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July 21, 2009

Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Discussion Paper, Preliminary Views on Revenue Recognition in Contracts with Customers (the Discussion Paper or the Paper), which was part of a joint project by the IASB and the US Financial Accounting Standards Board (the Boards).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 (SC1) seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

We appreciate the significant efforts of the Boards in developing a single, contract-based revenue recognition model. With continued effort, the project has the potential to simplify GAAP and

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clarify revenue recognition principles which will result in a more consistent application of those principles. As such, we hope that the guidance that will ultimately be provided upon completion of this project will improve financial reporting and increase the understandability of financial statements. We understand that the Boards are still developing the proposed model and therefore the preliminary views document does not address all of the aspects of the revenue model that will ultimately be necessary. However, we support the Boards efforts with respect to this project and look forward to continued developments in the project. We present below our general observations on the primary issues in the Discussion Paper. Our responses to the specific questions posed in the Paper are in Appendix 1.

General

Status of Discussion Paper

In our responses to several specific questions which are included in Appendix 1, we note that the Boards intend to provide additional implementation guidance as well as to clarify several material aspects of the model. In this regard, the Boards may wish to consider whether the document has been sufficiently developed to warrant the issuance of an Exposure Draft. See our general responses below as well as responses to the individual questions in Appendix 1.

Relevant and Reliable Information about Revenue

We agree with the Boards that revenue is a crucial element of an entity's financial performance and we know the Boards have an objective of promoting high quality information.

In addressing the objective of providing high quality information, we note that the Discussion Paper includes a discussion of certain problems that currently exist in GAAP and proposes to solve these problems with a single model that focuses on changes in assets and liabilities. We believe it may have been useful to include an analysis and discussion about the level of certainty and confidence users expect in assessing revenue. For example, we recognize that the proposals outlined in the Discussion Paper require significant judgment in their application and will result in a certain level of measurement uncertainty. We believe that it may have been useful for the Discussion Paper to include a discussion of the key attributes and features of revenue that are necessary for reliable and decision-useful information. In future discussion papers on this and other topics, we encourage the Boards to consider including an initial higher-level assessment of what key elements and attributes produce decision-useful information for users and other stakeholder groups.

Definitions

Revenue

We believe that it is necessary to include a clear and concise definition of revenue and an accompanying discussion of the basis for the definition wholly within the document. We note that the existing IFRS and US GAAP definitions of revenue referenced in paragraph 1.18 of the Paper were used to develop the proposed revenue recognition principle. However, given that the Discussion Paper is a joint project between the IASB and FASB, we do not believe it is appropriate to refer to two existing and differing definitions of revenue to define the recognition principle in this project. Further, as noted in paragraph 2.2, the existing definitions of revenue suggest that it arises from the changes in assets and liabilities that arise in connection with the provision of goods and services that constitute an entity's "ordinary" or "ongoing major or

central” activities. We believe the Board should clarify which definitions of revenue it intends to incorporate into the proposed model and revisit what is meant by “ordinary activities”. In this regard, we note what seems to be a conflict between the definition in paragraph 7 of IAS 18 and in paragraph 75 of the IASB Conceptual Framework. In this regard, the Conceptual Framework definition allows for a gain to arise in the course of an entity’s ordinary activities whereas revenue in IAS 18 is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity. This seems to suggest that a gain would not be associated with such activities.

Control

We note the discussion in paragraphs 3.18 – 3.20 regarding control. However, we believe that the document would be improved by a more robust, clear definition of control as well as a basis for that definition. Without such a definition, we believe it may be difficult to explain whether control does and does not exist. Additionally, we suggest that the Boards consider the definition of control in other guidance such as in the IASB’s Exposure Draft – *Derecognition: Proposed Amendments to IAS 39 and IFRS 7*, ED 10, FAS 166 and 167.

Implementation Concerns

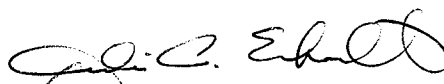
Notion of Control

We understand that the Boards intend to provide additional guidance regarding the satisfaction of performance obligations. We specifically look forward to more comprehensive implementation guidance regarding identification of whether a customer has taken control of the resources underlying a promised asset, and therefore, has control of the asset. It may also be useful to take note of the implementation guidance provided in other documents and standards (as noted above under Definitions – Control) that pertains to the concept of whether control has transferred when providing guidance in this document.

The Paper also seems to use transfer as a proxy for determining whether control has changed hands but also suggests that control can be attained without a transfer in some circumstances. In this regard, how would the existence of significant non-performance penalties affect an analysis of the satisfaction of a performance obligation, notwithstanding that transfer has not occurred? We believe the Discussion Paper should explain how such implicit and explicit contract terms would affect the analysis. Without a more robust discussion, some believe the model would be flawed and not operational.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

APPENDIX 1

Questions for respondents

Question 1

Do you agree with the board's proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We believe that a proposed revenue recognition principle, based on the satisfaction of performance obligations, has the potential to simplify the accounting model and result in a more consistent application of revenue guidance. As such, we support the efforts and proposed direction of the boards' project and look forward to more detailed guidance.

Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

There is more measurement uncertainty in the proposed model because it requires an allocation to performance obligations of the transaction price, which is the probability-weighted estimate of consideration to be received, including uncertain consideration. As noted in Question 13, the allocation is required regardless of whether the entity had previously sold the good or service separately. As such, the proposed model may be more difficult to implement and have more measurement challenges especially for contracts with a higher degree of uncertainty such as long-term contracts and those with contingent payments. For example, the sale of intellectual property with no continuing performance obligation and 20 years of royalty payments would require an estimate of revenue in year 1 based on the probability-weighted consideration expected to be received during the 20 year period. We note the Board's discussion subsequent to the issuance of the Discussion Paper, regarding constraining revenue to that which is "certain" in certain circumstances. We look forward to additional guidance to clarify when and under what circumstances revenue is considered to be certain. Additionally, we are interested in feedback from preparers about other "real-world" examples where reliably estimating revenue might be even more difficult.

Question 3

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

Overall, we agree with the Boards' definition of a contract. We suggest moving and incorporating the language in paragraph 2.14 which clarifies that an arrangement does not need to be in writing to be considered a contract into the definition of a contract in paragraph 2.11.

We particularly look forward to additional guidance regarding when and how to segment contracts. This is a difficult practice issue even under existing GAAP.

Question 4

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

In order for the model to work correctly, there needs to be a complete and accurate identification of the performance obligations and determination of when the identified obligations are satisfied. Under the proposed model this occurs when the good or service is deemed to be transferred which occurs when the customer controls the good or service. We believe that without substantially more clarity and additional implementation guidance both of these aspects of the model may not be operational.

For example, assume a company enters into a long-term contract, in which equal monthly payments are received in exchange for maintenance services as necessary. Is this akin to an "insurance type arrangement" or "stand-ready obligation" with satisfaction of the performance obligation occurring evenly over time or only as maintenance services are provided? We believe there is the potential for a great deal of diversity in accounting for similar types of arrangements.

We look forward to additional guidance regarding the identification of performance obligations.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised asset to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We tentatively agree that performance obligations should be separated in a contract on the basis of when the entity transfers the promised asset or service to the customer. We believe that for a large number of contracts this may be obvious. However, we believe that additional guidance will be necessary to address when transfer occurs and the customer obtains control in more complex arrangements. We are also interested in any examples that constituents identify in response to Question 1 in which the transfer of assets does not accurately reflect the economic substance of the arrangement. Also, see our responses to Questions 8 and 9.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

While we recognize the theoretical merits of considering a right of return in a contract to be a performance obligation, it is not clear to some SC1 members that this approach would produce significant incremental benefits to users of financial statements. Some members also question whether any such benefits would outweigh the costs and complexities of having to separately identify right of return performance obligations in every contract. The current approach of estimating future returns and recognizing a provision at the financial reporting date seems to work sufficiently well in practice and is less complex than the proposal in the Paper. Some also question whether the proposed approach would result in substantively different financial reporting outcomes especially in scenarios where a large number of sales contracts are entered into which is typical of the retail industry. In those situations, the current practice of recognizing

revenue less an aggregate offset provision for estimated returns may not be materially different than recognizing revenue less a right of return offset for each sale.

We are interested in feedback from users in order to understand what they might find most useful.

Question 7

Do you think that sales incentives (e.g. discounts on future sales, customer loyalty points and “free” goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We note the specific sales incentive discussed in the paper which include the scenarios in paragraphs 3.27 – 3.33. Similar to other contingent deliverables promised within a contract, we believe sales incentives do, in fact, give rise to performance obligations and believe that the issue would be one of measurement and the appropriate amount to allocate to the incentive.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We tentatively agree that transfer occurs when the customer controls the assets or receives the promised service. However, we believe the discussion in paragraphs 3.13 – 3.17 regarding the consideration of services as assets needs more development. It is unclear if transfer of an asset and immediate consumption actually takes place for many types of services. For example, consider a year end audit performed by an accounting firm. While it might be true that a performance obligation is satisfied as the audit is conducted, it is unclear what asset is transferred and controlled by the client during the audit. We believe that there maybe legal limitations on the control that an audit client may have over the services (audit procedures) being provided.

See our general comments above related to the definition of control and implementation concerns related to the identification of when an asset transfers to a customer.

Some members also believe that the rebuttable presumption in paragraph 4.56 is an exception to the general notion of when transfer occurs and other members believe that the rebuttable notion may have introduced a new principle. As such, we look forward to additional guidance and clarification regarding the notions of transfer and control as well as additional implementation guidance.

Question 9

The boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Inappropriate Delay in Revenue Recognition – Long-Term Construction Contract

We are concerned that technical compliance with the proposed model may result in financial reporting results that are not reflective of the underlying nature and economics of the arrangement. In this regard, we question whether the model reflects the economic substance of construction contracts in which control, as defined, is not technically deemed to have transferred

until the end of the contract, perhaps because of a customer acceptance clause. In these instances, the revenue recorded may not appropriately reflect the effort expended or depict the progress towards completion and disregards other factors such as economic compulsions which may help ensure that consideration is transferred to the seller. For example, a supply contract may contain a clause that allows for the supplier to be entitled to indemnification for work performed to date.

Inappropriate Acceleration of Revenue - Bill and Hold

Since the notion of transfer in the model is highly legalistic as opposed to being based on a transfer of risks and rewards, it appears that the threshold for being able to recognize revenue on bill and hold transactions may have been lowered. For example, as discussed in paragraph 4.6, if control transfers to the customer but the entity retains physical possession, it appears that revenue recognition may be appropriate even though the transfer of risks and rewards has not occurred. Given that the revenue recognition criteria in the proposed model could be met upon the transfer of title, revenue could be recognized even if the customer has not paid for the product and has a return right.

We understand that the model is in an early stage of development and there are many aspects of the model that need to still be addressed. We look forward to additional guidance and clarification that will be provided.

Question 10

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

- (a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?**
- (b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?**
- (c) Do you think there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristics of the obligations make that approach unsuitable? Please provide examples.**
- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.**

Responses

(a) We believe that in a general revenue model, performance obligations should be measured initially at the original transaction price.

(b) SC1 members have mixed views about the most appropriate onerous test. Some agree that a cost test, similar to that used in IAS 11 and SOP 81-1, is most appropriate. Those that support this approach note that the proposed model requires an onerous test to be performed

for each performance obligation within a contract. Additionally, the proposed model has an increased reliance on estimates that may include an estimate of uncertain consideration extending over a long period of time. As such, the margin buffer should be allowed so an individual performance obligation is not incorrectly deemed onerous. Other SC1 members believe that the current price trigger approach is a more realistic approach that better reflects the economic substance of the performance obligation. They believe that the cost test unnecessarily delays the recognition of a loss.

Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognize those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

- a) **Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?**
- b) **In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.**

Responses

- a) We believe that any amounts that an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations because the amount charged represents the value attributed to those services by the customer.
- b) We believe that contract origination costs should be expensed as incurred.

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We agree that stand-alone selling prices of goods and services are an appropriate basis on which to allocate the transaction price to the performance obligations.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever should the use of estimates be constrained?

We believe that an entity should estimate the stand-alone selling price of a good or service despite not selling the good or service separately.