

**EFRAG
Francoise Flores
Square de Meeus 35
1000 Brussels
Belgium**

The IASB's Exposure Draft *Revenue from Contracts with Customers*

Dear Ms Flores,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered through its Corporate Reporting Standing Committee EFRAG's draft response to the IASB's Exposure Draft (ED) *Revenue from Contracts with Customers*. ESMA thanks you for this opportunity to contribute to EFRAG's due process. ESMA welcomes the IASB's decision to re-expose the proposed amendments. ESMA is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

It is important for financial reporting standards to provide a faithful portrayal of an entity's financial position and performance and to serve investors in making informed decisions. Given the importance of revenue for investors ESMA decided to carry out additional outreach to European investors. ESMA is grateful to the investors contributing in these outreach activities and has highlighted their views in our detailed responses set out in the appendixes.

Though ESMA believes the principles suggested in the 2011 ED *Revenue from Contracts with Customers* are more capable of achieving consistent application than the 2010 ED, our main concerns are related to potential inconsistent application and enforcement problems. Our detailed responses highlight several cases where we believe the wording can be improved or where the Board should consider cross-cutting issues.



ESMA holds many similar views on the IASB's proposal as expressed in EFRAG's draft response. However, our main diverging views relate to the following areas:

- ESMA supports the presentation of credit risk losses in a separate line adjacent to the revenue line item as it provides useful information about the gross revenue and the associated collectability. It is our understanding from our outreach to the investors' community that this approach provides them with the most relevant information to assess the quality of revenue and earnings.

ESMA does not follow those EFRAG TEG members believing that this would result in a rules-based standard. In addition, ESMA supports requiring the application of IFRS 9 guidance to impairment of both receivables and contract assets for all entities. That is to say that ESMA agrees with those EFRAG TEG members that there should be no different accounting for similar financial assets arisen differently.

- ESMA welcomes the proposal to specify the disclosures about revenue contracts with customers that should be included in the interim financial statements. When discussing the IASB's proposals with the investors' community they made it clear that disclosures are key to understand the revenue recognition pattern. Investors were generally dissatisfied with the quality and amount of disclosures that are currently provided. In addition, current disclosures are often non-entity specific and investors preferred more detailed disclosure requirements.

ESMA pays particular attention to the reconciliation of contract balances as it is key to understand the movements in cash and receivables. Having said that, we would agree with the IASB performing further outreach and field-testing in order to ensure that all disclosures are respectively relevant and can be provided for by issuers in a reasonably way.

- The IASB tentatively decided that the effective date would not be earlier than 1 January 2015 and that earlier application would be permitted. ESMA strongly disagrees with the IASB's proposal to allow earlier application for existing IFRS reporters and believes that it would be detrimental for the comparability between entities.

As a last point, ESMA supports the field-testing activities EFRAG is carrying out but believes that EFRAG should consider developing a methodology for such activities and how to report on them. Field-testing should focus on a wide range of entities with different geographical and industry background in order to be most representative and to avoid overreliance on entity's that do not support the proposed amendments.

For the detailed comments we refer to our comment letter to the IASB's ED, which we attach to this letter.



We would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S/M'.

Steven Maijor
ESMA Chair

A handwritten signature in blue ink, appearing to be 'J. Galbo'.

Julie Galbo
Chair ESMA's Corporate Reporting Standing Committee