

STAFF PAPER

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Project	Revenue from Contracts with Customers		
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Purpose of this paper

1. This paper provides a summary of the feedback received by the IASB in response to the specific proposals in respect of principal versus agent considerations (question 2) in the IASB's [Exposure Draft Clarifications to IFRS 15](#). The ED was issued in July 2015 with comments due by 28 October 2015.
2. In addition, IASB members have been provided with FASB Memo No.8 *Revenue Recognition—Gross Versus Net Revenue Reporting: Comment Letter Summary*, which discusses the feedback from the US stakeholders in response to the FASB's [Proposed Accounting Standards Update Revenue from Contracts with Customers \(Topic 606\): Principal versus Agent Considerations \(Reporting Revenue Gross versus Net\)](#). The Proposed ASU was issued in August 2015 with comments due by 15 October 2015.
3. Both the IASB and the FASB proposed the same amendments to the principal versus agent considerations in IFRS 15 *Revenue from Contracts with Customers* and Topic 606 *Revenue from Contracts with Customers*. Accordingly, the FASB memo and this agenda paper should be read together. These papers together provide the context for the joint staff paper *Principal versus Agent Considerations (Redeliberations)* (Agenda Paper 7G / FASB Memo No. 9), which discusses the staff's analysis of the feedback received and recommendations to assist the Boards to make their final decisions.

Structure of the paper

4. The paper is structured as follows:
 - (a) background; and
 - (b) summary of feedback received.
5. For the convenience of IASB and FASB members, we structured the summary of the feedback by the IASB in accordance with the questions asked in the FASB's Proposed ASU.

Background

6. When another party, in addition to the entity, is involved in providing goods or services to a customer, IFRS 15 requires the entity to determine whether it is:
 - (a) the principal in the transaction (recognising as revenue the gross amount of consideration to which it expects to be entitled in exchange for providing the specified goods or services to the customer); or
 - (b) the agent (recognising as revenue the fee or commission for arranging for the other party to provide the specified goods or services to the customer).

Paragraphs B34–B38 of IFRS 15 provide guidance to help an entity make that determination.

7. The Transition Resource Group for Revenue Recognition (TRG) discussed a number of issues regarding the guidance in paragraphs B34–B38 of IFRS 15. In response to the issues that emerged from those discussions, the Boards proposed some clarifying amendments to the application guidance on principal versus agent considerations. The Boards also proposed to amend the Illustrative Examples 45–48 and to add new examples to align the examples with the proposed amendments to the Application Guidance.

Summary of feedback received

High-level summary of the feedback received

8. In its ED, the IASB asked the stakeholders whether they agree with the proposed amendments to the principal versus agent consideration; in particular, whether the proposed amendments to each of the indicators in paragraph B37 of IFRS 15 are helpful and do not raise new implementation questions.
9. Of the 74 comment letters received, 62 comment letters included specific responses to the IASB's question on the proposed amendments to the principal versus agent considerations.
10. Almost all the respondents agreed with the proposed amendments. Respondents mostly commented on the proposed amendments to the indicators in paragraph B37 of IFRS 15.
11. Many respondents highlighted that principal versus agent considerations are inherently a matter of judgement and stated that the proposed amendments provide a good framework for entities to exercise judgement and apply the requirements. A couple of respondents thought that some of the proposed amendments were not needed because the Standard was clear, but stated that the proposed clarifications do not raise any new questions.
12. Only one respondent thought that the proposals did not adequately address some of the issues that emerged from the TRG's discussions. However, that respondent supported the proposals mainly because both Boards proposed the same amendments.
13. In respect of the proposed amendments to the indicators in paragraph B37 of IFRS 15, many respondents agreed that those proposed amendments help in establishing a clear link between the control principle and the indicators. Many of them explicitly noted that the proposed amendments are not likely to raise new implementation questions. A few of them stated that it would be helpful if the indicators were drafted to more directly link to the definition of control in paragraph 33 of IFRS 15.

14. Quite a few respondents requested the Boards to consider adding more illustrative examples with more complex fact patterns. Some of those respondents stated that the new examples proposed by the Boards are somewhat simplistic in nature and limited in respect of virtual goods.
15. A detailed summary of the feedback follows.

Unit of account (specified good or service)—Question 1 of the FASB’s Proposed ASU

Issues that emerged from the TRG’s discussions

What is the unit of account for which the principal versus agent considerations are applied?

Proposed clarifications

The Boards proposed to amend paragraph B34 of IFRS 15 to clarify that:

- (a) an entity determines whether it is a principal or an agent for each specified good or service promised to the customer.
- (b) a specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer.
- (c) if a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and agent for others.

The Boards also proposed to refer to the ‘specified good or service’ throughout the guidance on principal versus agent considerations (see paragraph BC33 of the ED). This is because use of the term ‘performance obligation’ would have been confusing if an entity is an agent. An agent’s performance obligation is to arrange for goods or services to be provided by another party; it does not promise to provide the goods or services itself to the end customer. Accordingly, the obligation to provide the specified good or service to the end customer is not the performance obligation of the agent.

The Boards proposed to add paragraph B34A to emphasise the importance of appropriately identifying the specified good or service that will be transferred to the customer. The specified good or service could be a right to a good or service to be provided by another party.

As explained in paragraph BC42 of the ED, the Boards observed that at least some of the difficulty that stakeholders had raised about the application of the control principle, in particular to intangible goods and services, is linked to challenges in identifying the specified good or service to be provided to the customer. The Boards also observed that when the appropriate specified good or service is identified, the assessment of control is often relatively straightforward, even in scenarios for which the specified good or service is a service or a virtual or intangible good.

Furthermore, as explained in paragraphs BC47 and BC48 of the ED, the IASB noted that, in many respects, the proposed paragraph B34A simply points to other relevant parts of the requirements in IFRS 15 and would provide a better framework to be applied when determining whether an entity is a principal or an agent.

16. Almost all respondents agreed with the proposed amendments to paragraph B34 of the Standard and the proposed paragraph B34A. Some respondents stated that the proposed amendments usefully clarify the framework to be applied when determining whether an entity is a principal or an agent.

Consistent use of ‘the specified good or service’

17. Many respondents supported the use of ‘the specified good or service’ throughout the guidance on principal versus agent considerations for the reasons explained in paragraph BC33 of the ED. Some respondents stated that these proposals would improve the operability and understandability of the principal versus agent considerations. Only one respondent believed that the proposed amendment was not warranted, because the requirements in IFRS 15 in respect of identifying performance obligations are clear and it is self-evident that an entity needs to identify the nature of the specified good or service before it can assess whether it controls that good or service.
18. Another respondent recommended that the Boards should clarify the difference between a specified good or service and a promised good or service.

Principal and agent in the same contract

19. A few respondents explicitly agreed with the proposed clarification that an entity could be a principal for some specified goods or services and agent for the others within the same contract. Those respondents also supported proposed Example 48A, which illustrates an entity that is a principal and an agent in the

same contract. A couple of preparers asked the Boards to expand Example 48A to also illustrate the allocation of the transaction price to the two performance obligations (a principal for the recruitment services and an agent for the database access). Another preparer contacted us separately with a similar request.

Application of the control principle—Question 2 of the FASB’s Proposed ASU

Issues that emerged from the TRG’s discussions

- (a) The application guidance is not clear about whether control is always the basis for determining whether an entity is a principal or an agent?
- (b) How should the control principle be applied to contracts for services or intangible goods?

Proposed clarifications

In addition to emphasising the importance of appropriately identifying the specified good or service, the proposed paragraph B34A also emphasises that control (as defined in paragraph 33 of IFRS 15) is the determining factor when assessing whether an entity is a principal or an agent. The proposed paragraph also clarifies that the specified good or service could be a right to a good or service to be provided by another party.

As explained in paragraph BC30 of the ED, the Boards observed that in order for an entity to conclude that it is providing the specified good or service to the customer, it must first control that good or service (as defined in paragraph 33). It would be difficult for an entity to provide the specified good or service to a customer if the entity does not first have (and control) that good or service to be provided. Accordingly, if an entity controls the specified good or service before that good or service is transferred to the customer, it is the principal in the transaction with the customer. If the entity does not control the specified good or service before it is transferred to a customer, it is not a principal in the transaction with the customer.

The Boards also proposed to add paragraph B35A to clarify the assessment of control of a service by explaining the scenarios in which a principal can control a service to be provided by another party. The proposed paragraph states that:

‘When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of:

- (a) a good or another asset from the other party that it then transfers to the customer;

- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. If an entity provides a significant service of integrating goods or services provided by another party into the specified good or service for which the customer has contracted, it controls the specified good or service before that good or service is transferred to the customer. In that case, the entity first obtains control of the good or service from the other party and directs its use to create the combined output that is the specified good or service.'

As explained in paragraph BC50 of the ED, the Boards observed that an entity can control a service to be provided by another party when it controls the right to the specified services from the other party that will be provided to the customer. The entity then either transfers the right to the services to the customer or uses its right to direct the other party to provide the services to the customer on the entity's behalf (ie to satisfy the entity's performance obligation in the contract with the customer).

20. On the broader point of whether the principal versus agent evaluation is always based on the control principle, almost all the respondents agreed that the proposed amendments clarify that the control principle is the basis for determining whether an entity is a principal or an agent. In other words, the respondents generally agreed that an entity should assess whether it controls the specified good or service before that good or service is transferred to the customer to determine whether it is a principal or an agent.

Right to a good or service versus the actual good or service

21. A few respondents expressed concern that it was not clear when the specified good or service is a right to a good or service to be provided by another party or the actual good or service that the customer would receive. Consequently, they argued that there would be difficulties in applying the control principle. One respondent, referring to Example 48, which illustrates an entity that is an agent selling meal vouchers, stated that it could be inferred from the proposed amendments that whenever another party is involved in providing goods or services to a customer, the specified good or service is generally the right to the good or service rather than the underlying good or service itself. Another

respondent, referring to Example 47, which illustrates an entity that is a principal selling airline tickets, stated that even if an entity concludes that the specified good or service is a right to a good or service (in the form of a ticket), which is the scenario described in paragraph B35A(a), the entity could inappropriately conclude that its revenue is the net consideration that it retains because it would not have the ability to direct the airline. Consequently, those respondents requested the Boards to explain how to determine when the specified good or service is a right to a good or service and not the underlying good or service that the customer wants to obtain.

22. A couple of preparers thought that the proposed amendments to Examples 47 and 48, which focus on clarifying control of a right to a good or service, are likely to affect the accounting for customer loyalty programmes of an entity in which another party is involved in providing goods or services to the customer. One respondent requested the Boards to clarify whether the IASB intended that IFRS 15, together with the proposed amendments, would change the accounting for those arrangements compared to the previous revenue Standards.

Proposed paragraph B35A

23. Almost all respondents generally agreed with the Boards that the proposed paragraph B35A (which is reproduced above), which explains the scenarios in which a principal can control a good or service to be provided by another party, is particularly helpful when assessing whether an entity is a principal in arrangements involving services or intangible goods. However, there were quite a few comments on paragraph B35A(c).
24. The proposed paragraph B35A(c) states that if an entity *provides a significant service of integrating goods or services provided by another party* into the specified good or service for which the customer has contracted, it controls the specified good or service before that good or service is transferred to the customer. In that case, the entity first obtains control of the good or service from the other party and directs its use to create the combined output that is the specified good or service.

25. Quite a few respondents thought that it is not clear whether the significant service of integrating goods or services as used in the proposed paragraph B35A carries the same meaning as when it is used in paragraph 29(a) of IFRS 15.¹ Many of those respondents asked the Boards to clarify whether the ‘significant service of integrating the good or service’ referred to in those paragraphs is intended to have the same meaning.
26. One national standard-setter observed that the proposed paragraph B35A(c) together with paragraph BC50(b) of the ED is intended to address cases in which the entity directs the use of goods or services provided by another party to create the combined item for which the customer has contracted. If the good or service provided by another party is not separately identifiable based on any of the three factors in paragraph 29, the entity is very likely to control the good or service that is transferred to the customer. However, the proposed paragraph, as drafted, seems to be addressing cases covered only by the significant integration factor described in paragraph 29(a) of IFRS 15.
27. A few national and regional standard-setters thought that paragraph B35A(c) seems to convey that an entity controls the specified good or service when the entity provides a significant service of integrating the good or service that the customer has contracted. In other words, that paragraph suggests that providing a significant service of integration is an indicator of control to be included in paragraph B37.

¹ Paragraph 29 provides an indicative list of factors that an entity would consider when assessing whether an entity’s promise to transfer a good or service to a customer is separately identifiable (in accordance with paragraph 27(b)). One of those factors (paragraph 29(a)) is that a promised good or service is not separately identifiable if the entity provides 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.

Control indicators—Question 3 of the FASB’s Proposed ASU*Issues that emerged from the TRG’s discussion*

- (a) Are the indicators ‘alternative’ guidance unrelated to control to determine whether an entity is a principal or an agent?
- (b) What is the relationship between ‘control’ and the indicators?
- (c) How to weight or apply the indicators if a transaction is such that the indicators contradict each other?

Proposed clarifications

The Boards proposed to amend paragraph B37 of IFRS 15 and add paragraph B37A to clearly establish a link between the control principle and the indicators by:

- (a) reframing indicators as indicators when an entity controls a specified good or service before transfer, rather than as indicators that an entity does not control the specified good or service before transfer.
- (b) explaining how each indicator supports the assessment of control and removing an indicator that is not helpful in assessing whether an entity is a principal.
- (c) clarifying that the indicators are not an exhaustive list and merely support the assessment of control, ie they do not replace or override that assessment, and different indicators might provide more persuasive evidence to support the assessment of control in different scenarios.

As explained in paragraphs BC34–BC35 of the ED, the questions regarding the relationship between the assessment of control and the indicators of control in paragraph B37, at least in part, have arisen because the indicators as originally worded in IFRS 15 are very similar to the indicators in the previous revenue Standards that were indicators of risks and rewards. Consequently, the Boards proposed to amend the indicators to reinforce the Boards’ considerations already explained in the Basis for Conclusions on IFRS 15 that the indicators were included to support an entity’s assessment of whether it controls a specified good or service before transfer, and that the indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.

- 28. Most of the respondents supported the proposed amendments and agreed that those proposals link the indicators to the control principle.
- 29. A couple of national standard-setters thought that the proposed amendments to paragraph B37 are not sufficient and that more explanation is needed to clearly

link the indicators to the definition of control in paragraph 33 of IFRS 15. They think that the indicators may still be seen to have been derived from the risks and rewards principle in the previous revenue Standards. One of them suggested that the indicators should be redrafted to focus on the two aspects of the definition of control—ability to direct the use of the asset and ability to obtain substantially all of the remaining benefits from the asset.

30. A few respondents asked the IASB to consider reinstating the commission indicator or sufficiently explain the reason for deleting the indicator. Those respondents think that the commission indicator has been very useful under the previous revenue Standard when determining whether an entity is a principal or an agent.

When to apply control indicators

31. A few respondents stated that the role of indicators—ie whether the indicators are determinative of control or whether they support the application of the control principle by providing persuasive evidence—is not clear. Those respondents recommended incorporating the explanation in paragraph BC35 of the ED into the Standard. That paragraph explains that the indicators in paragraph B37 of IFRS 15 (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.

Relevance (weighting) of the indicators

32. A few respondents recommended that the primarily responsible (paragraph B37(a)) and inventory risk (paragraph B37(b)) indicators should be identified as stronger or as more relevant than others. Those respondents think that the primarily responsible indicator is determinative of control when it is met. However, a few other respondents acknowledged that the primarily responsible indicator is not necessarily determinative when the specified good or service is a right to a good or service.
33. A few respondents thought that because the pricing discretion and the credit risk indicators, as drafted in the ED, highlight that an agent can also have pricing

discretion and can be exposed to credit risk, paragraph B37 could be read to imply that an entity should place less weight on those indicators compared to the primarily responsible and inventory risk indicators.

Primarily responsible indicator (paragraph B37(a))

34. The proposed amendments to paragraph B37(a) are as follows:

~~another party~~ the entity is primarily responsible for fulfilling the ~~contract~~; promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service. 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.

35. There have been different views expressed by different respondents on this indicator.

- (a) A few respondents highlighted that the entity with the primary responsibility to fulfil a promise could be different from the entity responsible for the acceptability of the specified good or service. Those respondents recommended that that fact should be acknowledged in paragraph B37(a).
- (b) A few respondents recommended the inclusion of an entity's discretion in the selection of a third-party supplier as part of the primarily responsible indicator. They think that if the entity has discretion in selecting the third-party supplier, it is an indication that the entity has the primary responsibility to fulfil the promise.
- (c) A few respondents stated that when the specified good or service is a right to a good or service to be provided by another party, it is unclear whether this indicator is evaluated within the context of the right or the actual good or service.

Suggested removal of some indicators

Credit risk (paragraph B37(d))

36. Paragraph B37(d) states that:

the entity is not exposed to credit risk for the amount receivable from a the customer in exchange for the other party's specified goods or services. 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. 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.

37. A few respondents (mainly a regulator, a national standard-setter, a preparer, two accounting firms and two accountancy bodies) thought that the credit risk indicator (paragraph B37(d)) should be deleted. Some of those respondents stated that credit risk is almost never persuasive and is not a relevant indicator in a control-based model. Others thought that the drafting of the credit risk indicator makes that indicator inconclusive in the control assessment, because the indicator states that 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.

38. One respondent noted that the assessment of whether an entity is a principal or an agent is made after the entity has concluded that a contract exists and collectability is probable. Consequently, credit risk is, at most, a remote risk. In addition, the indicator also states that an agent may choose to accept credit risk. That respondent believes that when more than one party is part of a distribution chain in a transaction with a customer, the assumption of credit risk from the ultimate end customer is a matter of negotiation between those parties involved in the distribution of the good or service. The party assuming that risk is being compensated for it by its customer. Consequently, the indicator is of limited relevance when assessing whether control of the good or service has transferred.

39. Another respondent observed that for the purpose of principal versus agent evaluation, credit risk is the risk of an entity being exposed to risk for the amount of the receivable from the customer. However, the paragraph as drafted could be incorrectly interpreted to mean that the notion of credit risk would constitute more than only the risks associated with the amount of a receivable due from a customer. In other words, entities may incorrectly believe that the consideration of economic risks, such as an entity's obligation to pay third parties that are involved in fulfilling the contract with the customer, is required.
40. One respondent recommended that if the Boards decide to retain this indicator, the last sentence in the paragraph (agent's exposure to credit risk) should be included in the Basis for Conclusions of the Standard.

Pricing discretion

41. The proposed amendments to paragraph B37(c) are as follows:

~~the entity does not have~~ has discretion in establishing prices for the ~~other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;~~ 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.

42. A few respondents stated that the drafting of the pricing discretion indicator makes that indicator inconclusive in the control assessment, because the paragraph states that 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. For that reason, very few of those respondents recommended to the Boards that they should delete the indicator. One respondent recommended that the last sentence in the paragraph (agent having pricing discretion) should be included in the Basis for Conclusions of the

Standard. The others asked the Boards to add an example of an entity that is an agent having pricing discretion.

Other comments—Estimating gross revenue as a principal

43. During initial deliberations on principal versus agent considerations, the Boards discussed the issue of whether an entity that is a principal would estimate the amount of revenue to recognise if it were not aware of the amounts being charged to customers by an intermediary that is an agent.
44. The IASB observed that this issue is largely unrelated to the principal versus agent guidance, but instead relates to applying the requirements on determining the transaction price. The IASB concluded that the issue does not require any clarifications or additional guidance because the issue is expected to arise only in a narrow set of circumstances. The IASB's considerations in reaching that conclusion are explained in paragraphs BC53–BC56 of the ED. Consequently, the IASB did not ask any specific question on this issue in its ED.
45. The FASB also decided not to propose any amendments to the Standard to address this question, for the following reasons (as explained in paragraph BC35 of the FASB's Proposed ASU):
- (a) the FASB observed that the issue is not pervasive and affects a limited number of entities;
 - (b) to maintain convergence with IFRS 15, because the IASB concluded that the issue did not require any clarifications or additional guidance; and
 - (c) if the issue has to be addressed, the transaction price guidance has to be amended. The FASB was concerned about the risk of unintended consequences of amending the core aspect of guidance to address a narrow issue.

However, the FASB is of the view, as explained in paragraphs BC36–BC38 of the Proposed ASU, that on the basis of the transaction price guidance in paragraphs 46–90 of IFRS 15, the transaction price of a principal does not include the difference between the amount to which an entity is entitled from the intermediary

and the amount charged by the intermediary to an end customer when the entity is (and expects to remain) unaware of the amount the intermediary charged to the end customer.

46. Although neither Boards proposed any amendments in relation to the question, the considerations in reaching that conclusion, as explained in the Basis for Conclusions on the respective Exposure Drafts, were not the same. In addition to explaining the reasons for not proposing any amendments, the FASB's Proposed ASU is explicit about how the entity that is a principal would apply the transaction price guidance in the specified situations. In contrast, the IASB's ED only explains the reasons for not proposing any amendments, without being explicit about the application of the transaction price guidance in those specific situations.
47. Very few respondents to the IASB commented on this issue in their comment letters. The feedback was mixed. Some respondents agreed with the explanations in the Basis for Conclusions on the IASB's ED. One of them highlighted that the FASB's explanation runs the risk of setting a precedent that a lack of access to data is a basis for not making estimates.
48. Other respondents stated that contrary to the Boards' view that this scenario is uncommon, the issue is prevalent in many industries (eg virtual gaming, technology) and could apply to many types of transactions in which an entity uses an intermediary. Some of them supported the FASB's explanations. The others recommended that either (a) the issue should be resolved jointly by the Boards by amending the Standard; or (b) the explanations should not be carried into the Basis for Conclusions on the Final ASU/Standard by either Board.
49. One respondent recommended that the explanations in paragraph BC55 of the IASB's ED should be included in the Standard.