
IASB[®] meeting

Date **February 2024**

Project **Post-implementation Review of IFRS 15**

Topic **Identifying performance obligations in a contract**

Megumi Makino (megumi.makino@ifrs.org)

Contacts Jelena Voilo (jvoilo@ifrs.org)

Rachel Knubley (rknubley@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. This paper provides a summary of the feedback and staff analysis on question 2 *Identifying performance obligations in a contract* of [Request for Information: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (the RFI). In addition, the paper covers feedback on identifying performance obligations in licensing arrangements provided in response to question 6 *Licensing*. Agenda Paper 6C discusses other responses to question 6.
2. At this meeting, the IASB will be asked to decide whether to take further action on application matters related to identifying performance obligations and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).¹
3. This paper provides:
 - (a) [summary of staff recommendations](#);
 - (b) [background](#) to IFRS 15 identifying performance obligations requirements;

¹ See AP 6 for the framework.

-
- (c) [overview of the feedback](#); and
 - (d) [summary of the feedback and staff analysis of specific application matters](#).

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB take no further action on application matters raised by respondents related to:
 - (a) applying the notion of ‘distinct’;
 - (b) identifying a promise to transfer goods or services;
 - (c) convergence with FASB ASC Topic 606 Revenue from Contracts with Customers;² and
 - (d) other aspects of identifying performance obligations in a contract described in Appendix A.
5. The staff also recommend the IASB discuss later whether to add some explanations from paragraphs BC105 and BC116K of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations would help clarify some aspects of matter (a) in paragraph 4 and, combined with the other possible clarification, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

Background

6. The IASB’s objective in developing the definition of a performance obligation was to ensure that entities appropriately identify the unit of account for the goods and services promised in a contract. Identifying a meaningful unit of account is

² Paragraph 9 of the January 2024 [Agenda Paper 6C Plan for PIR Phase 2](#) discusses our planned approach to matters related to convergence with FASB ASC Topic 606.

fundamental to allocating and recognising revenue on a basis that faithfully depicts the entity's performance in transferring the promised goods or services to the customer.

Summary of IFRS 15 requirements

Paragraphs 22–30 of IFRS 15 provide requirements for identifying performance obligations in a contract.

Paragraph 22 explains that a performance obligation is a promise in a contract with a customer to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Paragraph 27 requires an entity to determine whether a good or service is distinct by considering:

- (a) whether the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer (the good or service is capable of being distinct); and
- (b) whether the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (the promise to transfer the good or service is distinct within the context of the contract).

Paragraph 29 states that in assessing whether an entity's promises are separately identifiable, the objective is to determine whether the nature of the promise is to transfer each of those goods or services individually or to transfer a combined item or items. Factors indicating that promises are not separately identifiable include, but are not limited to, the following:

- (a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs;
- (b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract;

(c) the goods or services are highly interdependent or highly interrelated.

In addition, IFRS 15 provides application guidance for licensing arrangements, including guidance on determining whether a licence is distinct from other goods or services.

Paragraph B53 explains that when a contract includes a promise to grant a licence and other goods or services, an entity applies paragraphs 22–30 to identify each of the performance obligations in the contract.

Paragraph B54 provides examples of licences that are not distinct from other goods or services:

- (a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).

7. IFRS 15 requirements on identifying performance obligations largely converged with the requirements in the FASB ASC Topic 606.

Overview of the feedback

8. Most respondents commented on the requirements for identifying performance obligations. Many respondents (mostly standard-setters, accounting bodies and accounting firms) specifically said that IFRS 15 provides a clear and sufficient basis to identify performance obligations for most contracts. Some of these respondents said that they have identified no significant matters related to this topic to raise in this PIR.
9. However, many other respondents (mostly standard-setters, accounting bodies and accounting firms) said that even though the requirements are generally clear, application in practice is challenging for some transactions. The most commonly raised application matter was [applying the notion of ‘distinct’](#), in particular, in licensing arrangements. In addition, respondents reported:

-
- (a) challenges related to [identifying a promise to transfer goods or services](#); and
 - (b) [matters related to convergence with the FASB ASC Topic 606 Revenue from Contracts with Customers](#).
10. A few respondents (mostly standard-setters) and a few preparers in the IASB's meeting with the Global Preparers Forum identified 'identifying performance obligations' as the major application matter, mostly related to arrangements including licensing.
11. Those respondents who reported application matters often linked them to the complexity of the underlying arrangements, offerings and business models. Many of those respondents suggested providing additional guidance, illustrative examples and/or other educational materials but did not suggest changing the requirements of IFRS 15.
12. In outreach meetings and comment letters, users of financial statements made the following comments:
- (a) some said there are no significant issues with information disclosed about the identification of performance obligations, including licensing arrangements.
 - (b) a few said information about an entity's performance obligations—including information disclosed by most software entities about licensing arrangements and related significant judgements—helps them understand the entity's business and drivers of revenue.
 - (c) some said they are aware of the challenges entities face in accounting for licensing arrangements.
 - (d) some said that the quality of disclosure varies and sometimes the information disclosed is not clear, for example, about contracts that include a licence and other goods or services. They emphasised the importance of detailed information about judgements made by entities in identifying performance

obligations and about disaggregation of revenue. One of these users said this is not a standard-setting issue.

13. The FASB also identified the identification of performance obligations and licensing as areas of implementation challenges. Appendix B provides more information on the FASB's findings on this matter.

Summary of the feedback and staff analysis of specific application matters

14. Based on the feedback the staff have identified three main application matters:
 - (a) [applying the notion of 'distinct'](#);
 - (b) [identifying a promise to transfer goods or services](#); and
 - (c) [matters related to convergence with FASB ASC Topic 606](#).
15. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:
 - (a) there are fundamental questions about the clarity and suitability of the requirements;
 - (b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or
 - (c) the costs of applying the new requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).
16. In addition, [Appendix A](#) summarises feedback on other matters raised by one or a few respondents and provides our responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of

significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

Applying the notion of ‘distinct’

Feedback

17. Many of the application matters raised are related to the judgements needed to apply the notion of ‘distinct’. Most commonly, challenges are reported in the software, technology and telecommunication industries. Respondents found it difficult to apply the guidance in paragraphs 27(b) and 29 of IFRS 15 on determining whether an entity’s promise to transfer a good or a service is ‘distinct within the context of the contract’. Specifically, a few respondents said it is difficult to apply to complex contracts the guidance on ‘significant service of integrating the goods or services with other goods or services’ or ‘the goods or services are highly interdependent or highly interrelated’ in paragraph 29 of IFRS 15.
18. Respondents most commonly reported challenges in analysing software licensing arrangements, especially in bundled arrangements including a software licence and goods or services such as updates, modification, customisation, maintenance or cloud-based services including software as a service arrangements (SaaS). Respondents said that significant judgement and extensive analysis are required to identify performance obligations in such arrangements because the offerings are often technically complex and involve many elements and options.
19. Respondents also reported other arrangements which are challenging to apply the notion of ‘distinct’ to, including:
 - (a) licensing arrangements in the pharmaceutical industry, for example, arrangements including licensing of a new compound and further research and development;

-
- (b) arrangements including multiple services such as consulting, value chain management or end-to-end solutions for operating a business through e-commerce platforms; and
 - (c) arrangements including various products and services such as system integration services, including hardware, software, and installation to customise and integrate the components into the customer's IT environment.
20. Respondents provided mixed views on diversity relating to applying the notion of 'distinct':
- (a) a few respondents (mostly accounting firms) said some diversity is observed:
 - (i) in arrangements involving software licensing, for example, in determining whether the sale of on-premises software and updates that significantly change the functionality of software are distinct performance obligations;
 - (ii) in SaaS; and
 - (iii) in newly emerging businesses such as in the gaming industry and the field of advanced manufacturing that offers outsourced multi-year value chain solutions, for example, from developing artificial intelligence to delivering composite materials.
 - (b) a few respondents said they had not encountered any significant or widespread diversity.
21. Respondents suggested that the IASB:
- (a) provide additional illustrative examples and/or guidance for identified challenging fact patterns, for example:
 - (i) for complex bundled arrangements involving software licensing;

-
- (ii) for modern business models such as technology-driven products or different types of cloud services including SaaS; and
 - (iii) for licensing of a right to a new compound, not an approved drug.
- (b) assess whether the principles of the Standard on identifying performance obligations are sufficient to reflect the substance of SaaS arrangements which have become more common in recent years. If the IASB concludes that the requirements are insufficient for SaaS arrangements, it should consider amending IFRS 15 to provide a principle-based solution—providing additional illustrative examples would be unlikely to resolve the identified challenges for the full range of SaaS arrangements.
- (c) provide step-by-step guidance such as flowcharts or decision trees for complex areas such as licensing.
- (d) incorporate the discussion on ‘separable risks’ and ‘transformative relationship’ in paragraphs BC105 and BC116K of the Basis for Conclusions into the Standard or educational material. These paragraphs can help entities make judgements on ‘distinct in the context of contract’.

Staff analysis

Clarity and suitability of the requirements

22. No respondents raised fundamental questions about the clarity and suitability of the requirements related to determining whether goods or services are distinct or suggested any significant changes to the requirements are needed. Many respondents said that IFRS 15 provides a clear and sufficient basis for identifying performance obligations in most contracts. Respondents most commonly raised application challenges in relation to the complex transactions and transactions that have become more prevalent since IFRS 15 was issued, such as SaaS.

-
23. Specifically, respondents reported difficulties in applying judgement in analysing whether goods or services are ‘distinct within the context of the contract’, especially in complex transactions including licensing arrangements.
24. Such difficulties are not new—they were identified and discussed by the Transition Resource Group (TRG) which was established after the IASB issued IFRS 15. Based on discussions with the TRG, the IASB and the FASB amended the requirements to clarify the principle of paragraph 27(b) of IFRS 15 regarding ‘distinct within the context of the contract’ and the factors that indicate when two or more promises to transfer goods or services are not distinct within the context of the contract.³
25. To clarify the boards’ intentions, the boards added the objective of the assessment of ‘distinct within the context of the contract’ to paragraph 29 of IFRS 15—the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.⁴
26. At the time of the amendment, paragraph BC116K was added to the Basis for Conclusions on IFRS 15. Paragraph BC116K states that in evaluating whether a promised item is distinct in the context of the contract, an entity considers whether there is a ‘transformative relationship’ between the items, not whether the items have a functional relationship. Paragraphs BC116K and BC105 also explain that the notion of ‘separable risks’ influences the evaluation of ‘distinct in the context of the contract’. The Committee’s March 2018 agenda decision [Revenue recognition in a real estate contract that includes the transfer of land](#) uses the IASB’s explanations on ‘transformative relationship’ and ‘separable risk’ in assessing whether the sale of land and a building to be constructed on the land are ‘distinct in the context of the contract’.

³ See paragraph BC116F-BC116H of the Basis for Conclusions on IFRS 15 and [Clarifications to IFRS 15 Revenue from Contracts with Customers](#)

⁴ See BC116I - BC116J of the Basis for Conclusions on IFRS 15.

-
27. In addition to explaining its amendments in the Basis for Conclusions, the IASB added and amended illustrative examples related to identifying performance obligations. As a result, there are a total of six illustrative examples, covering 14 cases, relating to identifying performance obligations. Some illustrative examples address the application matters identified by the respondents, for example:
- (a) Example 55 (licence and updates) illustrates when a licence and updates are considered to be single performance obligation;
 - (b) Example 10 (significant integration service) illustrates how to assess 'significant service of integrating the goods or services with other goods or services'; and
 - (c) Example 11 (software licence and other services) illustrates how to assess whether a software licence and other services such as installation, technical support or customisation are distinct.
28. Paragraph BC116I of IFRS 15 states that even after amendment, the boards recognise that judgement will be needed in determining 'distinct within the context of the contract' considering facts and circumstances.
29. In addition, the application guidance in the Standard provides further guidance on determining whether a licence is distinct from other goods or services in a licensing arrangement, for example, paragraph B54 of IFRS 15 provides examples of licences that are not distinct from other goods or services.
30. In the staff's view, the requirements discussed in paragraphs 24–29 provide sufficient guidance on identifying performance obligations in multi-element arrangements. We acknowledge respondents' challenges in analysing complex transactions, but we think judgement is inherent in applying principle-based requirements. Although new arrangements have arisen since IFRS 15 was issued and some arrangements such as SaaS have become more common, we have not identified any situations in which the principles in IFRS 15 could not be applied. The staff has not identified any additional guidance that would significantly simplify judgements in complex situations.

-
31. The staff acknowledges some respondents' concern that some useful explanations are provided in the Basis for Conclusions (for example, paragraphs BC105 and BC116K) which is not mandatory. Including such explanations in the Standard might increase the prominence of these explanations, helping entities make judgements, particularly in jurisdictions where the Basis for Conclusions is not translated. However, such amendments would have to go through due process and may not be worth doing in isolation. Before finalising the project, it might be worth considering whether to add some explanations from paragraphs BC105 and BC116K of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations, combined with the other possible clarifications (for example, those in paragraphs 32(b) and 64(b) of Agenda Paper 6B), might result in sufficient improvement to IFRS 15 to warrant standard-setting. We can return to this suggestion in a future paper.

Benefits to users of financial statements

32. As mentioned in paragraph 12, we have heard from users about some variety in the quality of information provided on identifying performance obligations, but users have not raised significant issues in relation to this area.
33. Users suggested that they would like more information about the judgments that entities make when identifying performance obligations. However, IFRS 15 already includes a requirement to disclose the significant judgements, and changes in the judgements, made in applying IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers.⁵
34. As mentioned in paragraph 20, a few respondents identified some cases of diversity in practice, including in licensing arrangements. Such diversity might reduce the comparability of the resulting information for users. However, it is unclear whether that diversity is due to inconsistent application of the requirements to the same fact pattern or whether it is due to the varying and complex nature of the arrangements.

⁵ See paragraph 123 of IFRS 15.

-
35. For the reasons discussed in paragraphs 32–34, the staff think that the feedback does not indicate that the benefits to users are significantly lower than expected.

Costs of applying the requirements and auditing and enforcing their application

36. The staff acknowledges respondents' concerns that applying the requirements sometimes requires cost and effort. As mentioned in paragraph 11 of [Agenda Paper 6A for the January 2024 IASB meeting](#), ongoing costs relate to the complexity of contracts and mostly arise from assessing new contracts and contract modifications (which may sometimes require expert advice). However, practice has already developed.
37. Respondents who raised application challenges mostly asked for illustrative examples and some also asked for guidance for their identified challenging transactions. The IASB could consider doing further research to see whether it would be possible to identify some more common challenging fact patterns, especially in emerging business models, for example, for cloud-based software solutions. However, our initial analysis suggests that respondents' challenges are often linked to arrangements that have unique features, terms and conditions.
38. The staff think that illustrative examples are most useful when they illustrate how an entity applies a specific requirement or principle in a fact pattern that can be applied broadly—as mentioned in paragraphs 27, IFRS 15 already provides such examples. Illustrative examples of specific complex fact patterns would be unlikely to help many stakeholders as the outcome could be dependent on small changes in facts and circumstances. Additional illustrative examples or guidance could also lead to disruption in practice and additional costs because many entities would need to review their current accounting policies. Adding new examples for emerging fact patterns might also create an expectation that illustrative examples will be regularly updated.
39. For the reasons discussed in paragraphs 36–38, the staff is of the view that the costs are not significantly greater than expected and the benefit of additional guidance and

illustrative examples would not necessarily outweigh the costs of developing and implementing new guidance.

Staff recommendation and question for the IASB

40. Based on the analysis in paragraphs 22–39, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB:
- (a) take no further action on application matters raised by respondents in relation to identifying performance obligations in multi-element arrangements; and
 - (b) discuss later whether to add some explanations from paragraph BC105 and BC116K of the Basis for Conclusions to the Standard, along with possible clarifications of the other aspects of IFRS 15. These explanations would help clarify some aspects of (a) and, combined with the other possible clarifications, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

Questions 1 for the IASB

Do IASB members agree with the staff recommendation in paragraph 40 of this paper?

Identifying a promise to transfer goods or services

Feedback

41. A few respondents (mostly standard-setters) said that distinguishing promises to transfer goods or services from activities that do not transfer a good or service to the customer can be complex and require significant judgement in some cases. A few respondents (mostly standard-setters) said they observe diversity in judgements. Examples of application challenges included:

-
- (a) determining whether non-refundable upfront fees charged to customers relate to promises to transfer goods or services. A standard-setter said different accounting outcomes are observed for transactions that appear similar, such as payments for distribution rights in the biotech or pharmaceutical industry, activation fees in the telecommunications industry and fees to enter franchise networks. However, the respondent observed that entities generally reach consistent conclusions for each of these cases.
- (b) determining whether preproduction activities such as designing or manufacturing prototypes are performance obligations, fulfilment costs or intangible assets under IAS 38 *Intangible Assets*.
- (c) determining whether marketing incentives or offers are a promise to transfer goods or services.
- (d) determining whether connection fees received or a transfer of assets from customers represent consideration for a performance obligation of connecting a customer to a network in certain jurisdictions. Respondents said that the guidance in IFRIC 18 *Transfers of Assets from Customers*, which was withdrawn when IFRS 15 was issued, would be helpful in resolving these challenges. A respondent said that entities reach different conclusions in similar situations and the consequences of these different conclusions can be material.
42. These respondents suggested:
- (a) updating the illustrative examples, including Example 53 *Non-refundable upfront fee* to better reflect today's business environment or providing illustrative examples for more complex scenarios;
- (b) incorporating some additional guidance in the Standard from the Committee's January 2019 agenda decision [Assessment of promised goods or services](#); and

-
- (c) addressing the question about preproduction activities (paragraph 41(b)) in the IASB's Intangibles project.
43. A few respondents reported challenges in identifying performance obligations in arrangements involving multiple parties where principal versus agent determination is required. Further discussion of this matter is provided in paragraphs 65–73 of Agenda Paper 6B Principal versus agent considerations).

Staff analysis

Clarity and suitability of the requirements

44. On this matter, no respondents raised fundamental questions about the clarity and suitability of requirements. Instead, respondents raised application matters which require judgement in identifying promises in the contract.
45. Such difficulties are not new—in November 2015, the TRG discussed how an entity should assess whether the nature of a promise is a promised good or service or a fulfilment activity. The TRG observed that in challenging cases it is helpful to consider whether control of that good or service would be transferred to the customer.⁶ The TRG discussion indicated that stakeholders could understand and apply the applicable guidance in a manner consistent with the standard and the discussion did not lead to standard-setting.
46. In January 2019, The Committee issued an agenda decision [Assessment of promised goods or services](#) which discusses identification of promises by a stock exchange that receives a non-refundable upfront fee on initial listing and an ongoing listing fee. A few respondents said the explanations in the agenda decision helped them make judgements on their arrangements and asked for some of the explanations to be included in IFRS 15. However, given that the Agenda Decision is an interpretation of existing requirements, we think this is unnecessary.

⁶ See Topic 2 *Pre-production activities* of TRG Agenda ref 49 [November 2015 Meeting – Summary of Issues Discussed and Next Steps](#).

-
47. The Agenda Decision in paragraph 46 explains the significant guidance in IFRS 15 on identifying a promise to transfer goods or services:
- (a) paragraph 24 of IFRS 15 requires an entity to identify all the promised goods or services in the contract before an entity identifies whether these promised goods or services are distinct.
 - (b) paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.
 - (c) paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.
48. Example 53 Non-refundable upfront fee illustrates how the principles in IFRS 15 should be applied to upfront fees.
49. Given the guidance described in paragraphs 45–48, the staff consider that the requirements provide sufficient guidance on identifying a promise to transfer goods or services.

Benefits to users of financial statements

50. A few respondents suggested that there may be diversity in practice arising from the need to exercise judgement and that this diversity might reduce the usefulness of the information provided to users. However, one standard-setter suggested that common reporting practices have developed for particular types of arrangements. Hence, differences in outcomes may be due to different facts and circumstances.

51. For the reasons discussed in paragraphs 33 and 50, the staff think the feedback does not indicate that the benefits to users are significantly lower than expected.

Costs of applying the requirements and auditing and enforcing their application

52. The staff acknowledge ongoing costs can arise for new and complex contracts. However, these costs would appear to be due to the complexity of the contracts rather than any problem with the principles in the Standard. The staff also observe that practice has developed in this area so any actions that the IASB takes could result in significant disruption as entities assess and implement the new guidance. Overall, the feedback seems to indicate that the costs are not significantly greater than expected. As mentioned in paragraph 38, the staff is of the view that the benefit of additional illustrative examples would not necessarily outweigh the costs of developing and implementing new guidance.
53. For the reasons discussed in paragraph 52, the staff think the feedback does not indicate that the costs are significantly greater than expected.

Staff recommendation and question for the IASB

54. Based on the analysis on paragraphs 44–53, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to identifying a promise to transfer goods or services.

Questions 2 for the IASB

Do IASB members agree with the staff recommendation in paragraph 54 of this paper?

Matters related to convergence with FASB ASC Topic 606*Feedback*

55. A few respondents raised matters that in their view could be clarified if the IASB made the amendments made by the FASB:
- (a) a few respondents (mostly standard-setters) said it can be challenging to determine whether shipping constitutes a separate performance obligation or a fulfilment activity. They expressed a view that separating shipping as a separate performance obligation and allocating revenue to it does not reflect the economic substance of the arrangement or entities' business model because entities provide transportation services to support the sale of goods. These respondents suggested the IASB consider including in IFRS 15 the changes the FASB made to FASB ASC Topic 606. These changes allow an entity to make an accounting policy election to account for shipping and handling activities that occur after the customer obtains control of a good as a fulfilment activity.⁷
 - (b) a few respondents suggested the IASB consider including in IFRS 15 the changes the FASB made to FASB ASC Topic 606 which do not require an entity to assess whether immaterial promised goods or services in the context of the contract are performance obligations.⁸ Respondents suggested this change would reduce costs for preparers.

⁷ The FASB amended FASB ASC Topic 606 to include the accounting policy election as part of [FASB ASU 2016-10](#), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

⁸ The FASB amended FASB ASC Topic 606 to include the practical expedient for immaterial items as part of [FASB ASU 2016-10](#), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

*Staff analysis****Clarity and suitability of the requirements***

56. The matters raised by respondents are not new—they were considered by the TRG. Following the TRG discussions the FASB issued the amendments mentioned by respondents. The IASB did not make similar amendments because:
- (a) permitting an accounting policy choice for shipping and handling activities after control of the goods has been transferred to the customer:
 - (i) would create an exception to the revenue recognition model and potentially reduce comparability between entities; and
 - (ii) would apply to all entities, consequently, it is possible that entities with significant shipping operations would make different policy elections.⁹
 - (b) introducing a clarification for items immaterial in the context of the contract was considered unnecessary given the overall objective of IFRS 15 and the overarching concept of materiality in IFRS Accounting Standards.¹⁰
57. In the staff's view, the IASB's arguments for not making the amendments remain relevant. The feedback does not provide evidence that the IFRS 15 requirements are not working as intended.

Benefits to users of financial statements

58. The staff consider that the arguments in the paragraph 56(a) for shipping and handling activities remain valid and permitting an accounting policy choice could reduce comparability.
59. Introducing the second amendment in the paragraph 56(b) is not likely to affect the usefulness of information for users because in outreach we heard that preparers

⁹ See paragraph B116U of the Basis for Conclusions on IFRS 15.

¹⁰ See paragraphs BC116C–BC116E of the Basis for Conclusions on IFRS 15.

already apply the concept of materiality in making judgements when identifying performance obligations.

60. For the reasons discussed in paragraphs 58–59, the staff think the feedback does not indicate that the benefits to users are significantly lower than expected.

Costs of applying the requirements and auditing and enforcing their application

61. The staff acknowledge that for some entities making judgements on the basis of IFRS 15 requirements might be more costly than it would be on applying the FASB’s amended requirements. Information gathered on the RFI did not provide any new evidence of substantial consequences or pervasiveness of matters raised by the respondents.
62. For the reasons discussed in paragraph 61, the staff think the feedback does not indicate that the costs are significantly greater than expected.

Staff recommendation and question for the IASB

63. Based on the analysis in paragraphs 56–62, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to convergence with ASC Topic 606.

Questions 3 for the IASB

Do IASB members agree with the staff recommendation in paragraph 63 of this paper?

Question 4 for the IASB

As explained in paragraph 16, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	A few respondents said that it is challenging to determine whether a series of distinct goods or services are substantially the same or have the same pattern of transfer and suggest providing guidance based on the TRG discussion.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread.
2	<p>A few standard setters asked for guidance on the application of materiality:</p> <ul style="list-style-type: none"> • A few standard-setters from Latin America said the costs of applying IFRS 15 in the telecommunications sector are significant for contracts which include multiple performance obligations. They asked for guidance on applying materiality. • One standard-setter said that the effort to bifurcate properties sold with furnishing may not be cost-efficient. They said that entities exercise materiality judgements in practice. 	As noted in paragraph 56(b), the IASB decided not to include specific guidance on materiality in IFRS 15 and the staff discussed the matter in paragraphs 56–63. The staff suggest no action because the feedback does not suggest that the matter is widespread.
3	One standard-setter said that determining whether a promised good or service is a distinct “stand-ready” obligation is challenging and suggested providing additional guidance.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread.
4	One preparer commented that the example of a stand-ready obligation in paragraph	The staff suggest no action. Paragraph 26(e) of IFRS 15 provides examples of

	26(e) (unspecified updates to the software provided on a when-and-if-available basis) is, in their view, not a performance obligation. They said that if the customer cannot have a reasonable expectation that the company will perform a software update in a certain period, they do not see the characteristic of obligation.	promised goods or services, not performance obligations. An entity would then need to assess whether the promised goods or services are distinct.
5	One accounting firm suggested providing illustrative examples and/or educational material on (1) whether an entity considers economic compulsion in determining performance obligations and (2) which delivery of goods and services is contemplated beyond the enforceable period to illustrate how an entity considers the interaction with a contract duration, which can restrict what is included in the contract.	The staff suggest no action because the feedback does not suggest the matters are widespread. We note that the TRG considered related questions in November 2015 and indicated that stakeholders could understand and apply the applicable guidance in a manner consistent with the standard. ¹¹
6	One standard-setter said that identifying performance obligations in contracts with return rights can be complex and suggested providing additional guidance or examples.	Accounting would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matter is widespread.
7	One preparer said that assessing whether a warranty constitutes a performance obligation is difficult, particularly in assessing the length of the warranty coverage period, and suggested clarification.	An entity's judgement would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matter is widespread.
8	One accounting body suggested the guidance on sustainability matters, for	Accounting would depend on the facts and circumstances. The staff suggests

¹¹ See TRG Agenda ref 49 [November 2015 Meeting – Summary of Issues Discussed and Next Steps Topic 1: customer options for additional goods and services](#)

	example whether the provision of certificates that offset carbon emissions represents a separate performance obligation.	no action because the feedback does not suggest the matter is widespread.
9	One standard-setter said identifying performance obligations in contracts that are not properly documented is challenging and suggested providing guidance.	Accounting would depend on the facts and circumstances. The staff suggests no action because the feedback does not suggest the matter is widespread. Paragraph 24 and Illustrative Example 12 accompanying IFRS 15 address implicit promises in a contract.
10	A few respondents reported challenges in rate-regulated companies and grant-like arrangements in the public sector. Guidance on identifying performance obligations for rate-regulated companies was suggested.	Accounting would depend on the facts and circumstances. Provision of industry-specific guidance would not align with the IASB's intention to have principle-based standard. The staff suggest no action because the feedback does not suggest the matter is widespread. .

Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes¹²

Discussion materials

Area A: Licensing

25. Stakeholders told the staff that it can be difficult to determine whether a license is distinct from other services in a contract in accordance with the guidance in paragraph 606-10-25-21 (for example, an on-premises software license and access to cloud-based services) because that guidance is complex and requires significant judgment. Furthermore, when more than one performance obligation is identified for a license and related services, stakeholders noted that there are complexities when determining and allocating the transaction price across multiple performance obligations (especially when the transaction involves a sales-based or usage-based royalty).

26. For a license that grants a right to use IP, Topic 606 requires revenue recognition at the point in time when the customer controls the license (in accordance with paragraph 606-10-25-30) and can use and benefit from the license (in accordance with paragraph 606-10-55-58C). Therefore, the revenue for that license is recognized “up front” when the customer controls and can use and benefit from the license, instead of over time as the customer uses the license. When a contract includes a right to use license and other services, Topic 606 requires that an entity assess whether the license and the services are distinct (both individually and in the context of the contract). Therefore, for contracts containing a license and other services, an entity must assess (a) whether the entity performs a significant integration service for the license and services in the contract, (b) whether the license significantly modifies or customizes the services, or vice versa, and (c) whether the license and services are highly interdependent and highly interrelated.

27. The previous revenue guidance on licenses of IP was limited and industry specific, which resulted in accounting diversity. Because of this previous diversity in revenue recognition for licenses, the addition of the implementation guidance in Topic 606 changed practice for many entities. However, the Board observed that the diversity and inconsistencies that previously existed meant that some changes in practice would have occurred regardless of how the Board decided to apply the revenue recognition model to licenses.

29. The staff performed research on the implementation challenges of determining the number of performance obligations in transactions that include on-premises software licenses and related cloud-based services (“hybrid solutions”). In general, the staff thinks that the primary judgment involved in those transactions is determining the level of interdependence and interrelationship between the software license and the cloud service promised in the contract.¹³ The focus of this evaluation is on

¹² See November 2023 Public Roundtable [Discussion Materials](#) and [Meeting Minutes](#).

¹³ Paragraph 606-10-25-21(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. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfill its promise by transferring each of the goods or services independently.

the functionality that is delivered through the combination of the cloud service and software license. To conclude that there is a single performance obligation, an entity needs to establish that transferring the combined software license and cloud service provides more utility than transferring the software license and the cloud service separately. This evaluation is a two-way dependency and is not limited to just one item transforming the other (that is, one-way dependency). A complete understanding of the transaction, including intended utility and marketing or sales offerings, is needed to reach a reasonable conclusion about the accounting for those arrangements.

30. On the basis of the staff's research, the staff formed several preliminary observations on the underlying causes for the challenges related to these hybrid solutions:

- (a) Topic 606, specifically the guidance on the determination of distinct performance obligations, results in a significant change to the revenue recognition pattern for the software industry.
- (b) The technology industry is continuously evolving, which gives rise to complex arrangements that can increase the level of judgment required in applying the guidance (for example, determining at what point the combined utility of an on-premises license and cloud services provides significantly greater utility to an end customer can be challenging)
- (c) The staff thinks that the guidance in paragraph 606-10-25-21 provides an appropriate accounting principle and yet the nature of hybrid cloud transactions requires judgment, which may lead to diversity. Topic 606 implementation guidance has only one directly applicable example, Example 10 Case C, which most entities reference in reaching their conclusions. However, this example is based on regular software updates and does not discuss interactions between an on-premises license and additional services provided in the cloud.

Area B: Identification of Performance Obligations

31. Stakeholders noted that the guidance on identifying performance obligations in paragraphs 606-10-25-14 through 25-22 is a challenging area when applying Topic 606. Specifically, stakeholders observed that it is difficult to assess the nature of a promise and whether or not goods or services are distinct.

32. Topic 606 distinguishes between obligations to provide goods or services to a customer and other obligations by defining those obligations to provide goods or services to a customer as performance obligations. The notion of a performance obligation is similar to the notion of deliverables, components, or elements of a contract in the previous revenue guidance. Although the notion of a performance obligation is implicit in the previous revenue guidance, the term performance obligation was not previously used or defined.

33. During development of Topic 606 and in the basis for conclusions in Update 2014-09, the Board observed that the guidance on identifying performance obligations may not result in significant changes for many entities. This is because many entities have developed practices to separate contracts with customers in a manner that is similar to the guidance in Topic 606. However, the Board

observed that because there was a specific requirement in the previous guidance, there would be a change in the accounting for incidental obligations and marketing incentives.

34. The staff discussed this area with the Board at its July 28, 2021 meeting and suggested that no further research be performed on it because the challenges in this area primarily result from the reliance on management judgments and differing views among stakeholders regarding the nature of a promise in a contract. The staff thinks that the improvements made by Update 2016-10 provide helpful clarification on this topic, including improvements related to determining whether a promise is distinct because it is separately identifiable from other promises in the contract.

Minutes

Licensing

Many participants highlighted the challenges of implementing the guidance for term licenses and related services (for example, cloud-based services), particularly the determination of whether the license and services are distinct. Several participants observed that determining whether a license and related services are highly interdependent or highly interrelated can be challenging, especially in the technology industry where a detailed understanding of a software's design and engineering may be needed. A few participants questioned whether the costs of implementing the licensing guidance were reasonable or justifiable. Several investor participants expressed support for additional disclosures that disaggregate the amount of revenue recognized at a point in time and over time during the period. Those participants explained that the disaggregated information would allow them to better compare revenues across entities and better project future revenue amounts. Several other participants discussed implementation challenges related to the modification of licensing arrangements and the resulting accounting diversity in practice. Although the licensing guidance was noted to be challenging and require significant judgment, participants generally agreed that no significant changes to Topic 606 are needed in this area.

Identification of Performance Obligations

This area was noted by practitioner participants as one of the most consulted topics at accounting firms' national offices. Participants noted that identifying performance obligations is inherently difficult, especially when determining whether a promise is distinct or separately identifiable. Those participants further discussed that it is more challenging to determine whether goods or services are distinct in the technology industry, specifically when on-premise licenses and SaaS services are bundled or when smart devices containing an underlying cloud-based services are bundled. Some participants also noted that practice holds different views on the appropriate perspective to be considered when determining whether goods or services are distinct (that is, whether the determination should be made from the perspective of the company or the customer).