

International Accounting Standards
Board
30 Cannon Street
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Revenue from Contracts with Customers (ED/2010/6)

Far, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the Exposure Draft (ED) *Revenue from Contracts with Customers (ED/2010/6)*. Far appreciates the joint project initiated by the IASB and the FASB to clarify the principles for recognising revenue and to develop a common revenue standard for IFRS and US GAAP that would:

- a) remove inconsistencies and weaknesses in existing revenue recognition standards and practices;
- b) provide a more robust framework for addressing revenue recognition issues;
- c) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and
- d) simplify the preparation of financial statements by reducing the number of requirements to which entities must refer.

Far is concerned that the ED does not meet these objectives. For reasons described below and for similar reasons as expressed in Far's comment letter to the Discussion Paper regarding Revenue, Far is not convinced that the control approach suggested in the ED is the most appropriate model for recognising revenue, especially with regards to service- and long-term contracts. Therefore, Far would recommend the IASB to once again reconsider keeping the risk and reward models set out in IAS 11 and IAS 18 and instead provide further guidance on, for instance, multiple-element sales. By doing so Far believes many of the issues that the IASB is trying to solve in the ED would also be sufficiently dealt with.

However, having expressed an overall view above Far has answered the questions raised in the ED and provided feedback explaining our main concerns in the ED as it stands.

Far's main conclusions and concerns raised are summarised below:

- a) It seems to Far as if the control approach introduced in the ED is written with a sale of goods in mind. When determining whether control has been transferred or not with respect to a sale of goods, Far believes that the accounting outcome in that perspective would normally make sense and justify the timing of when an entity should recognise revenue. However, Far is very concerned about the outcome and

the practical implications when it comes to assessing whether or not control has been transferred in a service- and/or long-term contract. In many cases, Far thinks that the proposed control approach will delay recognition of revenues earned from service- and long-term contracts without adding more useful information for users of financial statements.

- b) Far strongly disagrees that an entity, in all cases, should recognise a liability and a corresponding expense if a performance obligation is onerous. Far believes that the test of whether a liability should be recognised or not should be made at contract level, i.e. not for each performance obligation.
- c) Far generally supports the rationale behind and guidance for combining and segmentation of contracts. However, Far believes that the paragraphs (13-15) in the ED as well as the illustrative examples in appendix B, explaining when contracts should or should not be combined, need to be further enhanced. Far finds it hard to understand how to interpret the role of the price discount comparing paragraph 14 and 15 with each other. Also, it is not clear to Far why the indicators in paragraph 13 are considered as indicators and the requirements set out in paragraph 15 are considered as conditions rather than indicators.
- d) Far also generally supports the rationale behind and guidance on identifying separate and distinct performance obligations. It is however Far's view that the reference to other companies in paragraph 23 (a) is not relevant when determining whether a performance obligation is distinct or not. It is Far's view that it is only the business model of the entity that should be considered under this assessment and therefore Far recommends the IASB to delete this reference in the final standard.
- e) For similar reasons to those expressed in the comment letter to IAS 37, Far does not agree that an expected value approach provides useful information when it comes to recognising revenue in a single transaction. Far suggests that in these situations a single best estimate approach also could be considered as an acceptable alternative.
- f) Far believes the guidance provided on contract costs needs to be further developed and clarified. For instance, it is not clear how paragraph 58 (e) interacts with paragraph 59 (a) and it is also Far's view that under certain conditions incremental costs for obtaining a contract may very well meet the definition of an asset. Consequently, Far does not find the guidance on contract costs to be sufficiently explained and if kept unchanged may result in differing application among preparers for similar transactions.
- g) Far disagrees with the proposed requirement that an entity should distinguish between certain types of product warranties. Far fully understands that the revision compared to the DP is explained by criticism from constituents, but Far thinks that the current proposal would require too much judgment from management and thus there is a clear risk that the requirements will not be applied consistently among preparers. Therefore, Far believes that it would be better to treat all product warranties by a vendor as performance obligations (similar to what was suggested in the DP).

- h) Although Far agrees with the proposed overall disclosure objectives, Far believes that the disclosure requirements will be very burdensome for preparers and questions whether all the new proposed disclosure requirements actually are requested by users of financial statements. Consequently, Far urges the IASB to reconsider and challenge whether all of the proposed requirements really need to be included in a final standard.

Far

A handwritten signature in black ink that reads "Göran Arnell".

Göran Arnell
Chairman Far's Accounting Policy Group

Appendix 1 – Questions to respondents

Recognition of revenue (paragraphs 8-33)

Question 1

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- a) To combine two or more contracts and account for them as a single contract;*
- b) To segment a single contract and account for it as two or more contracts; and*
- c) To account for a contract modification as a separate contract or as part of the original contract.*

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Far believes that the principle stated in the ED provides relevant guidance in describing the overall principle on price interdependence. However, Far believes that it is unclear how to interpret the ED regarding price interdependence when a customer receives a price discount. The ED states in paragraph 14 that the price of a contract is not interdependent with a price of another contract solely because the customer is offered a discount. In paragraph 15 a condition for price independence is that the customer does not receive a significant discount when buying goods together with other goods or services in the contract. It is not clear to Far how these two paragraphs interact with each other and it is therefore Far's opinion that this needs to be further clarified in a final standard.

Far argues that the assessment of interdependence between two contracts should include price as one indicator similar to the other indicators set out in paragraph 13 a-c. In that case, any price discount should also be considered an indicator.

Far agrees with the principle of treating contract modifications in a manner as described in paragraphs 17 to 19. However, Far believes that Example 2 in the application guidance creates some confusion in this context. Far believes that the rationale in the example is not clearly explained and does not understand how the IASB arrives at the conclusion expressed in the example and especially in scenario 2 (i.e. that the services have interdependent prices).

Finally, it is not clear to Far why the indicators in paragraph 13 are considered as *indicators* and the requirements set out in paragraph 15 is considered as *conditions* rather than indicators. Far would recommend the IASB to provide some insight explaining the difference in wording.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

In general Far agrees with the principle set out in paragraph 23. Far also believes it to be a correct starting point when determining whether a separate performance obligation is distinct with one exemption. Far does not believe the reference to other companies in paragraph 23 (a) to be of any relevance when identifying distinct separate performance obligations. It is Far's view that the business model of the entity should be considered under this assessment and therefore Far recommends the IASB to delete this reference in the final standard. On this

topic, Far is also somewhat concerned that the focus on *distinct* performance obligations could sometimes result in outcomes that may be difficult to understand from a user and perhaps business perspective and could thus increase the risk of not providing useful information for the users of financial statements. Take the case of an entity that always provides bundle offers to customers containing two potential performance obligations. Under the business model applied by the entity, they do not consider any separate performance obligations in the contract. If another entity elsewhere is selling similar goods or services separately for one or both of the performance obligations, then the entity should account for the two obligations separately, even though it may be argued that the economic substance of the transaction is that it should be seen as one transaction. Far does not see the rationale of accounting for these two performance obligations separately in such cases. Therefore, Far recommends the IASB to further develop the guidance to include a requirement of the underlying economic substance of the contract as well.

Far also believes that the final standard would benefit from a clarification that an entity should only account for performance obligation separately if the outcome provides materially different answers whether they are separate or not. If not, Far is concerned that too many performance obligations may be identified under the proposed wording in the ED.

Question 3

Do you think that the proposed guidance in paragraphs 25-30 and related application guidance is sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

Far believes that paragraphs 25-30 generally provide useful guidance for determining control when it comes to sale of goods. Paragraph 30 provides useful indicators in this respect. However Far questions whether paragraph 30 (d) is relevant when determining whether control has been transferred or not. Far does not believe that a customer specific design or function necessarily is an indicator of whether control has been transferred or not, i.e. in what way can the buyer exercise control over goods or services due to the fact that the goods or services are custom made. Even if the customer could specify explicitly the design it does not mean that the customer has the ability to direct the use of and receive the benefit from the goods.

Far believes that it could be very difficult in practice to apply the control criteria in paragraphs 25-30 and the related application guidance when it comes to accounting for service contracts. It is Far's view that the current guidance does not provide adequate guidance to determine when customers receive control over a continuous transfer of services. This may be the case for various types of service contracts, e.g. transports, due diligence, architects and other professional services including audit services.

Further, the examples provided in Appendix B Application guidance are too simplified in order to provide sufficient guidance. To illustrate our point, in example 16 it is clear that revenue should be recognised when sharing the findings each month as explicitly addressed under the contract terms. However, the example raises some additional questions that Far believes needs to be addressed in a final standard. For instance, at what time should the entity recognise revenue if the findings are shared a couple of days into the coming month, i.e. has control been transferred at the end of the month or should revenue be recognised in the month when the findings are shared? Example 19 is another example raising additional confusion on how to determine when control has been transferred in a service contract rather

than clarifying the principle. On page 73 in the ED it is explained (together with other facts off course) that: “Because those services are provided evenly over the six months, the consultant would recognise...”.

Even after considering the other facts in this example, Far does not understand the rationale justifying recognising revenue evenly over the contract period just because the services are provided evenly. In Far’s view, this would not be an indicator that control has been transferred with respect to delivered services. Perhaps, Far is placing too much emphasis on the words rather than understanding the whole facts and circumstances in this particular case, but, still, Far believes it is unclear.

Measurement of revenue (paragraphs 34-53)

Question 4

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

Far agrees that an entity should recognise revenue from satisfying a performance obligation if the transaction price can be reasonably estimated.

Far also finds the suggestion to use an expected value approach to estimate the transaction price reasonable and workable when it comes to large homogeneous populations. However, for similar reasons as expressed in our comment letter to ED IAS 37, Far does not support the use of an expected value approach when it comes to recognising revenue on a single item in a single transaction. Far does not believe that an expected value for a single item provides useful and meaningful information about revenues earned. Therefore, Far would recommend the IASB to adjust the approach slightly and only require that it should be applied on large populations. Accordingly, Far would recommend the IASB to also allow a “single best estimate” approach for recognising revenue on single items.

Under the assumption that the IASB decide to include the proposed approach (i.e. a weighted average approach for all cases) in a final standard, Far would find it appropriate to include some guidance on when a transaction price can be “reasonably estimated”. Far finds paragraph 38 to be somewhat vague and believe that a final standard would benefit from some further clarification.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

Far agrees that the transaction price should reflect the customer’s credit risk. In order to avoid any doubt, Far recommends the IASB to include a reference to materiality and thus exclude

the requirement to reflect the customer's credit risk if it is not material when recognising revenue.

Question 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

Far agrees that an entity should adjust the amount of the promised consideration to reflect the time value of money. However, even if Far supports that an entity should reflect the time value of money Far has identified some areas where it may be very difficult, burdensome and thus costly to implement these paragraphs. For instance it may be difficult to adjust for the time value of money if control is transferred continuously in a customer contract. Another problem is contracts including several different performance obligations in different currencies.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate and how should the transaction price be allocated in such cases?

Far supports the overall principle to allocate the transaction price to each performance obligation.

An area where Far believes that the use of stand-alone prices may result in an inappropriate accounting outcome is a contract including two separate performance obligations of which one obligation has a high margin and the other a low margin and where the offer to the customer also includes a significant discount on the high margin part. By applying the stand-alone selling approach, as Far understands it, the discount should be proportionately spread between the two performance obligations. In a non unrealistic scenario this could result in the low margin performance obligation showing a loss that under paragraphs 54-56 of the ED should be expensed immediately. Far does not believe this would result in useful information for users and thus argues that the IASB make a separate exemption from applying the stand-alone selling price in such situations. For further discussion about onerous contracts, please refer to question 9.

Another problem with allocating the transaction price to all separate performance obligations in proportion to the stand-alone selling prices is that goods and services will end up with different prices depending on other performance obligations in the contract. This could imply serious system problems if a high volume product should be sold at different prices in different transactions. This could, for instance, be a problem within the telecom industry.

Far is also concerned about the practical implications from the conclusion to not allow the residual method when allocating the transaction price to separate performance obligations. This is especially important for certain industries and is for instance a common approach applied when allocating transaction prices in a customer loyalty programme. It could potentially also result in differences between the revenue recognised under the current IAS 18 and the ED where it makes little or no sense that there should be a difference (as in the loyalty programme above). Although Far understands that it may be difficult to allow the

residual method as is argued under the current wording in the standard in BC, Far would recommend the IASB to reconsider the firm view to not allow the residual method. On that subject, Far believes that a final standard would benefit if the view expressed in BC125 would be included in the standard directly rather than in the BC.

Contract costs (paragraphs 57-63)

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet the specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

Far does not think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient.

It is not clear to Far how paragraph 58 (e) is compatible with paragraph 59 (a). A more precise explanation of the underlying principle, regarding cost recognition and control of an asset that will be transferred to a customer, is needed in this context. Some of the costs in 59 (a) seem to meet the asset definition and recognition criteria in IAS 38. Therefore Far is of the opinion that IAS 38 should not be amended as a result of the new revenue standard. Further, Far believes that under certain conditions incremental costs for obtaining a contract may very well be recognised as an asset (similar to the existing guidance under IAS 11 and the proposed requirements for insurance contracts).

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would include or exclude and why?

Costs:

The suggested guidance in the standard is now vague and allows for wide interpretation. Far believes that further guidance is needed to understand and properly apply the proposed principles for asset recognition. With the current guidance it is quite possible that preparers will adopt the principles in practice in a variety of ways. For instance and as expressed above as well, Far questions the applicability of paragraph 58 (d).

Furthermore it can be questioned whether the example in appendix B (90), that should allow the preparer to view how the principles work in practice, really discusses the capitalisation of direct costs in accordance with paragraph 57 (a). It seems that several of the costs in the example are indirect and there is no guidance in the example as to how the principle in paragraph 57 (a) would be applied to distinguish direct from indirect costs, i.e. when application of paragraphs 58 and 59 is needed.

Onerous performance obligations:

Far disagrees with the idea that the onerous test should be made on a performance obligation level. Rather, Far thinks that the test should be made on a contract level (i.e. for the contract as a whole) and thus an onerous contract obligation should only be recognised as a liability if the whole contract or the undelivered performance obligations all together are loss making.

Far understands that the IASB already considered the above concern when developing the ED arguing among other things that this is consistent with the objective to recognise an appropriate margin for each performance obligation of a contract. Far does not share this view, as the outcome would not be realistic from a business perspective. An entity would not enter into a loss making contract with the exemption of very rare and unusual circumstances. Therefore, Far does not believe it makes sense to recognise a liability for one part of a profitable contract.

Disclosure**Question 10**

The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contract with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Overall, Far agrees with the proposed disclosure objectives. However, Far is not convinced that this principle-based approach has been consistently followed in the proposed disclosure requirements. For instance, there are significantly more disclosures than currently required which has a cost implication and it may also be questionable whether it actually provides more decision useful information for users of financial statements. Further outreach may be required, especially amongst preparers to evaluate the impact for them. Practical challenges are expected for more complex businesses. The proposed disclosure requirements will be very onerous and difficult to provide, for instance paragraph 75.

Far suggests that the focus should be on a disclosure framework that is effective and efficient, rather than just an increase in the level of details to be disclosed. The Boards need to clarify the level of granularity required and level of aggregation allowed in order to achieve a meaningful disclosure (e.g., defining certain types of contracts overall, per business line, reportable segment or others).

Question 11

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

See the response to question 10 above. Far urges the IASB to reconsider this requirement in the context of practical application.

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

Far agrees, subject to the reservations we have outlined in our response to question 10. However, the definition of categories is unclear (level of granularity), in particular, the interplay with IFRS 8 and information that is reported to the CODM. This may require more information than is currently provided in IFRS 8 – it is Far’s opinion that it should reconcile to the segment disclosures to maximise the benefit to users. Far suggests that any amendment to IFRS 8 is considered as part of the post implementation review.

Effective date and transition

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (that is, as if the entity applied the proposed requirements to all contracts in existence at the effective date and in the comparative period)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost to preparers? If so, please explain the alternative and why you think it is better.

Far agrees overall that the application of the proposed requirements should be done retrospectively. However Far also believes that it could be very difficult and costly to apply the requirements proposed by this ED retrospectively. This is for example the case for long-term contracts where the entity would be required to segregate contracts that were entered into many years ago. Therefore it would be preferable if the IASB would include a broadened practicability exception allowing for more exceptions than what would be the case if IAS 8 were supposed to be applied (i.e. not only in “very rare” circumstances).

Application guidance

Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposal operational? If not, what additional guidance do you suggest?

Far does not think that the proposed application guidance is sufficient to make the proposal operational. Consequently, Far believes that the application guidance needs to be clarified in a way that makes sure that it demonstrates how the principles are meant to be applied. Currently, Far finds that the conclusions in the majority of the examples are the result of a very specific, and in many cases too simplified, fact pattern. It would be preferable to include better explanations on how the facts contribute to the principle, or principles, being applied. Preparers need to be able to better understand how and why a principle applied on facts in an example leads to a specific solution compared to what is currently described in many of the examples in the ED. Facts are given in an example and there is also an accounting solution stated but why and how this solution is reached from the principles in the suggested standard is not always clear.

As put forth above in this letter, Far also believes that the IASB should work to establish clear and robust principles in the standard and not only focus on the examples in Appendix B to address any lack of clarity in the standard. The principles set forth in a standard should be so precise that the amount of application guidance required for the comprehension of the standard is minimal. A lot of accounting guidance in the draft is limited since substantial guidance is in Appendix B. Deriving the underlying principles from examples will not in Far’s



opinion help users to apply the revenue standard consistently and on a comparable basis between preparers.

Guidance that is provided in a standard is helpful to users in making proposed concepts operational. However Far believes that most of the current quantitative examples are too simplistic and do not represent the complexity faced by users and preparers alike. To enhance the use to preparers, the examples should address more complex issues. Example 14 for instance (sale and repurchase of an asset), assumes a repurchase at the same price that the goods were originally sold for. There are in our opinion many cases where the asset is not repurchased at the original transaction price, but instead for a lower amount. No guidance is provided in the standard of how to account for such a scenario.

Far believes that Example 2 in the application guidance creates some confusion regarding the principle of how to treat contract modifications. Far believes the rationale in the example is not clearly explained and does not understand how the IASB arrives at the conclusion expressed in the example and especially in scenario 2 (i.e. that the services have interdependent prices).

Other examples that could be clarified are mentioned above in our letter (examples 16, 19 and 90).

Question 15

The Boards propose that an entity should distinguish between the following types of product warranties:

- a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation, but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.*
- b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.*

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

Far does not agree with the proposed distinction between the types of product warranties.

Far questions if it is beneficial to distinguish between the two types of warranties. It may for example be unpractical or un-operational for an entity to distinguish the components of assets that are expected to be repaired or replaced as “failed sales” and not recognise revenue for those components. It may also be quite challenging to distinguish between a warranty that covers both latent defects and defects that arise through the normal use of the products customers acquire.

Therefore Far believes that it would be simpler and less costly to treat all warranties provided by a vendor as performance obligations (as was the case in the discussion paper). The current proposal would require a lot of judgment from management and it could be questioned to what extent preparers application will be consistent, faithfully represent the underlying economic transaction with a customer, and comparable between different reporting entities.

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

- a) *if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and*
- b) *if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and satisfies that obligation when the customer is able to use and benefit from the licence.*

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

Far does not believe that the pattern of revenue recognition should be dependent on whether or not the license is exclusive or non-exclusive. Such a distinction does not necessarily reflect the economics of the transaction and does not in our opinion properly apply the principles of revenue recognition in accordance with satisfied performance obligations and control.

License exclusivity merely gives rise to what essentially is a “right to use” of an intellectual property. Far does not think that exclusivity captures whether or not a performance obligation remains to be satisfied by the entity after the customer is able to use a license. Far thinks the factor to be considered is whether continuous involvement exists. The licensor may have continuing involvement in its relationship with the “customer” under the terms of the licensing agreement, dependent on deal structure. These factors should be considered instead of the exclusivity. Whether the entity has granted a customer an exclusive or non-exclusive right does not by itself affect the nature of the performance obligation that an entity has in relation to the contract after the customer is able to use and benefit from the license. Where the licensor transfers the right to use the asset to the licensee via a licensing agreement (exclusive or non-exclusive), the licensee is able to use and benefit from the license immediately. Therefore, in circumstances where the licensor has no further performance obligations associated with the relationship with the licensee and the transferred license is separable and has stand-alone value, the revenue receivable for the transfer of the license should be recognised immediately. The proposal in the ED is to defer the revenue receivable over the term of the license. This does not seem to be in line with the overall principles of transferred control of an asset and distinct performance obligations.

Also, Far believes that the accounting of licenses of intellectual property should be consistent with the accounting of leases of tangible assets. Leasing of intangibles is outside the scope of the recently published leasing ED. This might generate confusion since licensing agreements generally transfer “rights of use” in varying forms. Consistent terminology across standards would help users apply them consistently. The ‘right to use’ a license could also in substance be a leasing arrangement and thus the application of the leasing standard to such scenarios may be more appropriate. Preferably, according to Far, rights of use of intellectual property, when in substance a lease, would be scoped in to the new leasing standard.

Consequential amendments

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

Far agrees