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Date : Amsterdam, 29 September 2010
Re : Exposure Draft Revenue from Contracts with Customers.

Dear members of the EFRAG Technical Expert Group,

With reference to our letter dated 24 September 2010, which contains our general reaction to your draft comment letter on IASB's Exposure Draft (ED) Revenue from Contracts with Customers, we herewith send you our detailed comments on the points raised by EFRAG on the IASB questions.

Yours sincerely,



Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix: answers DASB to the specific questions

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Question EFRAG to constituents

4 Do you support:

- (a) The approach of developing a new standard on revenue recognition, or do you think that amending IAS 11 and IAS 18 to address existing practical issues would be preferable?
- (b) The alternative revenue recognition model presented in Appendix 3 or the model proposed by the IASB in the ED?

Response DASB to question EFRAG:

No, we do not support the approach of developing a new standard on revenue recognition. We agree with you that the ED has been issued without a thorough conceptual debate of what revenue should represent. Without a proper understanding of what revenue should represent it is difficult or maybe even impossible to develop a clear model with unambiguous principles for revenue recognition. The present ED underlines this, unfortunately. Moreover, without such a conceptual debate we are not convinced of the necessity to develop a new standard on revenue recognition. Although we acknowledge that there are some contradictions in IAS 18 and 11 and that there might be some practical application issues in applying IAS 18 and IAS 11, mainly regarding multiple element accounting, we believe that those issues can be resolved by improving these standards. Therefore, as long as the necessity for a new standard has not been underpinned by a conceptual debate, we believe that efforts at improving accounting for revenue should be directed at improving IAS 18 and IAS 11 themselves.

In case the IASB nevertheless decides to continue to develop a new standard, we agree with EFRAG not to support the model proposed in the ED. In that situation we concur with an activity-based model as proposed in your draft comment letter.

Our answers to the specific questions of the IASB are solely for the case that the IASB will issue a standard in accordance with the principles of the ED and should not be interpreted as support for those proposals.

Recognition of revenue (paragraphs 8—33)

IASB 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?

EFRAG overall supports the proposed guidance on combining and segmenting contracts and contract modifications. However, we think that the guidance should be clarified.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we agree with EFRAG that the principle of price interdependence for combining and segmenting contracts, even when considering the proposed guidance, is unclear in how to apply in practice. In our opinion, any standard should be based on principles that are crystal clear and - where this is not the case - any vagueness of a principle should not be compensated by additional guidance

IASB 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?

EFRAG generally supports the proposed guidance for separating performance obligations, but believes that in considering whether goods or services are distinct, the entity's own customary business practice should be considered rather than the business practice of any other entity.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we disagree that the business practice of any other entity should be considered for determining whether a good or service is distinct. We agree with EFRAGs' views.

IASB Question 3: Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are 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?

EFRAG does not support the proposed control model for revenue recognition, as it believes that an activity-based model would result in more decision-useful information (see Appendix 3).

EFRAG believes that the definition of control should be developed at the conceptual framework level to ensure consistency across the standards and the application and the implementation of the notion should be set at a standard level.

EFRAG has concerns about the application of the proposed guidance to service contracts. If the IASB proceeds with the proposed control model, **EFRAG** believes that the transfer of control should be considered from the seller's rather than from the customer's perspective.

EFRAG is concerned about the indicators included in paragraph 30 of the ED for determining whether control of a promised good or service has been transferred to a customer.

Response DASB to question IASB: We do not agree to develop a new standard and we do not support the proposed control model for revenue recognition. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we agree with EFRAG that the principle regarding determination when control has been transferred, even when considering the proposed guidance, is unclear in how to apply in practice. In our opinion, any standard should be based on principles that are crystal clear and - where this is not the case - any vagueness of a principle should not be compensated by additional guidance. We agree with EFRAGs' views.

Measurement of revenue (paragraphs 34—53)

IASB 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 recognizing revenue when the transaction price is variable and why?

EFRAG agrees with the proposal.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree entirely that an entity should recognise revenue on the basis of the expected value of the transaction price. We concur with EFRAG that variable revenue should be recognized only if and when, in addition to conditions set in paragraph 38 of the ED, variable revenue is measured at expected value for a large population of contracts (Q4). In addition to that, we believe that for single contracts variable revenue from a satisfied performance obligation should be recognized if the transaction price can be reasonably estimated according to the principle of 'best estimate'.

IASB 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?

EFRAG does not agree that the customer's credit risk should be reflected in revenue.
EFRAG believes that credit losses should not affect the revenue line.

Response DASB to question IASB: For a meaningful discussion, a thorough conceptual debate is necessary on what revenue should represent. To reach a common view the DASB would need more time for further consideration on the proposal to reflect the customers' credit risk in revenue.

IASB 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?

EFRAG agrees with the proposal.

Response DASB to question IASB: For a meaningful discussion, a thorough conceptual debate is necessary on what revenue should represent. To reach a common view the DASB would need more time for further consideration on the proposal to adjust for the time value of money.

Question EFRAG to constituents

55 Do you think that the proposals in the ED requiring adjusting revenue for the time value of money would result in significant costs compared to the current practice? If so, why, and do you have any suggestions on how the principle could be applied in a less costly manner?

Response DASB to question EFRAG: current IAS 18 paragraph 11 already requires to recognise interest revenue for the difference between the lower fair value and the nominal amount of the consideration if the inflow of cash is deferred. Under the proposal in the ED recognising a separate financing component will only be extended to situations of advance-payments by the customer and is limited to situations in which the financing component is material. Therefore we do not think that the proposals in the ED for this requirement would result in significant costs compared to the current practice.

IASB 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?

EFRAG agrees that the initial (estimated) transaction price should be allocated to all separate performance obligations in a contract in proportion to the stand-alone selling price. However, after the initial allocation changes in the estimated transaction price should be allocated to different performance obligations based on the relevant facts and circumstances.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposed allocation method. In our opinion allocation in proportion to the stand-alone selling prices will not always lead to decision useful information. The proposed model could lead to recognition of losses for ‘onerous’ performance obligations being part of an overall profitable contract in which prices of goods and services are interdependent. We do not support a model in which losses are recognised in an overall profitable contract. Therefore, the transaction price should not be allocated to all separate performance obligations in proportion to the stand-alone selling prices. In our opinion allocation in proportion to the stand-alone gross margins would be a better solution. Such a method would lead to a proportionate allocation of the total gross margin with the result that in an overall profitable contract all performance obligations will be profitable, and with the result that the allocation faithfully depicts the different margins that may apply to the separate performance obligations.
On the issue of changes after the initial allocation we concur with EFRAGs’ views.

Contract costs (paragraphs 57—63)

IASB 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 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?

EFRAG does not agree that the costs of securing a contract should always be expensed as incurred.

EFRAG thinks that requirements regarding capitalisation of contract costs should be included in IAS 2.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposal. We agree with EFRAG that costs of securing and obtaining a contract should not always be expensed when incurred but might be capitalised, if certain conditions are met. We consider it an accounting mismatch to expense necessary costs that are directly related to obtaining the contract and that will be recovered through the contract in one period and account for the related revenue in a later period. That mismatch should be resolved in a standard.

IASB Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of

(a) recognising 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 you include or exclude and why?

EFRAG agrees that an entity should capitalise contract costs based on the full direct cost method. Similarly, an entity should determine whether a contract is onerous based on the full direct costs.

EFRAG does not agree with the proposal to require the use of the probability-weighted technique for the costs in performing the “onerous test”.

EFRAG does not agree with the proposal to require the “onerous test” at a performance obligation level as this could result in recognition of a provision for an onerous performance obligation within an overall profitable contract.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposal. We agree with EFRAGs’ views.

Question to constituents

78 Do you agree with EFRAG that the onerous test should be carried out at contract level, and not at performance obligation level? If so, do you, as EFRAG accept that nevertheless loss making performance obligations are reported as such when performed, disregarding when in the course of the contract that performance obligation is satisfied?

Response DASB to question EFRAG: We agree that the onerous test should be carried out at contract level. However, we are not convinced of the model you propose, which is also based on allocating the transaction price in proportion to the stand-alone selling prices. Such a model could lead to onerous performance obligations (reported when the onerous performance obligation is performed) that are part of an overall profitable contract (although no liability is recognised for the onerous performance obligation ahead of the performance). We do not support a model to account for onerous performance obligations in a contract, for a contract that is overall profitable. To resolve this issue we refer to our response on question 7.

Disclosure (paragraphs 69—83)

IASB 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 contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

EFRAG agrees with the objective of the proposed disclosure requirements and thinks that the disclosure requirements will help in meeting the objective.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposal. Although we could agree with the objectives of the requirements, we are concerned that the extensive requirements of paragraphs 73 to 80 will be regarded as a 'minimum list' and could result in a large amount of insignificant detailed information, despite the 'materiality threshold' as described in paragraph 70 of the ED. Therefore we think the requirements of paragraphs 73 to 80 should be part of the Application Guidance and should be presented as possible disclosures that might be relevant in a particular situation to meet the objectives of paragraph 69.

Question to constituents

84 EFRAG would welcome comments regarding the usefulness and the cost of preparing the disclosures required by the ED and an assessment of whether an acceptable trade-off between costs and benefits is met.

Response DASB to question EFRAG: We believe the costs of preparing the disclosures would outweigh the benefits for users. We refer to our response on question 10 of the IASB.

IASB 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?

EFRAG agrees with the proposal.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposed disclosures that in our opinion are too extensive. We acknowledge that information about the orders in hand can be relevant to predict future revenues and future cash-flows, but we do not believe that information about contracts with an original duration expected to exceed one year only is decision-useful information. Information about the total of expected future revenues and cash-flows would be more relevant. We believe such information should not be part of the disclosures in the financial statements, but should be part of Management commentary.

IASB 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?

EFRAG agrees with the proposal, however, thinks that the wording should specify that a single category could reflect multiple factors – for example, a given product on a given marketplace.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we do not agree with the proposal. Disaggregation of revenue is part of segment reporting (IFRS 8).

Effective date and transition (paragraphs 84 and 85)

IASB Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

EFRAG agrees that the proposed requirements should be applied retrospectively.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we agree that the proposed requirements should be applied retrospectively, however a relative long implementation period should be taken into account. To be able to apply a new standard some entities will have to adjust their financial information systems, specifically in cases where a new standard will lead to more unbundling, and /or will lead to a different timing or a different amount of revenue recognition. We think that at least two full reporting periods between the date of issuance of the standard and the effective date are necessary. (For example, if the standard is issued in 2011, the effective date should be for reporting periods starting after December 31, 2013. Entities would then have reasonable time for preparation to be able to apply the requirements of the standard to contracts as of 2013 (which would then be the basis for the comparative figures in the first financial statements (2014) under the new standard)).

Question to constituents

96 Assuming that the proposals are to be applied retrospectively, how many years do you think would be necessary to implement the new requirements?

Response DASB to question EFRAG: We refer to our response on question 13 of the IASB.

Application guidance (paragraphs B1—B96)

IASB 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 proposals operational? If not, what additional guidance do you suggest?

EFRAG generally thinks that where the standard is unclear this should be addressed by clarifying the principles rather than by way of application guidance. However, we are aware that it may be necessary to include some guidance to address industry-specific issues.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In general we think that where the standard is unclear this should be addressed by clarifying the principles rather than by way of application guidance. We agree with EFRAGs’ views, although we think application guidance can lead to rather rules-based interpretations of the standard. In order to avoid that, we believe application guidance should be limited to a very minimum..

Question EFRAG to constituents

100 Do you think that the application guidance is sufficient to make the proposals of the ED operational in particular industries or are there any issues requiring specific consideration? If so, what are the issues?

Response DASB to question EFRAG: We agree with your observations in paragraphs 98 to 99 of your draft comment letter. We are not aware of any other issues requiring specific consideration in the application guidance.

IASB 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?

EFRAG supports the proposal.

Response DASB to question IASB: We do not agree to distinguish two types of product warranties based on coverage for latent defects and coverage for faults that arise after delivery. In our opinion, distinction should be made based on whether or not the warranty is sold separately.

Question EFRAG to constituents

112 Do you agree with the proposals in the ED regarding accounting for and distinguishing between a warranty and a failed sale? If so, on what basis should the distinction be made?

Response DASB to question EFRAG: We do not agree with the proposals in the ED. We refer to our response on question 15 of the IASB.

IASB 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 it 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?

EFRAG is split on this issue, but has considered different alternatives. Under the first alternative, EFRAG agrees with the ED. Under the second alternative, EFRAG thinks that continuous involvement should be the principle for distinguishing between different licensing arrangements. Under the third alternative, EFRAG thinks that the right of use of an intangible asset should be dealt with in the IASB's forthcoming leasing standard.

Question EFRAG to constituents

125 Which of the alternatives (Alternative 1 to 3) do you prefer?

Response DASB to question EFRAG: We prefer Alternative 2 as described in paragraphs 121 to 123 of your draft comment letter.

Response DASB to question IASB: We do not agree with the proposed distinction based on exclusivity. We are in favour of the model described by EFRAG as Alternative 2 in paragraphs 121 to 123 of their draft comment letter. In that model the factor to be considered is whether continuous involvement exists.

Consequential amendments

IASB 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?

EFRAG agrees with the proposal.

Response DASB to question IASB: We do not agree to develop a new standard. Our answer to this question is solely for the case that the IASB will issue a standard in accordance with the principles of the ED. In that case we agree with the proposal and with EFRAG.

Additional issues

DASB concurs with the views of EFRAG on the additional comments in relation to the definition of stand-alone selling price and the distinction between a contract asset and a receivable as described in Appendix 2 of EFRAGs' draft comment letter.