



European Financial Reporting Advisory Group ■

EFRAG's position on the IASB Exposure
Draft *Revenue from Contracts with
Customers*

April 2012

EFRAG's overall assessment



	EFRAG position
<i>EFRAG agrees with</i>	<p>EFRAG welcomes the IASB's decision to re-expose the proposals. We note that several significant changes to the original proposals (the '2010 ED') have been made based on feedback received from constituents. These changes have solved many of the concerns raised in EFRAG's comment letter in response to the 2010 ED.</p>
<i>... but is concerned</i>	<p>EFRAG is concerned that some of the proposed requirements are difficult to understand and lack the clarity necessary for consistent application. EFRAG urges the IASB to ensure that the final requirements can be easily understood and implemented.</p> <p>EFRAG is particularly concerned that the ED is unclear on whether or not recognition of revenue is always limited to amounts to which an entity is reasonably assured to be entitled. In the view of EFRAG, revenue should always be limited to the amount to which the entity is reasonably assured to be entitled.</p>

EFRAG's overall assessment



	EFRAG position
<i>EFRAG disagrees with</i>	<p>EFRAG disagrees with the proposals to:</p> <ul style="list-style-type: none">• limit the onerous test to performance obligations satisfied over a period of time greater than one year;• perform the onerous test at a performance obligation level;• disregard the entity's customary practice of satisfying onerous performance obligations when measuring liabilities resulting from onerous performance obligations;• include material subsequent changes in estimated credit losses in a line item adjacent to revenue;• include a requirement to present, as a separate line item adjacent to revenue, the amounts of promised consideration that an entity assesses to be uncollectible because of customer credit risk;• offset advances received against contract assets in all circumstances;• allocate contingent amounts either to all or only to one performance obligation;• require a list of specific disclosure requirements in IAS 34 Interim Financial Reporting; and• include only sales-based variable consideration in the scope of paragraph 85 of the ED.

Satisfaction of performance obligations (Question 1)



	EFRAG position
<i>Recognition of revenue over time - criteria in the ED</i>	<p>In its comment letter in response to the 2010 ED and during the re-deliberations following the 2010 ED, EFRAG's two main concerns were that:</p> <ul style="list-style-type: none">• the 2010 ED did not result in revenue being recognised over time when this approach would provide the most useful information, and• the 2010 ED could result in revenue being recognised without the entity being reasonably assured of having a right to consideration. <p>EFRAG considers that its first concern has now been solved by the IASB.</p> <p>EFRAG is uncertain whether the second concern has been solved.</p>

Uncollectible amounts (Question 2)

	EFRAG position
<i>Effects of customer credit risk</i>	<p>EFRAG disagrees with the proposal to include material subsequent changes in estimated credit losses in a line item adjacent to revenue as this could distort performance indicators such as gross margin.</p> <p>EFRAG also disagrees with the proposal to include a specific requirement to present, as a separate line item adjacent to revenue, the amounts of promised consideration that an entity assesses to be uncollectible because of customer credit risk. EFRAG believes that existing requirements in IAS 1 <i>Presentation of Financial Statements</i> are sufficient to ensure that material items are presented separately when such presentation is relevant to an understanding of the entity's financial performance. However, EFRAG believes that it would be appropriate to require separate disclosure of initially estimated credit losses and subsequent changes to these estimates to the extent they would be material to understanding the portion of reported revenue that is expected to result in cash inflows.</p>

Constraining the cumulative amount of revenue recognised (Question 3)



	EFRAG position
<i>The 'reasonably assured' criterion</i>	<p>EFRAG thinks it should be clarified under what circumstances revenue should be limited to the amount that the entity is reasonably assured to be entitled. EFRAG considers that it is essential that revenue, in all cases, should be limited to the amount to which the entity is reasonably assured to be entitled.</p> <p>In addition, EFRAG believes the IASB should consider the scope of the specific requirements for amounts of consideration related to licencing intellectual property that varies on the basis of the customer's subsequent sales.</p>

Onerous performance obligations (Question 4)

	EFRAG position
<i>Scope and level of the onerous test</i>	<p>EFRAG disagrees with the proposal. EFRAG believes that:</p> <ol style="list-style-type: none">(1) the onerous test should be performed at a contract level;(2) it should cover all contracts with customers (and not only performance obligations that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year); and(3) an entity's past behaviour when settling onerous contracts (or performance obligations) should be considered when assessing the cost of settling a contract (or performance obligation).

Interim Financial Reporting (Question 5)



	EFRAG position
<i>Specific disclosures about revenue and contracts with customers in IAS 34</i>	<p>EFRAG disagrees with the proposal as it considers that the list of specific requirements would not necessarily result in information that is most useful in accordance with the principles on which IAS 34 is based.</p> <p>EFRAG believes that the existing approach to disclosures in IAS 34 strikes the right balance between requiring information that is relevant to users and the costs to preparers.</p>

Transfer of non-financial assets that are not an output of an entity's ordinary activities (Question 6)



	EFRAG position
<i>ED to be applied when determining when to derecognise the asset and the amount of gain or loss to recognise.</i>	EFRAG agrees with the idea behind the proposal but believes the wording of the consequential amendments should be improved. In addition, the IASB should carefully analyse how the proposals will change current accounting practice.

Additional comments (1)

	EFRAG position
<i>Contracts within the scope of the standard</i>	EFRAG thinks the guidance is unclear on determining whether or not a contract is a contract with a customer or a contract with a partner or collaborator (which is outside the scope of the standard).
<i>Allocation of contingent amounts</i>	EFRAG agrees that discounts and contingent consideration shall sometimes be allocated to particular performance obligations within a contract, but thinks that contingent amounts should sometimes be allocated to more than one (but not all) performance obligations within a contract.
<i>Offsetting contract assets against advances received</i>	EFRAG disagrees that the remaining rights and performance obligations in a contract should always be presented on a net basis.

Additional comments (2)

	EFRAG position
<i>Right of return</i>	EFRAG is concerned that it is difficult to distinguish between sale with a right of return; customer acceptance and repurchase agreements and recommends the IASB to clarify the differences.
<i>Disclosure</i>	EFRAG agrees with the objective of the proposed disclosure requirements and thinks that most of the disclosure requirements will help in meeting the objective. However, EFRAG is concerned about the costs of providing the information and question whether the benefits outweigh the costs.
<i>Time value of money</i>	EFRAG thinks that an entity should not be allowed to apply the practical expedient of paragraph 60 in cases where there is evidence that the time value of money is significant to the contract.
<i>Certain types of contracts</i>	EFRAG notes that the proposals in the ED are costly and complex to apply for certain types of contracts (for example the contracts of many telecommunication companies). EFRAG encourages the IASB to try to develop a pragmatic approach to revenue recognition for those types of contracts that results in information that is relevant to users without resulting in disproportionately high costs for preparers.

Additional comments (3)

	EFRAG position
<i>Estimating the stand-alone selling price</i>	EFRAG believes the IASB should develop an approach for dealing with circumstances in which an entity cannot determine stand-alone selling prices.
<i>Clarification issues</i>	In its comment letter, EFRAG has included a list of issues, where it considers the IASB should clarify the requirements proposed.