GLENIF
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Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

October 28, 2015

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED/2015/6 Clarifications to IFRS 15

Dear Board Members

The "Group of Latin-American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on **ED/2015/6 Clarifications to IFRS 15** (the "ED").

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in August 2015. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG undertook different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

We support the IASB proposals for clarification to IFRS 15 on the ED.

Specific comments

Attached please find our specific responses to the questions presented in the ED. We have also suggested additional clarifications that we believe would be of great help for a sound application of IFRS 15.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

Felipe Pérez Cervantes
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Vice Chairman), Chile, Colombia (Board), Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (Chairman), Panama, Paraguay, Peru (Board), Uruguay (Board), and Venezuela (Board).

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GLASS' comment letter on ED/2015/6 Clarifications to IFRS 15

Question 1—Identifying performance obligations

IFRS 15 requires an entity to assess the goods or services promised in a contract to identify the performance obligations in that contract. An entity is required to identify performance obligations on the basis of promised goods or services that are distinct.

To clarify the application of the concept of 'distinct', the IASB is proposing to amend the Illustrative Examples accompanying IFRS 15. In order to achieve the same objective of clarifying when promised goods or services are distinct, the FASB has proposed to clarify the requirements of the new revenue Standard and add illustrations regarding the identification of performance obligations. The FASB's proposals include amendments relating to promised goods or services that are immaterial in the context of a contract, and an accounting policy election relating to shipping and handling activities that the IASB is not proposing to address. The reasons for the IASB's decisions are explained in paragraphs BC7–BC25.

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?

We agree with the amendments to the illustrations accompanying IFRS 15 regarding the application of the concept of 'distinct.'

The proposed amendments provide additional guidance and help identify the different performance obligations in a single contract. Furthermore, these amendments to the illustrations clarify and incorporate additional elements that support the formulation of the judgment required to apply IFRS 15 when performance obligations are identified.

In addition to our main conclusion presented in the preceding paragraphs, we have the following recommendations and/or additional proposals:

1) Evaluate the possibility of including some considerations regarding IFRS 15 relative to materiality and importance when identifying 'distinct' performance obligations related to transactions that involve a high volume of operations but with low material impact.

2) Emphasize and elaborate on the technical elements of this standard with a focus on determining whether the nature of the company's global promise in a contract [(Paragraph 27 (a)] is to transfer each good and/or service separately, or if the promise to transfer a combined element where the good or service is merely an input is the actual objective of determining whether the promised goods and/or services are separately identifiable.

Question 2—Principal versus agent considerations

When another party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent. To do so, an entity assesses whether it controls the specified goods or services before they are transferred to the customer.

To clarify the application of the control principle, the IASB is proposing to amend paragraphs B34–B38 of IFRS 15, amend Examples 45–48 accompanying IFRS 15 and add Examples 46A and 48A.

The FASB has reached the same decisions as the IASB regarding the application of the control principle when assessing whether an entity is a principal or an agent, and is expected to propose amendments to Topic 606 that are the same as (or similar to) those included in this Exposure Draft in this respect.

The reasons for the Boards' decisions are explained in paragraphs BC26–BC56.

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 amendments to IFRS 15 regarding principal versus agent considerations.

The proposed amendments make the agent vs. principal identification much easier, as they are meant to incorporate some indicators and useful considerations into the standard. Also, new paragraph B35A incorporated into the standard would allow entities define a suitable criterion to identify the nature of the performance obligations when other parties are involved in the transfer of a specific good or service to the customer. Nevertheless, entities must apply judgment to assess whether a gross or net presentation is the most appropriate on each case.

In addition to our main conclusion presented in the preceding paragraphs, we have the following recommendations and/or additional proposals:

1) Evaluate including in this standard elements to define a hierarchy for the indicators provided in paragraphs 37 and 37A regarding the determination of when they are less or more material, as it would assist in applying judgment in such determination.

2) Evaluate the possibility of issuing a clarification to the standard with respect to the "responsibility for the acceptability of the specified good or service," as this concept might be confusing for application of the standard, since entities are expected to meet the conditions and characteristics agreed with the customer for the specified goods and/or services, and determining whether the possibility of the customer accepting or rejecting such goods and/or services entails a risk to the entity acting as a principal.

Question 3—Licensing

When an entity grants a license to a customer that is distinct from other promised goods or services, IFRS 15 requires the entity to determine whether the license transfers to a customer either at a point in time (providing the right to use the entity's intellectual property) or over time (providing the right to access the entity's intellectual property). That determination largely depends on whether the contract requires, or the customer reasonably expects, the entity to undertake activities that significantly affect the intellectual property to which the customer has rights. IFRS 15 also includes requirements relating to sales-based or usage-based royalties promised in exchange for a license (the royalties constraint).

To clarify when an entity's activities significantly affect the intellectual property to which the customer has rights, the IASB is proposing to add paragraph B59A and delete paragraph B57 of IFRS 15, and amend Examples 54 and 56–61 accompanying IFRS 15. The IASB is also proposing to add paragraphs B63A and B63B to clarify the application of the royalties constraint. The reasons for the IASB's decisions are explained in paragraphs BC57–BC86.

The FASB has proposed more extensive amendments to the licensing guidance and the accompanying Illustrations, including proposing an alternative approach for determining the nature of an entity's promise in granting a license.

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 licenses.

The proposed amendments provide greater clarity for the application of the concept of license transfer to a customer and for its recognition at a point in time or over time. In addition, the proposed amendments:

1) Clarify when an entity's activities significantly affect the intellectual property to which the customer has rights; and

2) Provide useful guidance for enhanced application of IFRS 15 aimed at achieving greater consistency, clarifying the scope and applicability of the standard regarding those licenses that grant customers use or access rights.

In addition to our main conclusion presented in the preceding paragraphs, we suggest providing additional guidance that contains more clarifying and explanatory elements, so as to determine whether a license implies a use or access right and its recognition, and the nature of a promise in which less judgment is involved.

Question 4—Practical expedients on transition
The IASB is proposing the following two additional practical expedients on transition to IFRS 15: (a) to permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price. (b) to permit an entity electing to use the full retrospective method not to apply IFRS 15 retrospectively to completed contracts (as defined in paragraph C2) at the beginning of the earliest period presented. The reasons for the IASB's decisions are explained in paragraphs BC109–BC115. The FASB is also expected to propose a practical expedient on transition for modified contracts. 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?

The Group agrees with the proposed practical expedients.

These practical expedients help mitigate the impact from the implementation of the standard in the comparative period, with a focus on finding the right cost-benefit balance for the initial adoption of the standard.

For the transition period, we suggest reducing to the extent possible any differences between the practical expedients for the transition suggested by the IASB and the FASB, so as to achieve greater comparability in the financial information for the initial adoption period and avoid different interpretations.

Question 5—Other topics
The FASB is expected to propose amendments to the new revenue Standard with respect to collectability, measuring non-cash consideration and the presentation of sales taxes. The IASB decided not to propose amendments to IFRS 15 with respect to those topics. The reasons for the IASB's decisions are explained in paragraphs BC87–BC108.

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.

Most of the surveyed countries have stated that they agree that additional amendments to the standards are not required at this time.

In addition to our main conclusion presented in the preceding paragraphs, some countries believe that including additional factors and criteria to enable or define the collectability assessment at the transaction date would be helpful.

Finally, as a general recommendation, we believe it would be convenient that for the transition period, the IASB and FASB issue clarifications to IFRS 15 to ensure a smooth transition and avoid different interpretations.

***** End *****