

STAFF PAPER

December 2015

Project	Revenue from Contracts with Customers		
Paper topic	Identifying Performance Obligations—feedback on ED	Clarifications to IFRS 15 and redeliberations	
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. This paper analyses the responses to Question 1 in the IASB [Exposure Draft Clarifications to IFRS 15](#) (the ED), which was issued for public comment in July 2015. In addition, this paper includes the staff's recommendations for finalising the proposals.
2. The 90-day comment period ended on 28 October 2015. The IASB received 74 comment letters.
3. This paper discusses the following topics:
 - (a) Topic 1: Identifying performance obligations
 - (b) Topic 2: Promised goods or services that are immaterial in the context of the contract
 - (c) Topic 3: Shipping and handling activities
 - (d) Topic 4: Other matters
4. In October 2015, the FASB completed redeliberations of its proposals in respect of these topics. The FASB finalised most of its proposals and also made additional decisions within the scope of the topics. The tentative decisions of the FASB can be accessed [here](#). For convenience, we have reproduced those decisions in Appendix A.

Staff Recommendations

5. The staff recommends that the IASB affirms its decision to apply a high hurdle when considering whether to amend the Standard and, thus, to minimise changes to the extent possible. Specifically the staff recommends that the IASB:
- (a) affirms its decision not to amend the the existing wording of paragraph 29 of IFRS 15 in relation to the separately identifiable principle;
 - (b) revises Example 10–Case B to address concerns raised by respondents;
 - (c) affirms its decision not to amend the Standard in relation to promised goods or services that are immaterial in the context of the contract; and
 - (d) affirms its decision not to introduce an accounting policy election for shipping and handling activities.

Staff Analysis

Topic 1: Identifying performance obligations

Background to the IASB's proposals

6. IFRS 15 requires an entity to identify performance obligations on the basis of whether the promised goods or services are distinct. This determination is based on whether the good or service is capable of being distinct in accordance with paragraph 27(a) and whether the promise to transfer a good or service is separately identifiable from other promises in the contract (ie distinct in the context of the contract) in accordance with paragraph 27(b).
7. Concerns were raised about potential diversity in stakeholders' understanding of the principle in paragraph 27(b) of IFRS 15 and the supporting factors in paragraph 29. In particular, the TRG's discussion indicated a risk of paragraph 29(c) being applied more broadly than intended, resulting in items being inappropriately combined as a single performance obligation (for example, equipment—that is functional without any customisation or modification—and installation services). Paragraphs 27 and 29 of IFRS 15 have been included in Appendix B for reference.

8. The IASB evaluated arguments in support of clarifying the issues raised through limited targeted amendments to IFRS 15 and made very considered calls in arriving at its decisions. As outlined in paragraphs BC3–BC4 of the ED, the IASB observed that amendments to a recently issued standard create a risk of unintended consequences and may place an unwarranted burden on some stakeholders. Amendments could also be disruptive to the implementation process that is already underway and potentially generate undue costs if entities have to revisit the implementation work that they have already performed. The IASB also observed that questions relating to new requirements are expected to arise during the initial period after a new Standard is issued and that these are generally resolved as stakeholders gain a better understanding of the new requirements. In addition, the TRG’s and the Boards’ discussions about potential implementation issues serve as useful education materials to stakeholders.
9. Taking these factors into consideration, the IASB decided to apply a high hurdle when considering whether to amend the Standard and, thus, to minimise changes to the extent possible. Consequently, the IASB decided to propose amendments to the Standard only when (a) it considered those proposed amendments to be essential to clarifying the Boards’ intentions when developing the requirements in IFRS 15; or (b) it viewed the benefits of retaining converged requirements as greater than any potential costs of amending the requirements.
10. In determining whether this hurdle was met with respect to the requirements on identifying performance obligations, the IASB was of the view that TRG’s discussions highlighted educational needs and that, given the nature of the issues raised, amendments to the Standard were not required. The IASB concluded that clarifications could effectively be made in the examples and therefore proposed to add some new examples, and to amend some of the existing examples that accompany IFRS 15.
11. In reaching this decision, the IASB observed that the concept of ‘distinct within the context of the contract’ is new. Therefore, as with any new requirement, it is to be expected that questions will arise as practice develops. In addition, applying the separately identifiable principle requires judgement, taking into account facts and circumstances. Amendments to the requirements in IFRS 15 would not affect

the need to apply judgement in determining whether promised goods or services are distinct.

12. The FASB decided to make more extensive amendments to Topic 606 to clarify the guidance relating to the identification of performance obligations. In particular, their proposed amendments included (a) expansion of the articulation of the separately identifiable principle and reframing the existing factors in paragraph 606-10-25-21 (paragraph 29 of IFRS 15) to align them with the amended principle; (b) an additional new example; (c) more extensive changes to existing illustrative examples; and (d) differences in wording compared to the IASB's proposals.

Feedback received

13. Of the 74 responses received by the IASB, 63 included comments with respect to this topic. Almost all respondents agreed that clarifications were needed in respect of the application of the requirements on identifying performance obligations. Most of the respondents were generally supportive of the proposed amendments to the Illustrative Examples. For example, the UK Financial Reporting Council commented:

'We agree with the IASB's decision not to propose amendments to the Standard itself to clarify the concept of "distinct". In our view, the wording of paragraph 27 is clear. Further explanation is also provided in paragraph BC100 [of IFRS 15].

However, given the concerns raised in TRG meetings over diversity in interpretation, we support the IASB's decision to propose additional Illustrative Examples and propose amendments to some of the existing Illustrative Examples. This will assist entities with making the assessment of whether a good or service is distinct in various circumstances and is likely to lead to more consistent application of the requirements.'

14. A majority of respondents agreed with the IASB's proposed approach to clarify the requirements by amending the Illustrative Examples accompanying IFRS 15. However, many of these respondents either:

- (a) expressed concerns with respect to particular Illustrative Examples and requested that the IASB consider revising those examples (see paragraphs 20–21); or
- (b) requested that the IASB consider including additional examples (see paragraph 22).

15. Quite a few respondents encouraged the IASB to incorporate the amendments proposed by the FASB into paragraph 29 of IFRS 15. Many of these respondents indicated that revisions to the Illustrative Examples do not provide sufficient authoritative clarification in relation to the separately identifiable principle. For example, the Accounting Standards Board of Japan commented:

‘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.’

16. Most of these respondents noted that the FASB's proposed amendments would improve the understanding of the separately identifiable principle and the operability of the requirements, providing clearer more direct guidance. Some indicated that it is helpful to include an overall objective for assessing separately identifiable promises, which clarifies that an entity should determine whether the nature of its overall promise is to transfer each of the goods or services or a combined item to which the promised goods or services are inputs.

17. Quite a few respondents also expressed concerns that differences in wording between Topic 606 and IFRS 15 may lead to different interpretations or conclusions, even if the Boards intend for the financial reporting outcomes to be the same. For example, EY noted:

‘Using the same language in the proposed amendments and maintaining convergence on this aspect is important

because identifying performance obligations is fundamental to the model and would have a consequential impact when applying the subsequent steps in the model. Having the same wording in this respect would help reduce the risk of different accounting outcomes that are not intended by the Boards.’

18. In particular, a few respondents raised concerns regarding differences in the wording of paragraph 29(c) of IFRS 15 and its equivalent ASC 606-10-25-21(c). They highlighted that the FASB’s proposed amendments to this factor clarify that *interdependency* (ie two-way dependency) is necessary to conclude that two or more promised goods or services are a single performance obligation. While this notion is described in paragraph BC11 of the ED, the respondents believe that based on the existing wording in IFRS 15 only a high degree of *dependency* is needed and it could be argued that such a dependency exists in the case of a one-way dependency. Consequently, entities may reach different accounting conclusions under IFRS and US GAAP.
19. A handful of respondents encouraged the IASB to consider incorporating some of its explanations in the Basis for Conclusions on the ED into the Standard. They observed that those explanations, in particular paragraphs BC10 and BC11, provide helpful guidance and would make it easier for entities to understand the separately identifiable principle in paragraph 29. Paragraphs BC10–BC11 of the ED have been reproduced in Appendix B for reference. For example the Canadian Accounting Standards Board noted:

‘We think that the rationale of the “separately identifiable” requirement and explanation of the transformative nature of integration services in paragraphs BC10–BC11 provide helpful guidance and will result in more consistent application of the requirements. Our outreach indicated that this guidance describes more clearly the objective of the second criteria [in paragraph 27(b)] in determining whether a good or service is distinct. We recommend that this guidance be included in the standard instead because we think that all guidance should be provided in a

standard. A basis for conclusions should be used only to explain the rationale behind a standard.’

20. Many respondents commented specifically on the proposed addition of Example 10–Case B that illustrates the application of paragraph 27 of IFRS 15 in relation to a contract with a customer to produce of multiple units of a highly complex, specialised device. For reference the proposed example has been reproduced in Appendix C. Concerns raised by respondents include the following:

- (a) the example is difficult to understand;
- (b) it is not clear how conclusions in the example have been reached—in particular, how the distinct criteria in paragraph 27 of IFRS 15 have been met or why the production of multiple units is considered to be a single performance obligation;
- (c) the example is not consistent with principles relating to the identification of performance obligations;
- (d) it is not clear whether the references to ‘goods and services’ are referring to the individual devices being manufactured, or to the materials, labour and other inputs that are integrated in producing those devices;
- (e) the example includes explanation of why the goods and services provided in the overall process of manufacturing and supplying each device are not distinct; however, it is not clear why each unit is not regarded as distinct;
- (f) the example is of limited use in distinguishing fact patterns that do and do not involve a significant integration service—for example, it is not clear whether every manufacturer of a series of customised goods, including those where the customisation is modest and manufacturing process is largely standardised, should conclude it is providing a significant integration service; and
- (g) there is a risk that the example may have unintended consequences, potentially resulting in items being inappropriately combined as a single performance obligation—for example, in relation to contracts with

customers involving project management, production of any customised goods (or unbundling if there is not customisation) or a contract to manufacture a series of identical goods for one customer.

21. In addition to the comments on Example 10–Case B, many respondents commented on other proposed or amended illustrative examples relating to the identification of performance obligations. Several of these respondents requested that Example 11–Case E, Example 55 and Example 56 are revised to explain more clearly how these conclusions have been reached and to distinguish the difference in rationale for the conclusions reached in each example. A few responses raised concerns about differences between the wording proposed by the FASB and the IASB. A couple of respondents also suggested that not all of the proposed amendments to existing examples or new examples may be required.
22. A few responses noted that the proposed clarifications to the Illustrative Examples could be further improved through the inclusion of additional examples. Specific examples requested include the illustration of a fact pattern in which paragraph 27(a) is not met (ie the good or service is determined not to be capable of being distinct); application of the requirements to a contract for a virtual network; illustration of highly dependent items that are a single performance obligation or the inclusion of a contrasting example to Example 10–Case B (eg illustration of a fact pattern in which multiple units do not result in a single performance obligation or in which the entity provides an integration service but it is not significant).

Possible approaches to addressing feedback received

23. Taking into consideration the feedback received, the staff has identified the following possible approaches for finalising the proposals:
 - (a) Option 1: Amend paragraph 29 of IFRS 15 and the accompanying Illustrative Examples to align with the FASB’s wording
 - (b) Option 2: Retain the decision not to amend the Standard, but revise the Illustrative Examples based on feedback received
24. As noted in paragraph 19 of this paper, a few respondents broadly agreed with the IASB’s approach, but thought that the explanations in paragraphs BC10–BC11 of

the ED provided useful clarification and should be incorporated in the Standard. The staff considered presenting this approach as a third option; however, in light of feedback received on convergence, if the IASB were to decide to amend IFRS 15 at this stage it does not seem viable for such amendments not to be aligned with the amendments to Topic 606. In addition, whilst paragraphs BC10–BC11 are helpful, given that they provide explanation of principles in the Standard the staff believes they are appropriately located in the Basis for Conclusions.

Option 1: Amend paragraph 29 of IFRS 15 and the accompanying Illustrative Examples to align with the FASB’s wording

25. As summarised in paragraphs 15 to 17 of this paper, quite a few respondents expressed a preference for adopting the amendments to paragraph 606-10-25-21 (paragraph 29 of IFRS 15) that have been proposed by the FASB. These respondents represent a range of entities including preparers, standard-setting bodies, accounting firms and accountancy bodies. The staff acknowledges that these respondents generally think that the proposed amendments to the examples are not sufficient and that amending paragraph 29 would provide necessary clarity and make the Standard more operational. Many of these respondents also expressed concerns that the Boards’ proposals may result in divergence in practice between IFRS and US GAAP.
26. The amendments included in the May 2015 proposed Accounting Standards Update are reproduced below for reference.

606-10-25-21 The objective when assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 606-10-25-19(b) [ie IFRS 15.27(b)] is to determine whether the nature of the entity’s overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that ~~an entity’s two or more promises promise~~ to transfer a ~~good goods~~ or ~~services service~~ to a customer ~~is are not~~ separately identifiable ~~(in accordance with paragraph 606-10-25-19(b))~~ include, but are not limited to, the following:

- a. ~~The entity does not provide~~ provides a significant service of integrating the ~~good goods~~ or ~~services service~~ with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is ~~not~~ using the ~~good goods~~ or ~~services service~~ as ~~inputs an input~~ to produce or deliver the combined output or outputs specified by the customer.

A combined output or outputs might include more than one phase, element, or unit.

- b. One or more of the goods or services significantly modifies or customizes, or is significantly modified or customized by, one or more of the other goods or services promised in the contract. The good or service does not significantly modify or customize another good or service promised in the contract.
- c. The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. The good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.

27. The FASB's proposed amendments expand the articulation of the separately identifiable principle and reframe the existing factors in paragraph 606-10-25-21 (paragraph 29 of IFRS 15) to align them with the amended principle. In particular, the amendments include the following:

- (a) explaining that the objective when assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable is to determine whether the nature of the entity's overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the goods or services are inputs.
- (b) putting into the plural particular words to clarify that the factors should be evaluated to assess whether the promised goods or services significantly affect each other (rather than whether one promised good or service significantly affects the other).
- (c) stating that a combined output might include more than one phase, element, or unit.
- (d) reframing the factors to identify when the promises are not separately identifiable rather than when they are separately identifiable.

28. Nearly all of the 34 respondents that provided comments to the FASB on its proposals agreed that its proposed amendments would improve operability by better articulating the separately identifiable principle and better linking the factors to that principle. One response received by the FASB noted that the

proposed amendments and related examples would likely improve the operability and understandability of the guidance, but expressed concerns that the proposals could result in different accounting outcomes between Topic 606 and IFRS 15. Some respondents who supported the rearticulated principle recommended certain clarifications to the amendments.

29. In light of the feedback received, in October 2015 the FASB affirmed its previous decisions to rearticulate the separately identifiable principle by clarifying paragraph 606-10-25-21 (paragraph 29 in IFRS 15), to align the factors in that paragraph to the re-articulated principle, and to revise the existing illustrative examples and provide additional illustrative examples to clarify how the Board intends the guidance on identifying performance obligations to be applied. The FASB staff indicated that specific concerns that were raised can be addressed in the drafting process of the final Accounting Standards Update.
30. Because the FASB reaffirmed its decisions, the amendments to paragraph 606-10-25-21 included in the May 2015 proposed [Accounting Standards Update](#) will be carried forward to the final Accounting Standards Update. Those amendments are subject to drafting improvements, particularly in relation to factor (c).
31. In addition to achieving convergence, amending the Standard by adopting the FASB's amendments to paragraph 29 could potentially improve the alignment of the revised examples proposed in the ED and paragraph 29, allowing for more consistent wording and a stronger link of the rationale for the conclusions to the guidance in the Standard. For example:
 - (a) Stating the objective when assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable reinforces the requirement to consider the nature of an entity's overall promise and the concept of combined item or items that comprise a distinct bundle of goods or services.
 - (b) The revisions to factor (c) capture that it is necessary for goods or services to be highly *interdependent* on *each* other. This concept is aligned with the proposed analysis in Example 11–Case A, Case C and Case E, Example 55 and Example 56–Case B.

32. If the IASB were to decide to amend paragraph 29 of IFRS 15, the staff thinks that all of the FASB's proposed amendments relating to the identification of performance obligations should be taken as a package. That is, the IASB should adopt both the FASB's amendments to paragraph 29 *and* their amendments to the illustrative examples relating to the identification of performance obligations.
33. Currently, the wording of the Boards' proposed amendments to the Illustrative Examples is not the same and the FASB has proposed more extensive amendments. Aside from revisions that were made to reflect the proposed amendments to 606-10-25-21 in the examples, the FASB has included an additional example, proposed revisions to existing examples that the IASB decided not to amend and incorporated additional editorial changes.
34. A few respondents requested the Boards to maintain convergence specifically in this area, expressing the view that the inclusion of examples with the same wording would drive consistency in interpretation and application.
35. The staff believe that aligning the wording of paragraph 29 without including examples that are identical to those included in Topic 606 would create confusion and may raise questions about whether IFRS and US GAAP are actually converged.
36. Nonetheless, if the proposed amendments were taken as a package, it is not clear that the resulting amendments would address all of the feedback received from stakeholders, in particular concerns expressed in relation to Example 10–Case B. In addition, the proposed amendments to the objective in 606-10-25-21 when assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable results in the elevation of concepts that are currently included in factor (a) of paragraph 29 to an overall objective. Accordingly, although concerns have not been raised by stakeholders, the staff questions whether the proposed amendments capture the entirety of the Boards' intentions of the separately identifiable principle.

Option 2: Do not amend the Standard, but revise the Illustrative Examples based on feedback received

37. Although some support was expressed for the FASB proposals, a majority of respondents agreed with the IASB's proposed approach to clarify the requirements by amending the Illustrative Examples accompanying IFRS 15.
38. Positive feedback was also received from respondents in relation to the Basis for Conclusions on the ED, which was considered to provide useful explanation of the separately identifiable principle in paragraph 27(b). Several responses made particular reference to the concept of whether there is a 'transformative relationship' between two items in the process of fulfilling the contract. The staff notes that because this explanation differs from the wording of the FASB's proposals this term would not be captured by an amendment to paragraph 29 or the FASB's amendments to the Illustrative Examples.
39. The comments in the Basis for Conclusion on the ED address concerns raised (and noted in paragraph 18 above) that paragraph 29(c) does not require a two-way dependency by explaining that the evaluation of whether an entity's promise to transfer a good or service is separately identifiable from other promises in the contract considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. That is, an entity should consider the level of integration, interrelation or interdependence among promises to transfer goods or services. And that in many cases, it may be helpful for an entity to consider whether it could fulfil its promises to transfer goods or services to the customer independently of each other.
40. Furthermore, the proposed amendments to some of the examples illustrate the application of this concept, taking into consideration whether the entity could fulfil its promises to the customer independently of *each other* and therefore, whether the promises are highly dependent on, or interrelated with, *each other*.
41. As summarised in paragraphs 20 to 22 of this paper, many of the respondents that were generally supportive of the IASB's approach expressed concerns about some of the amendments or suggested additional revisions to the Illustrative Examples. If the IASB decides to retain its decision not to amend the Standard, the staff

believes the drafting of the proposed amendments to the Illustrative Examples can be revised to address feedback received.

42. In particular, revisions would be made to Example 10–Case B with the intent of clarifying:
- (a) how conclusions in the example have been reached;
 - (b) whether the references to ‘goods and services’ are referring to the individual devices being manufactured, or to the materials, labour and other inputs that are integrated in producing those devices; and
 - (c) that the example is not intended to be applied by analogy broadly to any contracts with customers that involve project management, the production of a customised goods or the manufacture a series of identical goods for one customer, but rather illustrates a contract with a customer in which the nature of the entity’s overall promise is to provide the customer with a manufacturing process specific to that contract—ie the risks the entity assumes correspond to the *contract* as a whole rather than individual units or the production line.
43. The staff also believes that it may be helpful to include comments in the Basis for Conclusions on the Standard that (a) explain the rationale for the addition of an example illustrating multiple units that are a single performance obligation; and (b) clarify that the example is not intended to imply that contracts that include multiple units will always be a single performance obligation.
44. Overall, the staff believes that the proposed package of examples is sufficient to clarify how an entity should apply the requirements on identifying performance obligations. The new examples that were proposed in the ED have been added to address specific concerns that were discussed by the TRG. The inclusion of additional new examples would create a risk of unintended consequences, may lead to tension or raise additional questions in relation to how the principles in the Standard should be applied to individual facts and circumstances. The Illustrative Examples that accompany the Standard are not intended to provide industry or sector specific guidance or to represent the only manner in which the requirements could be applied.

Staff analysis and recommendation

45. A majority of respondents supported the IASB's approach. Consistent with this feedback, the staff are not convinced that the proposed amendments are essential to clarifying the Boards' intentions when developing the requirements in IFRS 15 or that compelling new arguments have been presented to justify amending the Standard at this stage. As previously noted, it is inevitable there will be questions about a new principle while an understanding of how to apply it to different types of contracts is developing in practice.
46. However, in the light of the feedback on the ED and the widespread support the FASB received in response to its proposed amendments, the staff believes reconsideration of the IASB's previous decision is warranted. Step 2 is a fundamental part of the Standard that affects accounting in subsequent steps of the revenue recognition model. Consequently, the staff acknowledges that there is perhaps more cause for convergence on this topic than other areas for which the Boards' decisions and proposed amendments are not aligned. In addition, some respondents expressed views that the FASB's proposed amendments provide a clearer articulation of the separately identifiable principle in the standard itself or that they are a necessary improvement to the requirements.
47. If the IASB were to converge, the staff believe that in order to avoid confusion, the FASB's proposed amendments should be taken as a package. This would result in more extensive revisions to the wording of the proposed Illustrative Examples in the ED. The staff is not convinced that the additional revisions (a) would improve the operability of the guidance enough to outweigh the questions that might arise, particularly for those entities already well advanced in their implementation; or (b) are essential to clarifying the principles in IFRS 15.
48. Taking these points into consideration the staff thinks that, on balance, the IASB's rationale for its decision taken remains relevant and the high hurdle required to amend the Standard has not been met.
49. We therefore recommend Option 2, more specifically that:
- (a) the existing wording of paragraph 29 of IFRS 15 is retained;

- (b) Example 10—Case B is revised to address concerns raised by respondents; and
- (c) other drafting revisions will be made to the Illustrative Examples as appropriate based on feedback received, but no additional new examples will be drafted.

Question 1: Identifying performance obligations

- (a) Does the IASB agree with the staff recommendation not to amend paragraph 29 of IFRS 15?
- (b) Does the IASB agree with the staff recommendations in relation to the Illustrative Examples?

Topic 2: Promised goods or services that are immaterial in the context of the contract***Background to the IASB's proposals***

- 50. The TRG discussed an implementation question about whether an entity should identify items or activities as promised goods or services that are not identified as deliverables or components under previous revenue Standards. A specific concern was raised about paragraph BC90 of IFRS 15, which explains the Boards' decision not to exempt an entity from accounting for performance obligations that the entity might regard as being 'perfunctory or inconsequential' (a notion that is included in guidance issued by the staff of the US Securities and Exchange Commission). Some stakeholders held a view that IFRS 15 might require an entity to identify significantly more performance obligations than would be the case under previous revenue Standards.
- 51. In response to these concerns, the FASB proposed an amendment that would permit an entity not to identify promised goods or services that are immaterial in the context of the contract. This is because the FASB is concerned that it would be unduly burdensome to require an entity to aggregate and determine the effect on its financial statements of those items or activities determined to be immaterial at the contract level.

52. In October, the FASB reaffirmed its decision to amend Topic 606 to state that an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract with a customer. In addition, the FASB decided that if the revenue related to a performance obligation that includes goods or services that are immaterial in the context of the contract is recognised before those immaterial goods or services are transferred to the customer, then the related costs to transfer those goods or services should be accrued.
53. As discussed in paragraphs BC18–BC21 of the ED, having considered the wider implications of amending IFRS 15, the IASB decided not to propose similar amendments to the Standard. The IASB expressed the view that the concerns raised relate to the application of materiality concepts rather than the application of the requirements in IFRS 15. TRG discussions also highlighted that the concerns raised primarily relate to potential changes to practice under US GAAP and that IFRS stakeholders can understand and apply the requirements of IFRS 15.

Feedback received

54. Of the 74 responses received, 26 commented on this topic, a majority of which agreed that the amendments proposed by the FASB are not necessary. Respondents indicated that the application of materiality is required for all financial information and special requirements regarding materiality are not necessary for the purposes of the Standard. Some responses also noted that assessing materiality at a contract level would be a new concept and a change in practice for IFRS preparers.
55. A few respondents—representing a range of entities including preparers, standard-setting bodies and accounting firms—disagreed with the IASB’s decision. These responses indicated that the IASB’s intention not to require an entity to individually identify every possible promised good or service should be made clear in the Standard itself. They suggest that such an amendment would reduce the burden on preparers and auditors in terms of documenting and auditing compliance with the Standard. It was also argued that without explicit guidance it would be difficult for entities to justify that they are not required to identify immaterial promised goods or services. A few respondents raised concerns about

convergence and questioned whether the lack of the same guidance in IFRS might lead to diversity in practice. One response also noted that the guidance in IFRS 15 on accounting for a significant financing component provides precedent for assessing materiality at the contract level.

Staff recommendation

56. The staff observes that the majority of responses were supportive of the IASB's decision not to amend Standard and new compelling arguments that were not previously taken into consideration by the IASB have not been identified.
57. The staff does not believe that the risk that would arise from setting a precedent of providing standard-specific guidance in relation to the application of materiality concepts outweighs any cost benefits that might be provided to a preparer or the preservation of word-for-word convergence. The staff think that in many cases the outcome applying IFRS and US GAAP should be the same, but acknowledges it is possible that differences could arise.
58. Accordingly, we recommend that the IASB affirms its decision not to make amendments to IFRS 15 similar to those proposed by the FASB in relation to the identification of promised goods or services that are immaterial in the context of the contract.

Question 2: Promised goods or services

Does the IASB agree with the staff recommendation not to amend the Standard in relation to the identification of promised goods or services that are immaterial in the context of the contract?

Topic 3: Shipping and handling activities

Background to the IASB's proposals

59. Some stakeholders in the US expressed differing views about whether and when shipping and handling activities that occur after the transfer of control of the good to the customer should be accounted for as a promised service or as a fulfillment activity. Under previous revenue Standards, entities often do not account for shipping provided in conjunction with the sale of their goods as an additional

service. As a result, some stakeholders raised cost benefit concerns and questioned whether additional relief should be provided.

60. In response to these concerns raised, the FASB proposed amendments to:
- (a) permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfilment activities; and
 - (b) clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities.
61. In October, the FASB reaffirmed these amendments and also decided that the guidance in Topic 606 should specify that, if revenue is recognised before contractually-agreed shipping and handling activities occur, the related costs of those shipping and handling activities should be accrued.
62. As discussed in paragraph BC24 of the ED, the IASB decided not to propose a similar amendment on the basis that an accounting policy election for shipping and handling activities would create an exception to the revenue recognition model and potentially reduce comparability between entities.

Feedback received

63. Of the 74 responses received, 34 commented on this topic, a majority of which supported the IASB's decision not to propose an accounting policy election. These respondents agreed with the reasons articulated by the IASB not to propose a similar amendment—in particular that such an election would potentially reduce comparability between entities and would create an exception to the revenue recognition model, overriding the principle in paragraph 22 of IFRS 15.
64. Other reasons cited in responses included that (a) a policy election is not necessary as in many cases shipping and handling activities will be immaterial; and (b) an amendment might raise more questions as to why the election is limited to shipping and handling activities and not applicable to other types of goods or services that may be provided after a customer has obtained control of a good (eg storage or custodial services).

65. A few respondents supported the IASB’s decision, but requested that the final amendments carry forward the explanation for the decision articulated in paragraphs BC22–BC23 of the ED and clearly articulate the resulting difference between IFRS and US GAAP and its implications—ie explicitly highlighting that the practical expedient would not be permitted under IFRS. Some respondents also indicated that it would be useful for the IASB to clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities.
66. Several responses raised concerns in relation to divergence between IFRS and US GAAP as a result of the Boards’ respective decisions. A few of these responses supported the IASB’s decision and encouraged the IASB to ask the FASB not to move forward with their proposal; however, indicated that if this is not possible IFRS stakeholders should be allowed to benefit from the practical expedient.
67. A handful of respondents, a majority of which were preparers, opposed the IASB’s decision and were supportive of the introduction of an accounting policy election. Those responses raised concerns that the lack of a policy election under IFRS would result in differences between IFRS and US GAAP financial results and would drive unnecessary complexity and cost for IFRS stakeholders with little benefit for users. A few of these respondents noted that disclosures would be required if an entity applies the election, which would address concerns about a potential lack of comparability between entities that apply the election and those that do not. One preparer also indicated that such an election would allow them to continue to reflect the substance of their sales transactions in accordance with their business model. Another preparer raised concerns that the IASB’s explanations in the Basis for Conclusions on the ED are intended to establish a presumption that a performance obligation for shipping and handling will always be recognised over time.

Staff analysis

68. The staff observes that the majority of responses were supportive of the IASB’s decision and does not believe that the responses received have raised new compelling arguments that were not previously taken into consideration by the IASB.

69. If control of a good has been transferred to a customer and shipping and handling services are therefore being provided in relation to the *customer's* goods, the entity is providing a service to the customer. The staff thinks it is inappropriate to provide an exemption for this particular service and not others. Also, although the Boards' proposals will result in a difference in the wording between IFRS and US GAAP, because the amendments will result in a policy election in Topic 606, the treatment required by IFRS 15 can also be applied under US GAAP.
70. The staff agrees with the feedback received from respondents that in addition to providing the rationale for the decision made by the IASB it would be helpful to clarify in the Basis for Conclusions that (a) shipping and handling activities that occur *before* the customer obtains control of the related good are fulfilment costs; and (b) because the policy election is not available under IFRS 15 differences may arise between entities reporting under IFRS and US GAAP.

Staff recommendation

71. We recommend that the IASB affirms its decision not to amend the Standard in relation to shipping and handling activities.

Question 3: Shipping and handling activities

Does the IASB agree with the staff recommendation not to amend the Standard in relation to shipping and handling activities?

Topic 4: Other matters

72. The FASB included a question in their proposals about whether the requirement to account for a series of distinct goods or services as a single performance obligation should be changed to an optional practical expedient.
73. After taking into consideration feedback received and additional staff analysis, the FASB decided not to make the guidance in paragraphs 606-10-25-14(b) through 25-15 (paragraphs 22(b) to 23 of IFRS 15) optional.
74. The IASB decided not include an equivalent question in the ED. Two respondents provided unsolicited comments that supported revising the requirements to an option.

75. Although the FASB decided not to amend the series guidance, the FASB staff is recommending a new example that illustrates the accounting for a series of distinct goods or services may be included in the FASB’s final Accounting Standards Update.
76. The TRG has had multiple discussion relating to the accounting for a series of distinct goods or services. In particular, TRG Agenda Ref 27: *Series of Distinct Goods or Services*, TRG Agenda Ref 39: *Application of the Series Provision and Allocation of Variable Consideration*, TRG Agenda Ref 43: *Determining When Control of a Commodity Transfers* and the related meeting summaries provide relevant discussion and educational materials for stakeholders.
77. Taking into consideration the FASB’s decision in October not to amend the series guidance, as well as discussions held by the TRG, we do not believe that amendments to the existing guidance in relation to a series of distinct goods or services are required.

Appendix A

Tentative decisions of the FASB in respect of its proposals on identifying performance obligations and licensing

The Board met and redeliberated its May 2015 proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*.

The Board affirmed most of the amendments in the proposed Update. The Board also made additional decisions within the scope of the following topics:

1. Identifying performance obligations
2. Licensing.

Identifying Performance Obligations

The Board reached decisions about (1) identifying promised goods or services that would be subject to the separation guidance, (2) application of the distinct guidance, (3) accounting for shipping and handling activities, (4) the series provision, and (5) disclosure of the transaction price allocated to remaining performance obligations.

Promised Goods or Services

The Board affirmed its proposal that an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract with a customer. Optional goods or services will continue to be accounted for in accordance with paragraphs 606-10-55-41 through 55-45. An entity will not be required to accumulate goods or services assessed as immaterial in the context of the contract and assess their significance at the financial statement level.

In addition, the Board decided that if, as a result of not identifying promised goods or services that are immaterial in the context of the contract, revenue is recognized before all of the good or services promised in the contract are transferred to the customer, the related costs to transfer those goods or services should be accrued.

Separately Identifiable (or “Distinct within the Context of the Contract”)

The Board affirmed its previous decisions to:

1. Improve upon the articulation of the separately identifiable principle in paragraph 606-10-25-19(b) by clarifying in paragraph 606-10-25-21 that the objective when assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable is to determine whether the nature of the entity’s overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the promised goods or services are inputs.
2. Revise the factors in paragraph 606-10-25-21 to align those factors to the re-articulated separately identifiable principle.
3. Revise the existing illustrative examples and provide additional illustrative examples to clarify how the Board intends the guidance on identifying performance obligations to be applied.

Shipping and Handling Activities

The Board affirmed its decision to amend the guidance in Topic 606 as it applies to shipping and handling activities. The amendments to Topic 606 will clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfillment activities. In addition, the amendments would permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities.

The Board also decided that the guidance in Topic 606 should specify that, if revenue is recognized before contractually-agreed shipping and handling activities occur, the related costs of those shipping and handling activities should be accrued.

Series Provision

The Board decided not to make optional the guidance in paragraphs 606-10-25-14(b) through 25-15 that requires an entity to account for a series of distinct goods or services as a single performance obligation if (1) each distinct good or service would be a performance obligation satisfied over time and (2) the same method would be used to measure the entity's progress towards complete satisfaction of each distinct good or service (collectively, the "series provision"). Consequently, the series provision remains a requirement of Topic 606.

Disclosure of the Transaction Price Allocated to Remaining Performance Obligations

The Board decided not to amend the disclosure requirements in paragraphs 606-10-50-13 through 50-14. Rather, the Board directed the staff to perform additional research about the effect of introducing an additional disclosure practical expedient that would permit entities to not provide the disclosures about transaction price required by paragraph 606-10-50-13 if doing so would require the entity to accumulate information solely for disclosure purposes when those amounts are not needed to recognize and measure revenue. The Board asked the staff to report the results of the research separate from this Identifying Performance Obligations and Licensing project.

Appendix B

Relevant guidance in IFRS 15

- 27 A good or service that is promised to a customer is distinct if both of the following criteria are met:
- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and
 - (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).
- 28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.
- 29 Factors that indicate that an entity's promise to transfer a good or service to a customer is separately identifiable (in accordance with paragraph 27(b)) include, but are not limited to, the following:
- (a) the entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.
 - (b) the good or service does not significantly modify or customise another good or service promised in the contract.
 - (c) the good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.
- 30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods

or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Extracts from the Basis for Conclusions on the ED

- BC10 The TRG's discussions indicated that there was some confusion relating to the criteria in paragraph 27 and the role of the supporting factors in paragraph 29. The IASB observed that the criterion in paragraph 27(b) focuses on the separability of the promise to transfer a good or service, rather than on the good or service itself. This emphasises that an entity should evaluate whether the contract is to transfer (a) multiple distinct goods or services or (b) a combined item or items that comprise a distinct bundle of goods or services promised in the contract. The factors in paragraph 29 highlight situations in which a good or service that is capable of being distinct is not distinct within the context of the contract because the goods or services are combined or modified. In other words, those factors highlight scenarios in which the entity may have promised to transfer something that is greater than (or substantively different from) the sum of the underlying promised goods and services. For example, in a contract to build a wall, the promise to provide bricks and the promise to provide labour are not separately identifiable from each other within the context of the contract because those promises together comprise the promise to the customer to build the wall.
- BC11 The evaluation of whether an entity's promise to transfer a good or service is separately identifiable from other promises in the contract considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. That is, an entity should consider the level of integration, interrelation or interdependence among promises to transfer goods or services. The IASB observed that an entity should not merely evaluate whether one item, by its nature, depends on the other (ie whether two items have a functional relationship). Instead, an entity should evaluate whether there is a transformative relationship between the two items in the process of fulfilling the contract. In many cases, it may be helpful for an entity to consider whether it could fulfil its promises to transfer goods or services to the customer independently of each other.

Appendix C

Proposed wording in the ED of Example 10–Case B

Case B—Significant customisation

- IE54 The promised goods and services are the same as in Case A, except that the contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.
- IE55 The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the terms of the contract result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service as specified in the contract. In other words, the entity is using the licence and the customised installation service as inputs to produce the combined output (ie a functional and integrated software system) specified in the contract (see paragraph 29(a) of IFRS 15). In addition, the software is significantly modified and customised by the service (see paragraph 29(b) of IFRS 15). Although the customised installation service can be provided by other entities, the entity determines that within the context of the contract, the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 27(b) of IFRS 15 (on the basis of the factors in paragraph 29 of IFRS 15) is not met. Thus, the software licence and the customised installation service are not distinct.
- IE56 As in Case A, the entity concludes that the software updates and technical support are distinct from the other promises in the contract. This is because the customer can benefit from the updates and technical support either on their own or together with the other goods and services that are readily available and because the promise to transfer the software updates and the technical support to the customer are separately identifiable from each of the other promises.
- IE57 On the basis of this assessment, the entity identifies three performance obligations in the contract for the following goods or services:
- (a) customised installation service (that includes the software licence);
 - (b) software updates; and
 - (c) technical support.
- IE58 The entity applies paragraphs 31–38 of IFRS 15 to determine whether each performance obligation is satisfied at a point in time or over time.