts should be addressed considering that they are becoming widespread. We understand that the interpretation provided in the tentative agenda decision is one possible way of accounting for SaaS contracts.
3. However, we are concerned that the following descriptions in the tentative agenda decision may cause unintended consequences:
 - a. All contracts that convey to the customer only the right to receive access to an asset over the contract term would be recognised as service contracts.

We are of the view that whether a right to access gives rise to an asset should be determined based on the terms and conditions of the contract. The tentative agenda decision states that a right to access does not give the customer any decision-making rights about how and for what purpose the software is used, and

that the supplier would have such rights or the rights of deciding how and when to update or reconfigure the software. However, we think a right to access does not necessarily prevent the customer from having decision-making rights because that right would depend on the terms and conditions of the contract.

- b. As a consequence of discussing the issue in relation to IFRS 15 *Revenue from Contracts with Customers*, the requirements relating to licenses in IFRS 15 are clarified.

Paragraph B52 of IFRS 15 describes the items that may be included in the scope of licences, but it does not specify that a customer's right to a software would always qualify as a licence. In addition, paragraphs B58-B62 of IFRS 15 describe the requirements to determine whether the nature of the entity's promise in granting the licence to a customer is a right to access the entity's intellectual property as it exists throughout the licence period, or a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted. The tentative agenda decision refers to the descriptions as helpful guidance when assessing whether the customer's rights are sufficient to give the customer the right to use the software. However, we do not think it is clear whether the phrases "a customer's right to use" and "a customer's right to access" in the tentative agenda decision are used with exactly the same intention in IFRS 15, which is used in the context of assessing the nature of the entity's promise.

- c. All contracts related to leases of software (including contracts that are not SaaS contracts) would be viewed as licensing agreements within the scope of IAS 38 and thus are excluded from IFRS 16.

In the absence of a clear definition of licenses in IFRS Standards and considering that there may be various forms of contracts related to software in the future, it is not necessarily appropriate to conclude that all contracts related to leases of software would be viewed as licensing agreements.

- d. All types of licensing agreements, including those that involve software, may be included in the scope of paragraph 6 of IAS 38.

Similar to c. above, in the absence of a clear definition of licenses in IFRS Standards and considering that there may be various forms of contracts related to software in the future, it is not necessarily appropriate to conclude that all licencing agreements would be included in the scope of paragraph 6 of IAS 38.

4. We believe that the Committee should consider these issues above, and reassess whether it is truly appropriate to publish the tentative agenda decision as proposed. Depending on the outcome of the considerations, in some cases, we believe that it may be preferable to address the issues by amending IFRS Standards.
5. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

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

Yukio Ono
Chairman
Accounting Standards Board of Japan