Comment Letters
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

La Défense, 27 October 2015

Exposure Draft ED/2015/6: Clarifications to IFRS 15

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft (hereafter ED) Clarifications to IFRS 15, issued on 30 July 2015.

Mazars agrees with most of the proposals made in this ED. However, we have significant concerns as regards Case B added to Example 10 on the identification of performance obligations. As mentioned in the attached appendix, we believe this example to be inconsistent with the principles incorporated in IFRS 15 and we see no rationale to support such an exception.

Mazars also notes that while IFRS 15 and Topic 606 were fully converged on the date of their initial publication in May 2014, both standards will no longer be converged if both the IASB and the FASB finalise their proposed amendments with their current wordings. Accordingly, Mazars’ position is that the IASB should explicitly and officially recognize this change and should precisely list the divergences.

In addition, we believe that the IASB should start solving implementation issues under its normal due process involving the IFRS Interpretations Committee rather than extending the existence of the TRG. Reading how the FASB has drafted its amendments to Topic 606 let us believe there is a risk that the issues addressed by the TRG are discussed with a rule-based focus, and we would prefer the principle-based approach the IFRS IC is used to.

Once the TRG no longer exists, we encourage the IASB and the FASB to put into place a process for sharing detailed views on how to deal with emerging implementation issues of IFRS 15 / Topic 606, in order to maintain convergence as much as possible.
Our answers to the specific questions raised in this ED are presented in the appendix attached below.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix 1: detailed answers to the questions raised in the ED on Clarifications to IFRS 15

Question 1 – Identifying performance obligations

Do you agree with the proposed amendments to the Illustrative Examples accompanying IFRS 15 relating to identifying performance obligations? Why or why not? If not, what alternative clarification, if any, would you propose and why?

General comments:

We broadly agree with the examples added except regarding Example 10 Case B for which we have significant concerns. Despite the welcome clarifications brought to IFRS 15, we believe the implementation of this guidance will still be challenging in assessing whether a good or a service is distinct “in the context of the contract”. In order to further clarify IFRS 15, we would recommend that the IASB incorporate in the standard (not only in the basis for conclusions) some comments made in paragraph BC11 which are, in our opinion, essential to apply one’s judgement properly. The focus on the “transformative relationship” between two or more items in the process of fulfilling the contract seems to be a very important clarification. Further, we think it would be helpful for its constituents if the IASB clarified in the basis for conclusions of the final amendments why it decided not to align to the FASB’s decisions as listed in paragraph BC14 and whether the IASB anticipates divergence in practice regarding the application of the notion of “distinct in the context of the contract” since IFRS 15 and Topic 606 would no longer be identical in this regard.

Comments regarding Example 10 Case B:

In our opinion the proposed analysis under Example 10 Case B is inconsistent with the principle in paragraph 27(b) and with the indicators provided in paragraph 29. Thus the IASB should explain why it proposes to make an exception to the core guidance.

More precisely, we do not understand the rationale leading to the conclusion that the multiple units of a highly complex, specialized device are not distinct (because the criterion in paragraph 27(b) is not met, according to the example) and should thus be accounted for as a single performance obligation.

Very often (and as described in the fact pattern of the example) an industrial entity is responsible for procuring materials, selecting and managing subcontractors, performing manufacturing, testing the devices, etc. In our opinion, it is not because cross activities are conducted by the entity in order to deliver the multiple units of a device, albeit highly complex and specialized, that this means each device and the related “services” is an “input” in the sense of paragraph 29. We believe this example would therefore lead any entity manufacturing a series of identical goods for one customer to conclude that these goods are not distinct and should thus be accounted for as a single performance obligation.
In addition, we do not see any integration services between the goods provided in the contract. We consider integration services do certainly exist when producing one device but we do not see any integration services between the first and the second device nor between the following identical devices to be produced according to the contract. Indeed, we believe each device could be used separately by the customer, which demonstrates that these devices are not integrated with each other.

The example should thus better specify the critical facts and circumstances that lead to the conclusion that the multiple units of the same device are not distinct, if such a conclusion is relevant under some specific situations.

Besides, this example ignores the series guidance by not indicating whether transfer of control over each device happens over time or at a point in time. We believe this precision is important because:

- If control over each device is transferred over time, the series guidance thus applies and even though each device is distinct, the multiple units would presumably be one single performance obligation. In such case, the proposed guidance is useless, since the series guidance leads to the same accounting conclusion;
- If control over each device is transferred at a point in time and if the conclusion reached in the ED is subsequently confirmed, this would imply that no revenue shall be recognized until the last device is delivered to the customer. We doubt this is the outcome the IASB wanted to achieve with such example.

Finally, we note that should the customer subsequently buy more units of the device, the entity would need to make a cumulative catch-up adjustment for the revenue recognized for the units already delivered. We disagree with the relevance of such outcome.

**Comments regarding other illustrative examples:**

Regarding the other examples, we would recommend to split Example 11 into several examples because as of Case C (which is an addition proposed by the ED), the fact pattern differs from Cases A and B. Such split would add clarity.

In practice, Cases C and D refer both to installation services and should be presented together under a new heading. Besides, we would recommend that the IASB clarifies that under certain circumstances, installation services may not be a separate performance obligation and thus that judgement needs to be applied. This would be the case when an entity provides installation services that are too complex and specific to be provided by another supplier, and the item of equipment cannot be functional without these installation services. In our opinion, under such facts and circumstances, the installation services would not be distinct from the equipment to which they relate, because criterion 27(a) would not be met. We thus regret that the additional examples provided by the IASB as regards installation services suggest that installation services are always a separate performance obligation. Example 11 Case E which relates to consumables should be presented separately under another heading.
Question 2 – Principal versus agent considerations

Do you agree with the proposed amendments to IFRS 15 regarding principal versus agent considerations? In particular, do you agree that the proposed amendments to each of the indicators in paragraph B37 are helpful and do not raise new implementation questions? Why or why not? If not, what alternative clarification, if any, would you propose and why?

We agree with the proposed clarifications to the guidance regarding principal versus agent considerations which we view as helpful in order to determine which role an entity is playing. In particular the clarification that the analysis should be made at the level of each performance obligation is essential. Besides, the addition of paragraph B35A is very useful, especially regarding B35A(c) as it will clarify many situations where companies join together to fulfill a contract with a customer and where one of them has responsibility for providing the customer with the goods or service promised in the contract.

As regards indicators in paragraph B37, we broadly agree with the proposed amendments even though indicator B37(c) is not clear in our opinion. The discussion regarding the remuneration obtained by the entity acting as an agent should be dealt with outside this paragraph. Finally, even though we agree that the assessment of control is the key principle and that the indicators help in making such an assessment, it could be relevant to add, in paragraph B37A, that when an entity has all the major risks and rewards related to an asset, that entity probably has control of that asset before it is transferred to the customer.

Question 3 – Licensing

Do you agree with the proposed amendments to IFRS 15 regarding licensing? Why or why not? If not, what alternative clarification, if any, would you propose and why?

We agree with the proposed amendments to IFRS 15 regarding licensing. They provide useful clarifications in order to distinguish between a right to access an entity’s IP and the right to use an entity’s IP. We would like however to indicate that in our opinion paragraph BC63 lacks clarity even when read in conjunction with previous debates at the TRG level and the proposed clarifications in paragraph B59A (a) and (b). Thus we recommend that this paragraph be either removed or re-written.

In addition, we support the IASB’s decision not to propose a rule-based approach like the one being proposed by the FASB. We regret that such a complex topic that took many months to be dealt with prior to the initial publication of a new revenue recognition standard gave rise to that many amendments from the FASB with the risk of unintended consequences and obvious “de-convergence”. In this regard, we welcome paragraph BC70 of the ED which points out possible areas of differences between both standards (for instance, in the case of “dead brands” which would probably be classified as right to access an entity’s IP under US GAAP whether they would probably be classified as right to use an entity’s IP under IFRS).
Question 4 - Practical expedients on transition

Do you agree with the proposed amendments to the transition requirements of IFRS 15? Why or why not? If not, what alternative, if any, would you propose and why?

We broadly agree with the proposed amendments to the transition requirements of IFRS 15.

Regarding the new practical expedient proposed for completed contracts, Mazars nonetheless notes that the IASB decided in September 2015 not to align the definition of a completed contract with the proposed modification made by the FASB. This will result in another divergence between IFRS 15 and Topic 606 if the FASB decision is confirmed after due process. Considering the recent discussions on this topic also at the TRG level, Mazars encourages the IASB to clarify the transition guidance and to explain how a completed contract should be accounted for after the date of initial application of IFRS 15 when revenue under such contract had not been recognized in full.

Regarding the new practical expedient proposed for contracts that were modified either before the earliest period presented (if the full retrospective approach is applied) or before the date of initial application (if the alternative retrospective approach is applied), we recommend that the IASB further clarifies how to allocate the transaction price to the performance obligations in the contract. Said differently, when should the relative stand-alone selling prices be determined? At inception as if the modified contract existed from the beginning, or at each date on which a new performance obligation has been identified within the contract?

Question 5 — Other topics

Do you agree that amendments to IFRS 15 are not required on those topics? Why or why not? If not, what amendment would you propose and why? If you would propose to amend IFRS 15, please provide information to explain why the requirements of IFRS 15 are not clear.

We agree with the IASB that no other amendment to IFRS 15 is required at this stage, especially considering the other topics being dealt with by the FASB. We support the IASB’s strategy to limit the proposed clarifications to only those that are truly necessary in order not to interfere with the work that is already being conducted by many groups regarding the transition to IFRS 15 and to avoid unintended consequences.