



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

22 March 2012

Dear Sir or Madam,

Re: Exposure Draft ED/2011/6 Revenue from Contracts with Customers

We appreciate the opportunity to comment on the re-exposed draft 'Revenue from Contracts with Customers' (herein referred to as 'the ED').

First, although we recognise the Boards' efforts in revising the first draft ED and we believe that the current exposure draft presents a significant improvement over the guidance in the original draft, we are still of the opinion that the ED does not provide a fully clear concept and appropriate practical guidance for revenue recognition. The major elements leading us to this view are the following:

- The principles are very complex and difficult to apprehend, and this complexity is compounded by the drafting which we think is difficult to follow and relies on too many internal and external cross-references which are confusing. Discussions between our constituents in various forums have shown that there is a wide range of interpretation of the proposed requirements.
- For some transactions, the uncertainties existing in the current standards are not resolved by the ED. This has been confirmed by the Field tests performed by some of our constituents.
- Rapid cross-industry benchmarking exercises performed by some of our constituents have indicated that some transactions of the same nature in different industries would be analysed differently and therefore accounted for differently. The implications of this for comparability are clear.
- The comment period, falling as it did within the annual close period for many of our constituents, was too short for them to be able to apprehend all the impacts of the ED, including unintended consequences. Even though many constituents follow the Boards' debates closely, it is only when the decisions are translated into drafting in the context of a complete standard that a proper assessment of the proposals can be made.
- The impossibility of analysing the ED Revenue in parallel with the ED Leases is a strong limiting factor on the comments that can be made on the ED Revenue in general, and specifically on the issues related to variable consideration and licences for Rights of Use.



For all these reasons, we consider that the ED at its current stage is not ready for issuance as a standard. We would therefore suggest continuing the methodological discussion to develop a fully satisfactory accounting standard. Revenue is such an important concept for all stakeholders that no new standard should be issued on this matter unless it is completely sound and intelligible.

Our detailed comments on the questions raised in the ED are included in the appendix to this letter. However, we would also like to take this opportunity to share concerns related to this ED on the following issue not specifically addressed in the questions raised by the Board.

A predominant area of major concern shared by many of our members is the continued expansion of disclosure requirements. Those that were already included in the original disclosure draft have not been significantly revised or reduced in the redeliberation process and further requirements have now been added.

As stated in our comment letter to the original disclosure draft, we agree with the Board's general objective to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we also continue to believe that the proposed disclosure requirements will not meet that objective.

The proposed disclosure requirements including those for interim financial reporting are substantially more extensive and detailed than the existing requirements. The inclusion of the detailed qualitative disclosure requirements will likely increase the size of disclosures. These additional disclosures will likely not translate into more decision useful information for the users of financial statements. Instead, we continue to believe that the current disclosure requirements in IAS 11, IAS 18, IAS 34 and IFRS 8 "Operating Segments" address appropriately the information needs of investors without overburdening them with disclosure overload. If entities are compelled to prepare and disclose information that they do not use for management reporting this information is likely to be irrelevant. Moreover, unnecessary costs are incurred. This further increases the mismatch between costs and benefits.

In summary, although we recognise that progress has been made since the first exposure draft, we are not convinced that the current proposals represent a clear improvement over the existing standards which would justify their adoption without significant further refinement of both the principles and the detailed practical guidance.

If you would like to discuss any of the matters raised in this letter, please do not hesitate to contact me.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs and Internal Market

IASB QUESTIONS

REVENUE FROM CONTRACTS WITH CUSTOMERS

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

No, we do not agree with the proposals. We think that it is important to have a principle and specific guidance on accounting for revenue when an entity satisfies a performance obligation over time. We welcome the inclusion, in paragraph 32, of the transfer of risks and rewards as an indicator of a change of control to be taken into account in this assessment.

Although we think we understand the direction the Board has taken with respect to the criteria as articulated in paragraphs 35 and 36, we believe that much further clarification is required in order to lead the reader through the logical sequence of analysis and decisions resulting in the recognition of revenue.

The first matter to be clearly stated is that of the principle of recognising revenue over time. This is touched on in paragraph 34 but needs to be highlighted and explained as the principle behind the accounting, for which paragraphs 35 and 36 provide guidance.

Furthermore, staying within the context of principle-based standards, it needs to be made clear what type of arrangement is envisaged in 35(a) and what different type of arrangement is contemplated by the various sub-sections of paragraph 35(b). Paragraph 35(b)(ii) is particularly difficult to understand even with recourse to the Basis for Conclusions, and it must be borne in mind that many users of IFRS are not native English speakers. Some sort of decision tree might also help with this.

One issue where further guidance is needed is the distinction whether an asset has an alternative use to an entity or not. It must be made clear what the significance of the use of this notion is. If it is intended that this notion be primarily aimed at distinguishing between production of goods for inventory and goods as part of a specific long-term construction contract, or to distinguish between the provision of these and the provision of services, it would be helpful to state this.

Moreover the exposure draft does not allow a clear distinction between a single performance obligation that is satisfied over a period of time and series of performance obligations, each of which is settled at point in time. For example is a 3 year contract to supply goods once a month a single performance obligation satisfied over the 3 years or a series of 36 monthly performance obligations?

There are also open issues with respect to the accounting treatment of the transfer of intangible assets with an indefinite useful life. In our opinion revenue should be recognised over a period of time, if the intangible asset is transferred to the licensee for a limited period over time. The future economic benefits beyond that limited time period

are highly correlated with the detailed rights and obligations under the licences contract – thus in fact the transfer of the licence for a limited time might be closer to a service arrangement than a typical “sale” of an asset.

Besides, we assume that combined transactions still need further guidance.

Example I

A compound has an indefinite useful life, but is transferred to an alliance partner for a 10 year period.

Questions

1. Is the licence transferred at a point in time and if so, can revenue be recognised in its entirety on transfer of the licence at contract inception or;
2. Is the licence transferred over time since the licensee obtains control of the licence for a limited period of time (as compared to the useful life of the compound) and thus, does not obtain substantially all (or a majority of) the risks and benefits associated with the licence. In this case, revenue should be recognised over the term of the contract i.e. 10 years.

Currently, this transaction would be accounted for as a transfer over time and thus revenue would be recognised evenly over the 10 year term. Where the compound has a useful life of 10 years and was being transferred to the licensee for a 10 year period, then this would be accounted for as a “sale” and all the revenue would be recognised upfront on contract inception.

It should be noted that in our view, the licensor has no other performance obligation to transfer to the licensee than to maintain the patents associated with the transferred asset and this duty is not a performance obligation transferred to the licensee. However the licensor might also benefit from the development of the brand “under control” of the licensee and therefore often prescribes specific obligations for the licensee – e.g. a predefined marketing budget or a predefined marketing strategy.

Furthermore if the licence transferred is not self developed and revenue recognition at a point in time appears reasonable a clear derecognition concept is missing

Example II

As a second example, Company A enters into a licence agreement with Company B to transfer the rights to use a compound for a consideration of \$100m. In a separate supply agreement signed on the same date, A is required to supply B quantities of the compound which B cannot obtain from other suppliers on the market. The licence would be useless to B if B did not receive the compounds from A. A supplies the compound to B over a 3 year period at a price which gives rise to a loss on supply of \$20m in total. The fair value of the licence is \$75m. B will continue to use the licence even after the supply agreement is fully executed and completed as A will transfer technological know-how during the supply term to enable B commence the manufacture of the compounds for his own use.



Question: Is the licence transferred at a point in time or over time?

Observations:

In the example above, it is clear that the patents associated with the licence constitute an asset that already exists, and thus do not meet the criteria outlined in paragraph 35(a), but meets the criteria outlined in paragraph 35(b). The supply of compound on the other hand, meets the criteria outlined in paragraphs 35(a) and (b). The patents associated with the licence have an alternative use, as the same rights could be granted to another "customer" in a different region for instance, thus complying with paragraph 36.

In our view, the licence is transferred at a point in time but since it is useless to the licensee without the supply of compound, the two performance obligations are combined into a single performance obligation and revenue is recognised over time.

Furthermore, we appreciate that paragraph 36 clarifies that contractual and practical limitations shall be considered when assessing whether an asset has an alternative use to an entity. However, we believe that further guidance on the existence of practical limitations would be helpful in applying the new Standard. In particular practical limitations due to production capacity constraints may cause that similar transactions are accounted for differently under the current guidance.

We consider it appropriate that capacity constraints may constitute a practical limitation in terms of paragraph 36, e.g. in case of significant lead times inherent in the production process. However, we recommend providing additional guidance on this issue. Especially, it should be ensured that the existence of a practical limitation does not depend exclusively on the production capacity utilization.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

No, we do not agree. We highly appreciate the Boards' decision to change the accounting for the consideration of customer credit risk for revenue recognition issues compared to the original ED, which proposed to reduce the amount of promised consideration to reflect the customer's credit risk. We welcome the decision to address customer risk outside the measurement of revenue. In our opinion the revenue recognised should comprise the amount agreed with the customer and which the customer is willing to pay in exchange of goods and services, that is, the transaction price as defined in the current proposals. This would be the correct measure of the performance obligation fulfilled by the company on completing the sales transaction.

However, we do not agree with presenting the allowance amounts in profit or loss as a separate line item adjacent to the revenue line item.

In our opinion, to provide the most useful information, the presentation of impairment losses should depend on an entity's business model and be consistent with internal reporting requirements, thus reflecting management's own approach of dealing with issues of collectability. This especially applies to entities outside the financial services business where credit risk is not of major concern in the setting of prices for contracts. Therefore these entities do not treat impairment losses as adjustments to revenue, but rather have impairment losses reported internally as part of selling activities. In order to facilitate communication with external users, it would be most useful to include such losses in selling or marketing expenses in the income statement too.

Additionally the newly proposed line item adjacent to the revenue line item does not provide decision-useful information for the users of financial statements. We think that investors are not receiving useful information by overloading the statement of comprehensive income with yet more lines in presentation, especially when these lines are of limited significance to the financial results of a company. In addition, information on the allowance for bad debt is readily available to investors, if needed, from a Company's IFRS 7 footnotes.

In addition a separate line item adjacent to revenue creates ambiguity. Users may refer to different measures when they use the term "revenue". Some may refer to "gross revenue" when they use the term "revenue", others may refer to "revenue net of valuation allowances".

Finally, in view of the current state of change in the area of the accounting for financial instruments and in order to avoid all doubt, we think that the revenue standard should state clearly what the measurement objective is for the customer receivable. This will of course be consistent with IAS 39 or IFRS 9, but it is much more helpful both to users and preparers who may not be specialists in financial instrument accounting and not be familiar with the detail of those standards or IFRS 13 on Fair Value.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We welcome the proposal to limit variable consideration recognised as revenue to the amount that is reasonably assured. The alternative of recognizing revenue at fair value with no assurance of realization would lead to a less meaningful revenue number. However, we are not sure that the introduction of a concept of "experience that is

predictive" is helpful. One can never know whether experience will be predictive – maybe "experience that is believed/expected to be predictive" would be better. The list of examples in paragraph 82 of situations that are not predictive is appropriate, but examples of situations where experience is predictive would also be useful.

Additionally, we welcome that, according to paragraph 83, the presence of any one of the indicators in paragraph 82 does not necessarily mean that an entity's experience is not predictive but a transaction has to be considered in its entirety. In our view this will avoid a 'box-ticking'-approach when applying these indicators.

We also welcome the text contained in ED 85 which provides useful guidance. However, in our view, the text should be presented as part of paragraph 82, because it gives further guidance on the reasonable assured concept after taking into account the facts and circumstances of each transaction to be accounted for.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

As stated in our previous comment letter, we do not support the recognition of any liabilities at performance obligation level when the overall contract or combination of contracts is profitable.

In our view, setting the onerous obligation test at the individual performance obligation level will place a great deal of pressure on some of the earlier steps in the process, such as the identification of the performance obligation, the combination of contracts and the allocation of all the elements of the transaction price to the performance obligation. The recognition and measurement of an onerous obligation provision are highly dependent upon the decisions made during those earlier steps, and different entities could consequently arrive at very different conclusions about the provisions required. To illustrate this issue, consider the facts of Example II already used in our response to Question 1 above and replicated here for convenience:

Company A enters into a licence agreement with Company B to transfer the rights to use a compound for a consideration of \$100m. In a separate supply agreement signed on the same date, A is required to supply B quantities of the compound which B cannot obtain from other suppliers on the market. The licence would be useless to B if B did not receive the compounds from A. A supplies the compound to B over a 3 year period at a price which gives rise to a loss on supply of \$20m in total. The fair value of the licence is \$75m. B will continue to use the licence even after the supply agreement is fully executed and completed.

Applying the steps to revenue recognition as proposed, two performance obligations are initially identified:

- i. The transfer of the licence, and

ii. The supply of compound

However, as a result of the commercial objective of the transaction and the interdependency of the two elements, in accordance with our interpretation of paragraphs 29 and B36 of the revised ED both performance obligations are combined into one single performance obligation to reflect the economic substance of the transaction, in which the loss on the supply of the compound is compensated for by an increase in the price of the sale of the licence.

This example raises a number of questions:

If the licence is accounted for as a separate performance obligation satisfied over time, how should the revenue associated with the licence be spread over the supply period and beyond? Should revenue be allocated within the single performance obligation to the licence and recognised when the licence is delivered (an approach similar to that of having a separate performance obligation for the licence)? Should revenue be allocated within the single performance obligation to the licence and then recognised on a pro-rata temporis or other method across the three years of the supply contract? Or should the revenue allocated to the licence be recognised on a basis entirely linked to the sale of the compound? The requirement for a provision for an onerous obligation and its amount could be different in each of these cases.

Given this example, if the Board agrees that the performance obligations identified above should be combined and accounted for as a single performance obligation, it would be helpful if guidance were provided to clarify whether revenue should indeed be allocated to the licence specifically and how that amount should be recognised over time.

Additionally, we are of the opinion that guidance for onerous contracts should be part of IAS 37 due to the fact that this accounting issue is not limited to questions of revenue but has a broader scope. Thus the limitation of onerous contracts to performance obligations with a minimum term of more than one year would be dispensed of.

Moreover, the definition of an onerous contract raises the question of how to allocate discounts to separate performance obligations. In the revised exposure draft the Board has added guidance for the allocation of discounts. As a rule, discounts for contracts with more than one single performance obligation have to be allocated on a relative stand-alone selling price basis. The allocation of a discount entirely to one performance obligation is only possible if certain conditions are met: if an entity regularly sells each good or service in the contract on a stand-alone basis and the observable selling prices from those stand-alone sales provide evidence of the performance obligation(s) to which the entire discount in the contract belongs. We understand that this wording limits the application of this approach to very select cases.

We are concerned that the mechanical allocation of discounts on the basis of stand-alone selling price may lead to outcomes that do not faithfully reflect the economics of the transaction. This would be especially true in multiple element arrangements where the entity provides a discount on the high margin component(s). Allocating the discount pro rata to all components in such a contract may result in the entity reporting a loss on other lower margin components, thus triggering onerous contract accounting and disclosures. We do not think that such a result would faithfully represent the economics



of the transaction, as there is no intention by a seller to provide a discount on a lower margin component.

Instead, we suggest that the discount be allocated to the main component(s) of the sale transaction. In this respect the management approach could provide a valuable and robust indicator for the allocation of discounts. To illustrate our point we include the following example:

Company A enters into a sale and service contract with Customer B, whereby A promises to deliver a product at inception of the contract and to provide services for a period of two years afterwards. Although the stand-alone selling price for the product is CU 50,000 and the stand-alone selling price for the service is CU 2,000, the customer pays only CU 50,000 because instead of reducing the price of the product, the seller promises a service "for free". This means that the service component is meant to be the discount for the sales component of the contract. In this case the full amount of the discount inherent in the combined contract should be allocated to the sale, because this best represents the economic substance of the transaction.

Although the stand-alone selling price model might be ideal from a theoretical point of view, we also have to take into account the challenges created by the application itself. Therefore we strongly recommend not to restrict the allocation of discounts to certain methods but to allow an entity to take into account specific circumstances.

With respect to measurement of a provision for an onerous performance obligation the new proposals do not provide any guidance for the question of whether a provision recognised for an onerous performance obligation should be discounted or not. Currently IAS 37 requires the measurement of the liability at the present value of the present obligation if the effect of the time value of money is material.

According to paragraph 87 the amount of the transaction price allocated to a performance obligation should be compared to the lowest cost of settling a performance obligation. In our view, the allocated transaction price does not represent the right comparable figure. Instead the lowest cost of settling a performance obligation or contract should be compared with the expected benefits to be received under a contract as currently required for the onerous test by paragraph 68 of IAS 37. Otherwise some expected benefits under an arrangement with a customer would not be included in the test as they are conditional on the customer's decisions. Nevertheless, those expected benefits are included in the business calculation. Therefore, the proposed wording of paragraph 87 may disconnect the internal management perspective from external presentation.

Paragraph 86 limits the onerous test to performance obligations satisfied over a period of time that is greater than one year. However, it is unclear to us whether, or how, an onerous test applies to performance obligations satisfied (a) at a point in time or (b) over a period of time that is less than one year.

According to paragraph D21 of the Re-ED, IAS 37 Provisions, contingent liabilities and contingent assets should not be applicable to rights and obligations arising from contracts with customers within the scope of the Re-ED. In contrast, paragraph BC210 includes a reference to paragraph 31 of IAS 2 Inventories, thereby requiring the recognition of any loss from contracts to transfer goods to a customer at a point in time,

even if the entity has not yet acquired those goods that would be recognised as inventory.

Given the reference in paragraph 31 of IAS 2 to IAS 37 for dealing with such provisions it is not clear to us which regulation prevails. Therefore, if the current concept is also part of the final standard, it should be clarified whether either the exclusion of contracts in the scope of the Re-ED from IAS 37 in paragraph D21 or the cross-reference to IAS 37 via paragraph BC210 prevails.

Furthermore, we believe it is not consistent to apply the onerous test to a 13-month contract whereas an 11-month contract is not tested. Hence, economically rather insignificant differences may cause a dissimilar accounting treatment.

Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)*
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)*
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)*
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).*

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

No, we do not agree that an entity should be required to provide each of those disclosures in its interim financial reports. The proposed disclosure requirements are substantially more extensive and detailed than the existing requirements. The inclusion of the detailed qualitative disclosure requirements will increase the size of disclosures. Therefore there should be a careful selection of disclosures that provide the most significant information. From our point of view, the disaggregation of revenue could be important enough to be part of interim financial reporting.

The reason for our rejection of additional new interim disclosures is based on the fact that financial statements for interim periods and financial statements for annual periods reporting have different objectives. Therefore according to the principles in IAS 34



disclosures are different for interim and annual reporting periods. The newly proposed interim disclosures will lead to a further erosion of these principles.

In our opinion IAS 34 currently keeps a sensible balance between the need to provide decision-useful information in interim periods and the costs to preparers. The increase of additional specific disclosure requirements could also negatively affect the timeliness of interim financial reporting. As IAS 34 already applies to interim financial statements, we hold this guidance together with IAS 1 to be sufficient.

Moreover, we are also very concerned about the introduction of an extended array of additional disclosure requirements for annual reporting. This especially applies but is not limited to the tabular reconciliations. The implementation of disclosures that are not based on internally reported items creates significant costs for preparers of financial statements. This is even more burdensome because the users of financial statements do not receive more decision-useful information if management itself does not consider these issues to be of great importance. As the original ED did not include any additional interim disclosure requirements, we miss strong arguments for this requirement. According to our knowledge it was not a predominant issue which was addressed in the comment letter to the ED. We do not understand and do not support the change in mind of the Board with regard to these extended requirements.

Therefore, we urge the boards to significantly decrease the proposed disclosure requirements – not only for the annual reporting as mentioned previously, but also for interim financial reports. We concur with the alternative view of Mr Jan Engström in paragraph AV3 that such disclosures are inappropriate in interim financial reports without undertaking a holistic review of IAS 34. We recommend including such a holistic review of IAS 34 in an overall project to develop a comprehensive framework on disclosures.

With reference to paragraph 117, it appears that a Company whose contracts that were wholly performed during each period (therefore where the net contract asset/liability is always zero) would still have to prepare the reconciliation to present line items that sum to zero. We believe such a requirement to be completely unnecessary and would ask that the IASB clarify that a reconciliation is not required for the many companies that would be in this situation.

Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Yes, we basically agree with the idea that the proposals for the recognition of revenue from contracts with customers should also be applied to the transfer of non-financial

assets that are not an output of an entity's ordinary activities. However, we think the whole issue needs to be evaluated more thoroughly before implementing any guidance. Additionally, it should be assured that the wording in the amendments to other IFRSs will follow the wording used in the final IFRS on revenue recognition.

Further open issues

Who is a customer?

In some industries, it is usual for companies to grant to "others" the right to use patents associated with compounds, technology or other intangible assets via licences as part of the entity's ordinary activities. In such circumstances, it is not clear to us whether such "others" in this context meets the "customer" definition unless the term "goods" also refers to non-inventory items like intangible assets.

With reference to the point mentioned above as to what constitutes a customer, it is our opinion that the wording in paragraph 10 needs either clarification or expansion in order to enable constituents to appropriately apply the definition of a customer. Paragraph 10 states that "a customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities".

On a different note, we acknowledge that where one party to a R & D collaboration is required to reimburse costs associated with the R & D project to the counterpart, then such reimbursements should be accounted for as a reduction in R & D expense and not as revenue.

Inconsistencies between the accounting guidance for rights of return and rights of refund

The revised ED proposes different accounting guidance for sales with a right of return and sales subject to customer acceptance on the one hand and agreements to repurchase an asset at the customer's request (put option) on the other hand. Although the distinction might be feasible from a theoretical point of view, there will be substantial difficulties in practice. In our opinion, this will result in different accounting for transactions with similar economic substance. Therefore we strongly recommend performing a closer examination of the operability of the proposed guidance.

Moreover, with respect to the accounting guidance proposed in B3 we are concerned that neither the refund liability nor the asset for the right to recover products from customers fulfils the definitions of assets and liabilities as laid down in the Framework.

Identifying separate performance obligations

The intended scope of "bundled performance obligations" proposed in paragraphs 27-30 is not sufficiently specific.

Especially the criteria "highly interrelated", "significant integration service", and "significantly modified or customised" proposed in paragraph 29 are not clearly defined.



Transition

In principle, we agree with the retrospective application proposed in the Re-ED. Construction companies often have a large number of ongoing contracts including a high portion of long-term construction and service contracts with highly individualized conditions. Contract durations are up to 10 years, sometimes even up to 40 years (e.g. long-term maintenance contracts). A prospective application would therefore lead to applying two different accounting models for more than 10 years.

However, more practical expedients will be necessary to reduce the very high costs of first time application. US-GAAP filers must present comparative figures for a minimum of two prior reporting periods. Therefore, disclosure requirements for periods presented before the date of initial application should be further reduced. In particular information regarding reconciliation from the opening to the closing balance of contract assets and liabilities might even not give comparable information taking the existing practical expedients (e.g. not to restate contracts completed before the date of initial application that begin and end within the same annual reporting period) into account. Eliminating the existing practical expedients would in our view not be an option taking the high costs of implementation into account.

In general we disagree with the proposal to show the measurement of receivables in a separate line item adjacent to the revenue line item (see Question 2). According to paragraph 69, only for receivables that do not have a significant financing component the difference between measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue recognised shall be presented as a separate line item adjacent to the revenue line item. Currently there is no separation of receivables that have a significant financing component. A practical expedient to include the measurement of receivables that have a significant financing component into the separate line item for - at time of initial application existing - receivables would help to reduce the effort of transition.

Since the new standard will still have pervasive effects on the financial statements we believe that the effective date should be postponed so as to have at least a one year preparation period between the issue of the final standard and the beginning of the first year of comparative figures to be presented. We therefore think that the effective date should be three years from the publication of the standard.

Deliveries from third party suppliers

Paragraph 46 states:

“When applying an input method to a separate performance obligation that includes goods that the customer obtains control of significantly before receiving services related to those goods, the best depiction of the entity’s performance may be for the entity to recognise revenue for the transferred goods in an amount equal to the costs of those goods if both of the following conditions are present at contract inception:

- (a) the cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation; and*
- (b) the entity procures the goods from another entity and is not significantly involved in designing and manufacturing the goods.”*



While acknowledging the boards' intention to prevent an overstatement of revenue and margin (see paragraph BC122), we believe this paragraph is not consistent with the proposed five step approach of the Re-ED. In our view, it is not reasonable to account differently for goods and services within a single performance obligation. This would disconnect the external reporting from the internal management, controlling and reporting perspective which attributes to the single performance obligations only a composite margin. Instead, if it is the boards' opinion that goods as defined in paragraph 46 should be treated differently, this issue should be addressed in step 2 "Identifying separate performance obligations" of the five step revenue recognition model. Otherwise paragraph 46 may appear as remediation of incomplete separation criteria for performance obligations. Additionally, paragraph 46 seems to be applicable only in exceptional cases. Hence, we consider it incompatible with a principle-based approach to include such a specific regulation within the Re-ED.

Therefore, in order to prevent inconsistencies with the proposed revenue recognition model and to avoid the inclusion of rules-based regulation, we consider paragraph 46 as dispensable. Alternatively, if the boards intend to retain the thought on this exceptional case, we recommend transferring the paragraph as guidance to the Basis for Conclusion.

Recognition of contract liabilities

According to paragraph 105, an entity has to recognise a contract liability if either the customer pays or an amount of consideration is due before the entity performs. In our view, a contract liability should not be recognised when the amount of consideration is due but only when the customer actually has paid. This would be consistent with the current approach of the IFRS. We are not aware of the additional decision-useful information that may be provided to users by a change of this approach. Furthermore, a change will trigger corresponding modifications to the IT systems of preparers and thereby result in significant costs.

However, if the paragraph remains unchanged we would appreciate further guidance on the point in time at which a consideration has to be regarded as "due". It should be clarified whether a contract liability has to be recognised when an entity has an unconditional right to payment, correspondingly to a receivable, or only when the customer is actually obliged to pay, considering terms of credit included in a payment request.

References to US GAAP guidance

We are of the opinion that IFRS accounting guidance should not refer to US GAAP guidance. Therefore references as e.g. in BC 160 should be deleted.

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