



Our Ref.: C/FRSC

**Sent electronically through the IASB Website ([www.ifrs.org](http://www.ifrs.org))**

9 November 2015

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

Dear Hans,

**IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15***

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

We support the efforts of IASB and FASB (the boards) to respond to implementation concerns raised about the revenue standard. We encourage the boards to continue to work towards converged solutions to implementation issues related to the revenue standard whenever possible. Having said that, the HKICPA supports, first and foremost, standards that are high-quality, understandable and principle-based, over and above simply having a standard that is identical for the sake of convergence.

In general, we agree with most of the proposals as set out in the IASB ED and agree with the IASB's decision not to clarify certain other issues where the FASB has decided to provide further guidance in the Standard. However, we understand that people are having difficulty in applying the concept of 'distinct' in the Standard and we would support additional clarifications being made in the Standard itself, and not limited to the Illustrative Examples. In this regard, we believe the changes proposed by the FASB relating to identifying performance obligations (or the concept of 'distinct') are helpful and would encourage the IASB to consider the approach proposed by the FASB.

The boards have claimed that the financial reporting outcomes might not be significantly different, even when the boards pursued different approaches. However, we believe that the outcomes will not be the same in all cases. We are concerned that using different words to clarify or amend the standard will introduce additional complexity, diversity in practice and will no longer be a converged standard.

Therefore, we believe it is important that the IASB includes a discussion in the Basis for Conclusions for each area where the wording of IFRS 15 and ASC Topic 606 *Revenue from Contracts with Customers* are diverged. It should state explicitly whether the difference is simply semantic or that it could result in divergent practice and explain the circumstances in which this may occur. It would also be helpful if a comparison table between IFRS 15 and Topic 606 is included similar to the one provided in IFRS 3 *Business Combinations* (as revised in 2008) which identifies and compares those paragraphs in which the IASB and the FASB have different requirements.



In addition, we recommend that the illustrative examples as provided in the ED should include a more complex fact pattern and the discussion should be linked to the Standard to rationalize how the Standard should be applied. As described in Appendix B to this letter, we consider that some of the examples included in the ED are too lengthy and include facts and circumstances that are not germane to the point intended to be illustrated or their consequences for the analysis is not clearly described.

Our responses to the questions posed in the ED are set out in more detail in Appendix A. In Appendix B, we provide detailed comments on the proposed amendments to illustrative examples in both the IASB and FASB's exposure drafts<sup>1</sup>.

If you have any questions regarding the matters raised in this letter, please contact me or Winnie Chan, Associate Director of the Standard Setting Department ([winniechan@hkicpa.org.hk](mailto:winniechan@hkicpa.org.hk)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng  
Head of Financial Reporting

CN/WC  
Encl

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<sup>1</sup> FASB ED 2015-250 (issued in May 2015) and FASB ED 2015-290 (issued in August 2015)

Detailed comments on IASB 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?**

Identifying a distinct good or service

We do not agree with the IASB's proposed approach that is limited to only adding new examples, and to amending some of the existing examples that accompany IFRS 15 to clarify how an entity should apply the requirements on identifying performance obligations.

We are informed that people are having difficulty understanding how to apply the 'distinct' principle in paragraph 27. In particular, when is a good or service that is distinct within paragraph 27(a) not distinct within paragraph 27(b) and therefore not meet the 'distinct' principle.

This confusion arises in part because the supporting factors in paragraph 29 focus on when distinct promised goods or services (i.e. ones which have passed the test in paragraph 27(a)) are also regarded as distinct within the contract. The criteria in paragraph 29 therefore do not help with deciding the harder question of when the distinct promised goods or services (i.e. ones which have passed the test in paragraph 27(a)) are not in fact distinct within the meaning of a contract and should be bundled together. This confusion could lead to very different answers and major differences in accounting for very similar fact patterns. Accordingly, we consider that more guidance should be provided in the standard on this harder question of when to bundle goods and services within the context of a contract when these goods and services are otherwise capable of being distinct.

We believe that it is important to include the concept discussed in the Basis for Conclusions in the body of the standard itself. In particular, it would be easier for



entities to understand the separately identifiable principle if paragraph 29 includes the principle as set out in BC10 that an entity should evaluate whether the contract is to transfer (a) multiple distinct goods or services or (b) a combined item or items that comprise a distinct bundle of goods or services promised in the contract and BC11 that the evaluation should consider the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract.

We therefore prefer the language as proposed by the FASB in its exposure draft that expanding the articulation of the separately identifiable principle and to structure the factors in paragraph 606-10-25-21 of Topic 606 (paragraph 29 of IFRS 15) to identify when the promises in a bundle of promised goods or services are not separately identifiable and, therefore, constitute a single performance obligation. We found that the current wordings in paragraph 29 of IFRS 15 are less clear and indirect.

#### Identifying immaterial goods or services

We agree with the IASB's decision not to propose an amendment to clarify that an entity is not required to identify goods or services promised in the contract that are immaterial within the context of the contract, as proposed by the FASB. We believe that the concept of materiality is pervasive in financial reporting and should not be specifically defined in IFRS 15.

#### Shipping and handling activities

We agree with the IASB's decision not to propose a practical expedient permitting entities to make an accounting policy election in relation to the accounting for shipping and handling activities, as proposed by the FASB. As noted in paragraph BC24 of the ED, such an accounting policy election would be an exception from the principles of the revenue recognition model and would reduce comparability between entities.



## **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 generally agree with the amendments proposed by the IASB to clarify the relationship between the control principal and the indicators. However, we recommend the IASB to provide illustrative examples with more complex facts which can address situations that preparers are struggling with. For example, how should the principal-agent principle be applied when the inventory risk of the principal could be mitigated (such as with the right of return to seller) and the case in which a wholesaler who is acting as both a principal and an agent and has the flexibility in setting prices.

We note that much of the difficulty in current practice is that current standard and illustrative examples for assessing the principal-agent relationship contain numerous indicators without a framework or guidance for making judgments when several indicators point towards contrary directions. For example, paragraph B37(C) includes a statement that an agent could have pricing discretion in some cases. We are concerned that this statement, which follows immediately after the description of why pricing discretion is an indicator that an entity is the principal, would confuse users. We suggest that the IASB includes a discussion of its application in the Basis for Conclusions along with an example to provide the appropriate context.

### **Question 3 — Licensing**

**When an entity grants a licence to a customer that is distinct from other promised goods or services, IFRS 15 requires the entity to determine whether the licence 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 licence (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 licence.**

**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 note that the IASB and FASB proposals are articulated in different ways. This may lead to differences in accounting in certain circumstances. We encourage the Boards to work together, wherever possible, to agree common wording or state explicitly whether the difference could result in divergent practice.

#### The nature of an entity's promise in granting a licence of intellectual property

We support the IASB's decision to propose clarifications to paragraph B58 in the new paragraph B59A. We believe the clarification can help to ensure more consistent conclusions in determining when the nature of an entity's promise is to provide a right to access or a right to use the entity's intellectual property (IP).

The FASB has proposed an alternative approach by classifying licences of IP as either functional or symbolic based on whether the underlying IP has significant standalone functionality. In paragraph BC70 of the Basis for Conclusions, the FASB observes that the outcomes under this alternative approach would differ from those under the approach within IFRS 15 in relatively few cases. However, we do not prefer the FASB's proposal as the model is rules-based and varies from the principles in the standard, and would increase the risk of structuring, for example.



The scope and applicability of the sales-based and usage based royalties exception

We support the IASB's proposed clarifications to the requirements of paragraph B63 through the proposed new paragraphs B63A and B63B.

Contractual restrictions in a licence on identifying the performance obligations in the contract

We agree with the IASB's decision not to make amendments to the Standard itself in relation to contractual restrictions. We believe that a clarification in the Basis for Conclusions, as proposed by the IASB, is sufficient.

Determining when an entity should assess the nature of a licence

We consider that paragraphs B55 and BC407 are sufficiently clear that an entity should consider the nature of its promise in granting a licence when applying the general revenue recognition model to a combined performance obligation where the licence is the dominant component. We therefore agree with the IASB's decision not to propose any amendments in respect of this matter.

**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?**

We support the IASB's proposal of including two additional practical expedients on transition to IFRS 15 in respect of contract modifications and completed contracts. We believe these practical expedients would assist entities with implementation and would not significantly impact on the usefulness of the information disclosed.

### **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.**

#### **(1) *Collectability and contract termination***

We support the IASB's decision not to clarify this issue. We believe that paragraph 9(e) is clear that an entity only assesses the consideration *to which it will be entitled* in exchange for the goods and services that *will be transferred* to the customer. Furthermore, this matter is also addressed in paragraph BC46 of IFRS 15.

We also agree with the IASB's decision not to clarify the meaning of 'contract termination' under IFRS 15. We agree with the analysis in paragraph BC96 of the ED that an entity applying IFRS 15 would normally conclude that a contract termination means that an entity has stopped transferring goods or services, rather than stopped pursuing collection from the customer.

#### **(2) *Presentation of sales taxes***

We agree with the IASB's decision not to provide a practical expedient in respect of sales taxes. We believe that this is a US specific issue and we agree with the analysis in paragraph BC108 of the ED.

#### **(3) *Non-cash consideration (measurement date / variability)***

We support the IASB's decision not to make amendments to IFRS 15 in respect of the measurement date for non-cash consideration or in relation to how to apply the constraint on variable consideration in situations where the fair value of the non-cash consideration might vary due to both the form of the consideration and for reasons other than only the form of the consideration. We acknowledge that these issues interact with the requirements of other Standards such as IFRS 2 *Share-based Payment* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and we understand that stakeholders have told the IASB that any practical effect of different measurement dates would only arise in limited circumstances (as stated in paragraph BC100 of the ED). Accordingly, we agree with the IASB's decision to consider, if needed, the measurement date of the non-cash consideration more comprehensively in a separate project.



### **Other comments**

We note that the IASB and FASB proposals are articulated in different ways. We think that this may lead to differences in accounting in certain circumstances. We also think that it is important that the IASB includes a discussion in the Basis for Conclusions for each area where the wording of IASB's IFRS 15 and FASB's ASC Topic 606 are diverged. It should state explicitly whether the difference is simply semantic or that it could result in divergent practice and explain the circumstances in which this may occur. It would also be helpful if a comparison table between IFRS 15 and Topic 606 is included similar to the one provided in IFRS 3 *Business Combinations* (as revised in 2008) which identifies and compares those paragraphs in which the IASB and the FASB have different requirements.

~ End of Appendix A ~

**Appendix B - Other comments about the proposed amendments on illustrative examples in IFRS 15 and ASC Topic 606 in IASB ED 2015/6 and FASB ED 2015/250<sup>1</sup> and FASB ED 2015/290<sup>2</sup>**

***Example 10, Case A — Significant integration service (single item)***

IASB ED/2015/6: Paragraphs IE45 to IE48  
FASB ED 2015/250: Paragraphs 606-10-55-137 to 140

HKICPA comments

We consider the difference is simply semantic and is not expected to result in divergent practice.

***Example 10, Case B — Significant integration service (multiple items)***

IASB ED/2015/6: Paragraphs IE48A to IE48D  
FASB ED 2015/250: Paragraphs 606-10-55-140A to 140C

HKICPA comments:

As stated in Appendix A to this letter in our response to question 1, we consider that the focus in paragraph 29 on “when not to bundle” is unhelpful in understanding the concept of “distinct in the context of a contract”. We understand that this new example has been proposed as some constituents expressed concerns at the TRG meeting that the term “combined output” in para 29(a) might preclude the identification of a single performance obligation when an output comprises more than one phase, element or unit. Our strong preference for resolving this confusion is for paragraph 29 to be re-written to provide much clearer guidance on the principle of “distinct within the context of the contract” to help with the harder question of when to bundle goods and services which satisfy paragraph 27(a). We do not consider that this example, in and of itself, resolves the confusion. It may even add confusion if paragraph 29 itself is not re-drafted.

In particular, both the examples of IASB and FASB stressed the facts that the devices produced by the entity are highly complex and specialized to customers. We are concerned that it may have unintended consequences and cause some entities to interpret that every manufacturer of a series of customized goods should conclude that it is providing a significant integration service or conversely that the integrating non-complex items (such as combining bricks to form a wall) should not be a single performance obligation. We believe the IASB example could be worded more clearly. We prefer the language as proposed by the FASB that can better explain why the production of multiple units is considered to be a single performance obligation.

Also, the IASB example seems to indicate that an entity should conclude that the goods and services are not distinct if the entity is responsible for the overall management of the contract (para IE48C). However, this fact is not reflected in the FASB example. It is unclear whether the responsibility of overall management is a critical feature in determining whether an integration service is a separate performance obligation.

***Example 10, Case C — Highly interrelated***

IASB ED/2015/6: No relevant example in IFRS 15  
FASB ED 2015/250: Paragraphs 606-10-55-140D to 140F

HKICPA comments

We agree with the IASB that an additional example is unnecessary as Example 55 already illustrates application of the requirements on identifying performance obligations to a similar fact pattern.

<sup>1</sup> FASB ED 2015-250: Identifying Performance Obligations and Licensing issued by the FASB in May 2015.

<sup>2</sup> FASB ED 2015-290: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) issued by the FASB in August 2015.

**Example 11, Case A — Distinct goods or services**

IASB ED/2015/6: Paragraphs IE49 to IE53  
FASB ED 2015/250: Paragraphs 606-10-55-141 to 145

HKICPA comments:

We prefer the language used by the FASB. The FASB's example provides a clearer explanation that the performance of integration services in respect of certain goods or services promised in a contract may not always leads to a conclusion that *all* of the goods and services promised in a contract constitute a single performance obligation - the installation is not complex and that the entity can obtain the services from "alternative providers" (para 606-10-55-143).

**Example 11, Case B — Significant customization**

IASB ED/2015/6: Paragraphs IE54 to IE58  
FASB ED 2015/250: Paragraphs 606-10-55-146 to 150

HKICPA comments:

We agree with the IASB that no amendment is required for this example.

**Example 11, Case C — Promises are separately identifiable (installation)**

IASB ED/2015/6: Paragraphs IE58A to IE58E  
FASB ED 2015/250: Paragraphs 606-10-55-150A to 150C

HKICPA comments

We suggest the IASB extends the example by including more complex facts that corresponds to live situations. An example to consider is the integration of mobile network system which comprises of installation of various equipment and the involvement of different suppliers. The installation of equipment (e.g. receiver) may not necessarily change the utility/function of an individual receiver (i.e. the good or service is capable of being distinct) but the combination of several receivers together is essential to the set up of a mobile network as a whole. It is not clear in this example whether the combination of various equipment and the installation services has transformed them into a "different" output and thus should be accounted for as a single performance obligation.

**Example 11, Case D — Promises are separately identifiable (contractual restrictions)**

IASB ED/2015/6: Paragraphs IE58F to IE58G  
FASB ED 2015/250: Paragraphs 606-10-55-150D to 150F

HKICPA comments

It appears that this example is trying to establish the principle that it is irrelevant what the contract says about installation or why it says it. We do not agree with this principle and consider that the fact pattern needs to be expanded to state what the contract says about installation.

For example, it is not clear from the instruction "Assume the same facts as Case C, except that the customer is contractually required to use the entity's installation services" whether the fact in Case C of "the installation required is capable of being performed by other service providers" is also applicable in Case D or is varied in case D.

Therefore, it is not clear if the conclusion would be different in case D if the installation service is contractually required due to the reason that the services can only be performed by the entity due to specific expertise requirement. Also, as no details of the contract terms are given, it is not clear if the conclusion would be different in Case D if using the original supplier for installation was one of the conditions for valid warranty.



***Example 11, Case E — Promises are separately identifiable (consumables)***

IASB ED/2015/6: Paragraphs IE58H to IE58L  
FASB ED 2015/250: Paragraphs 606-10-55-150G to 150I

HKICPA comments:

We do not have further comments on this example.

***Example 12, Case A — Explicit promises of service***

IASB ED/2015/6: Paragraphs IE60 to IE61  
FASB ED 2015/250: Paragraphs 606-10-55-152 to 153

HKICPA comments:

We are fine with the amendments as proposed by the IASB which are for clarification purpose.

***Example 12, Case B — Implicit promises of service***

IASB ED/2015/6: No amendments proposed by the IASB.  
FASB ED 2015/250: Paragraphs 606-10-55-154 to 155

HKICPA comments:

We agree with the IASB that no amendment is required for this example.

***Example 12, Case C — Services are not a performance obligation***

IASB ED/2015/6: No amendments proposed by the IASB.  
FASB ED 2015/250: Paragraphs 606-10-55-154 to 155

HKICPA comments:

We agree with the IASB that no amendment is required for this example.

***Example 44—Warranties***

IASB ED/2015/6: No amendments proposed by the IASB.  
FASB ED 2015/250: Paragraphs 606-10-55-309 to 315

HKICPA comments

We agree with the IASB that no amendment is required for this example.

***Example 45—Arranging for the provision of goods or services (entity is an agent)***

IASB ED/2015/6: Paragraphs IE231 to IE233  
FASB ED 2015/290: Paragraphs 606-10-55-317 to 319

HKICPA comments

We note that this example is straight-forward – an entity is an agent as it does not control the suppliers' inventory of goods used to fulfill the orders placed by customers using the website.

We suggest the IASB extends the example with more complex facts to help users better understand how to evaluate the inventory risk indicator, for example, whether the conclusion of the example would be changed if an entity keeps the inventory but an entity's risk may be reduced significantly if it has the right to return unsold products to the supplier or receives inventory price protection from the supplier.



**Example 46—Promise to provide goods or services (entity is a principal)**

IASB ED/2015/6: Paragraphs IE234 to IE238  
FASB ED 2015/290: Paragraphs 606-10-55-320 to 324

HKICPA comments

We suggest the IASB makes clear in paragraphs IE234 and IE238 that an entity is entering into two separate contracts with the supplier and the customer, and an entity is a principal in both of the contracts.

**Example 46A—Promise to provide goods or services (entity is a principal)**

IASB ED/2015/6: Paragraphs IE238A to IE238G  
FASB ED 2015/290: Paragraphs 606-10-55-324A to 324G

HKICPA comments

We do not have further comments on this example.

**Example 47—Promise to provide goods or services (entity is a principal)**

IASB ED/2015/6: Paragraphs IE239 to IE243  
FASB ED 2015/290: Paragraphs 606-10-55-325 to 329

HKICPA comments

It would be helpful if the example further clarified the application of paragraph B34A(a) when an entity should identify the specified good or service as a *right* to a good or service or the *underlying* good or service that will be transferred to the customer.

**Example 48—Arranging for the provision of goods or services (entity is an agent)**

IASB ED/2015/6: Paragraphs IE244 to IE248  
FASB ED 2015/290: Paragraphs 606-10-55-330 to 334

HKICPA comments

We believe that transactions in which a retailer obtains title of products of a supplier at the point of sale are common and users might have issues on how the control principle should be assessed for such transactions. We note that the staff paper from the 22 June 2015 joint Board meeting on principal versus agent considerations included an example of a retailer that had only momentarily obtained title of a manufacturer's products at the point of sale. We recommend adding this example to illustrate the factors that need to be considered when determining whether an entity obtains control of a good or service prior to transferring it to the customer.

**Example 48A—Entity is a principal and an agent in the same contract**

IASB ED/2015/6: Paragraphs IE248A to IE248F  
FASB ED 2015/290: Paragraphs 606-10-55-334A to 334F

HKICPA comments

We do not have further comments on this example.

**Example 54—Right to use intellectual property**

IASB ED/2015/6: Paragraphs IE276 to IE277  
FASB ED 2015/250: Paragraphs 606-10-55-362 to 363B

HKICPA comments

We do not have further comments on this example.

***Example 55—Licence of intellectual property***

IASB ED/2015/6: Paragraphs IE278 to IE280  
FASB ED 2015/250: Paragraphs 606-10-55-364 to 366

HKICPA comments

We do not have further comments on this example.

***Example 56, Case A — Licence is not distinct***

IASB ED/2015/6: Paragraphs IE282 to IE284  
FASB ED 2015/250: Paragraphs 606-10-55-368 to 370

HKICPA comments

We have doubts on whether there is any patent right in Case A as in this case, apart from the pharmaceutical company, there is no other entity that can manufacture this drug due to the highly specialized nature of the manufacturing. We consider this arrangement is more of a nature of manufacturing service arrangement or a distribution arrangement.

***Example 56, Case B — Licence is distinct***

IASB ED/2015/6: Paragraphs IE285 to IE288  
FASB ED 2015/250: Paragraphs 606-10-55-371 to 374

HKICPA comments

We are concerned that the language used in para IE287 may cause some entities to interpret a drug's state of development is a determinative factor in the conclusion of the nature of the entity's promise in transferring the licence (i.e. that only a mature and/or approved drug formula can have significant standalone functionality). We suggest the IASB deletes those wordings that described the drugs as mature product in para IE287 and focus more on the aspect that the drug formula has significant standalone functionality.

***Example 57 – Franchise rights***

IASB ED/2015/6: Paragraphs IE289 to IE296  
FASB ED 2015/250: Paragraphs 606-10-55-375 to 382

HKICPA comments

We prefer the example as amended by the FASB which included a license fee comprised of both a fixed fee of \$1 million and a sales-based royalty of 5% of the customer's (opposed to only variable consideration of 5% of the customer's sales from the franchise store in IASB's example) – we found that it is useful to demonstrate the pattern of revenue recognition of the fixed franchise fee in the FASB example.

***Example 58 – Access to intellectual property***

IASB ED/2015/6: Paragraphs IE297 to IE302  
FASB ED 2015/250: Paragraphs 606-10-55-383 to 388

HKICPA comments

We do not have further comments on this example.

***Example 59 – Right to use intellectual property***

IASB ED/2015/6: Paragraphs IE303 to IE306  
FASB ED 2015/250: Paragraphs 606-10-55-389 to 392

HKICPA comments

We do not have further comments on this example.



***Example 60—Sales-based royalty for a licence of intellectual property***

IASB ED/2015/6: Paragraphs IE307 to IE308  
FASB ED 2015/250: Paragraphs 606-10-55-393 to 394

HKICPA comments

We do not have further comments on this example.

***Example 61—Access to intellectual property***

IASB ED/2015/6: Paragraphs IE309 to IE313  
FASB ED 2015/250: Paragraphs 606-10-55-393 to 394

HKICPA comments

We do not have further comments on this example.

***Example 61A—Right to use intellectual property***

***Example 61B—Contractual provisions that are (and are not) restrictions***

IASB ED/2015/6: No relevant examples  
FASB ED 2015/250: Paragraphs 606-10-55-399A to 399O

HKICPA comments

We agree with the IASB's decision and do not consider that the Examples 61A & 61B are necessary.

~ End of Appendix B ~