EFRAG
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Belgium
Email: Commentletter@efrag.org

Attn: Paul Ebling

13 December 2007

Dear Paul,

EFRAG – PAAinE DISCUSSION PAPER: REVENUE RECOGNITION – A EUROPEAN CONTRIBUTION

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies ("SQCs"), which we define as those 2,000+ quoted companies outside the FTSE-350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number.   Their individual market capitalisations tend to be below €500m.

Together SQCs employ over 2 million people and make a major contribution to the UK economy.

The QCA is a founder member of UNIQUE, the Union of Issuers Quoted in Europe, which represents over 3,500 quoted companies in seven EU member states.

This response has been drafted primarily by Nicola D'Souza, who is a member of our Accounting Standards Committee, and who was at the conference call with Mareike Kühne on 20 November 2007.

RESPONSE

We welcome the discussion paper produced by EFRAG's Proactive Acccounting Activities in Europe (PAAinE) on Revenue Recognition, as we are concerned that the accounting treatments under consideration as part of the IASB's revenue recognition project will add unnecessary complexity to accounting guidance for revenue recognition.

We believe that the assets/liabilities approach may lead to earlier recognition of revenue, and we have never come across any issues whereby a company recognised revenue "too late", hence we do not believe this is an issue which needs to be addressed.

For most of our members, the assumption that IAS 18 and IAS 11 are fundamentally flawed standards does not hold true, particularly as we tend to represent companies with relatively 'simple' activities.

With respect to the proposals in the paper, we believe the following comments are relevant:

- We believe a single set of principles are an appropriate objective. We note that different approaches may be appropriate in different circumstances and hence a 'set of principles' would be more appropriate than a single principle, however our aim would be to ensure that the principles do not add additional complexity to simple situations.

- With respect to some of the specific questions addressed in the PAAinE paper around the use of a 'critical event' approach or a continuous approach, we considered a simple example of a table being made and sold. Under the continuous approach, a customer may order a table and if that customer had ordered before, then revenue might be recognised from the outset, ie once half a table was made, revenue might be recognised.

  As noted earlier, this would lead to earlier recognition of revenue which is not necessarily a desirable outcome.

  We believe that in most cases, revenue is better measured by reference to completion (even if this is on a milestone basis) rather than activity. Completion is easier to determine.

- On a broad basis, we agree that a contract should be in place in order for revenue to be recognised.

- We believe that both the critical event approach is more relevant to our members, given their activities tend to be simpler. The continuous approach has merit in certain situations, and there will always be an element of judgement involved in terms of which approach should be applied.

In summary, we are looking for simple rules which work and are understandable, taking a pragmatic approach to recognising revenue, which may be applied by all.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

With kind regards.

Yours sincerely,

John Pierce
Chief Executive

cc: DRSC - info@drsc.de (Mareike Kühne)