



European Financial Reporting Advisory Group ■

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

Draft comment letter 20 January 2012

# EFRAG's overall assessment



	EFRAG preliminary position
<i>EFRAG agrees with</i>	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.
<i>EFRAG disagrees with</i>	EFRAG disagrees with the proposals to: <ul style="list-style-type: none"><li>• limit the onerous test to performance obligations satisfied over a period of time greater than one year;</li><li>• perform the onerous test at a performance obligation level;</li><li>• offset advances received against contract assets in all circumstances;</li><li>• allocate contingent amounts either to all or only to one performance obligation;</li><li>• require a list of specific disclosure requirements in IAS 34 Interim Financial Reporting; and</li><li>• include only sales-based variable consideration in the scope of paragraph 85 of the ED.</li></ul>

# EFRAG's overall assessment



	EFRAG preliminary position
<i>EFRAG thinks clarification is needed</i>	<p>EFRAG thinks that clarification is needed on:</p> <ul style="list-style-type: none"><li>• determining whether or not a contract is a contract with a customer, or a contract with a partner or collaborator;</li><li>• how to allocate contingent amounts of consideration to distinct goods or services;</li><li>• how payments should be allocated to transfers of goods and services when considering the time value of money;</li><li>• when consideration should be regarded as variable consideration;</li><li>• whether contracts for which the entire amount of consideration is contingent on the customer's future sales are within the scope of paragraph 85 of the ED;</li><li>• how to distinguish between sale with a right of return, put options and customer acceptance clauses;</li><li>• whether an entity is allowed to estimate the customer's underlying sales in a reporting period for contracts within the scope of paragraph 85 of the ED; and</li><li>• the wording of the amendments to IAS 16, IAS 38 and IAS 40.</li></ul>

# Satisfaction of performance obligations (Question 1)



	EFRAG preliminary position
<i>Recognition of revenue over time - criteria in the ED</i>	<p>EFRAG agrees with the proposed requirements and considers that it solves EFRAG's two main concerns in relation to the 2010 ED that:</p> <ul style="list-style-type: none"><li>• the 2010 ED did not result in revenue being recognised over time when this approach would provide the most useful information, and</li><li>• the 2010 ED could result in revenue being recognised without the entity being reasonably assured of having a right to consideration.</li></ul>

## Uncollectible amounts (Question 2)



	EFRAG preliminary position
<b>Questions to constituents</b>	<p>EFRAG is interested in obtaining views from constituents on the following:</p> <ul style="list-style-type: none"><li>• In which standard(s) should guidance for impairment of conditional and unconditional rights to consideration should be provided?</li><li>• Should specific guidance be developed for how to present uncollectible amounts or should the general guidance of IAS 1 be applied?</li><li>• If specific guidance should be provided:<ul style="list-style-type: none"><li>• Should this guidance be included in the standard on revenue recognition or in IAS 1?</li><li>• How should uncollectible amounts be presented in the statement of comprehensive income initially?</li><li>• How should subsequent changes in the estimates of uncollectible amounts be presented in the statement of comprehensive income?</li></ul></li></ul>

# Constraining the cumulative amount of revenue recognised (Question 3)



	EFRAG preliminary position
<i>The 'reasonably assured' criterion</i>	<p>EFRAG agrees with the proposed requirements. However EFRAG:</p> <ul style="list-style-type: none"><li>• thinks the wording should better reflect the scope of the requirements;</li><li>• disagrees that the time it takes to resolve an uncertainty influences whether or not an entity's experience is predictive of the amount of consideration to which the entity will be entitled;</li><li>• considers it necessary to 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;</li><li>• believes the specific requirements for amounts of consideration related to licencing intellectual property that varies on the basis of the customer's subsequent sales should be clarified.</li></ul>

## Onerous performance obligations (Question 4)



	EFRAG preliminary position
<i>Scope and level of the onerous test</i>	EFRAG disagrees with the proposal. EFRAG believes that: (1) the onerous test should be performed at a contract level, and (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.

## Interim Financial Reporting (Question 5)

	EFRAG preliminary position
<i>Specific disclosures about revenue and contracts with customers in IAS 34</i>	<p>EFRAG disagrees with the proposal as it does not consider the list of specific requirements:</p> <ul style="list-style-type: none"><li>• disaggregation of revenue;</li><li>• a tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period;</li><li>• an analysis of the entity's remaining performance obligations;</li><li>• information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period;</li><li>• a tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer.</li></ul> <p>to be in accordance with the principles on which IAS 34 is based.</p>



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



	EFRAG preliminary 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.

## Additional comments (1)

	EFRAG preliminary 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>Time value of money</i>	EFRAG thinks it should be clarified how to allocate different payments to various transfers of promised goods or services when accounting for the time value of money.
<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 preliminary position
<i>Right of return</i>	EFRAG is concerned that (1) it is difficult to distinguish between sale with a right of return; customer acceptance and repurchase agreements and (2) the guidance will result in economically similar transactions will be accounted for differently.
<b>Question to constituents</b>	<p>EFRAG is interested in obtaining views from constituents on the following:</p> <ul style="list-style-type: none"><li>• Is it difficult in practice to distinguish between what the ED describes as a right of return, a customer acceptance clause and a put option?</li><li>• Do return rights, customer acceptance clauses and put options differ economically?</li><li>• Are there situations where a customer has a significant economic incentive in exercising a return right, but where it would not make sense to consider the transaction to be a lease?</li><li>• How should an entity account for right of returns, customer acceptance clauses and put options?</li></ul>

## Additional comments (3)

	EFRAG preliminary position
<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, it is concerned about the costs of providing the information and questions whether the benefits of providing a reconciliation of contract balances exceed the costs.
<b><i>Question to constituents</i></b>	EFRAG would welcome comments regarding the usefulness and the cost of preparing the disclosures required by the ED and an assessment of whether an acceptable trade-off between costs and benefits is met.

## Additional comments (4)

	EFRAG preliminary position
<i>Early application and effective date</i>	EFRAG thinks that the effective date should be three years from the publication of the standard.
<b>Question to constituents</b>	<p>EFRAG has discussed whether early adoption should be allowed for existing IFRS reporters. Permitting early adoption by existing IFRS reporters would reduce comparability between companies, but it would allow them to move to the improved standard sooner.</p> <p>EFRAG would welcome comments regarding constituents views on whether early application of the new standard on revenue recognition should be allowed for entities already reporting under IFRS?</p>

## Additional comments (5)

	EFRAG preliminary position
<i>Clear requirements that effectively communicates the economic substance</i>	EFRAG understands that some consider the boundaries of a contract to be insufficiently specified in the ED. That is, it is considered unclear how long the contract period is when the customer and the entity have different termination and extension options.
<b>Question to constituents</b>	EFRAG would welcome comment from constituents regarding: <ul style="list-style-type: none"><li>• whether the boundaries of a contract is insufficiently specified;</li><li>• whether they have additional concerns in relation to the clarity of the requirements of the ED; and</li><li>• whether the proposed requirements can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers.</li></ul>