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Re: EFRAG draft comment letter on IASB Exposure Draft Revenue from Contracts with Customers

Dear Sir/Madam,

we are pleased to have the opportunity to comment on your draft comment letter on IASB Exposure Draft Revenue from Contracts with Customers.

In general term, we do not see many reasons that justify the replacement of IAS 11 and IAS 18 with a completely new standard which introduces a different recognition approach. We do not receive requests by stakeholders to rewrite these standards, which, on the contrary, seems to work adequately. We believe that limited amendments to existing IAS 11 and 18 would be sufficient to address certain controversial issues.

We retain significant perplexities with regard to the fundamental concepts on which the ED is based. In particular, we do not see the reasons to abandon the recognition criteria provided by IAS 11 and IAS 18 to embrace the approach based on the transfer of control.

We understand the need to converge with US GAAP but in our view, it is not acceptable a decrease in the quality of the new standard to meet this objective. The proposals contained in the ED do not represent an improvement capable to balance the significant costs that would derive from the implementation of the new standard. On this point, it is worth to remind that the application of the new rules would imply, in many industries, very expensive updates of actual IT systems to allow the recognition of revenue at the point of the transfer of control. Furthermore, the adoption of the approach proposed in the ED will be possible, in some industry, only with significant simplifications. This could lead to inconsistent applications of the standard, and also changes in commercial practices to avoid or simplify the enforcement of the new rules.

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?

We agree with EFRAG's position. We point out that the analysis of the interdependence of the prices in different performance obligation could be very complex due to the high volatility of prices in certain industries (i.e. telecommunications).

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?

We agree with EFRAG.

We also underline that, in case of construction contracts, it could not make sense to refer to specific performance obligation within the same contract because the contract has been negotiated, in many circumstances, as a whole. This makes extremely difficult to identify the single margin attributable to every specific performance obligation.

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?

We agree with EFRAG (see introductory comments).

We see many problems in reconciling the definition of control with the indicators of paragraph 30.

The application of the method based on the transfer of control in many cases would preclude the possibility to measure construction contracts at their percentage of completion and this impair the significance of the performance shown in the financial statements. Many problems could occur also in case of service contracts, for which it is not simple to define the transfer of control of the service provided to the customer.

We believe that EFRAG's model of revenue recognition is simpler to apply and provides more significant information than the ED proposal.

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 criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

We agree with EFRAG. OIC has already expressed a contrary position to the measurement of assets and liabilities at their probability-weighted amount, except in specific circumstances (i. e. portfolio of assets).

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?

We agree with EFRAG.

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?

We agree with EFRAG's position. Furthermore, we believe that the standard should clarify if, under the new model, prepayments would remain deferred revenue or should be presented as financial liabilities.

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?

We agree with EFRAG.

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?

We agree with the ED proposal to charge pre-contract costs to profit and loss.

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purpose 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 and why?

We agree with EFRAG.

Question 10 / 11 / 12 – Disclosure

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?

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?

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?

We share the objectives identified by IASB about disclosure to be provided in the financial statements. Notwithstanding this, we believe that in many cases the level of disclosure could be very expensive compared to its usefulness.

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.

We agree with EFRAG.

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?

We agree with EFRAG.

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?

We do not see convincing conceptual reasons to distinguish between the two proposed models. We believe that all warranties should be treated as single performance obligation in addition to the performance obligation to transfer the product specified in the contract.

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?

We believe that license contracts and related revenue should be treated in the lease standard.

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?

We agree with EFRAG. We notice that the revenue recognition model for sales of assets in the ED seems to be inconsistent with the approach of the Lease ED.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)