



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçào Internacional das Comissões de Valore

**April 12, 2012**

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

**RE: Exposure Draft: Revenue from Contracts with Customers**

Our Ref: 2012/JE/TCSC1/IASB/25

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) Exposure Draft: *Revenue from Contracts with Customers*.

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 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 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.

### **Responses to Board's Questions**

#### **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?

#### **Response:**

We are generally supportive of the proposal for determining when a good or service is transferred over time. We are supportive of the Board's efforts to determine when control of an asset is transferred over time and when a customer receives a benefit from goods or services transferred by a vendor. However, we think there are aspects of the proposed guidance for which the Board's intentions should be clarified.

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Request additional clarity on the “right to payment for performance completed to date” criteria in paragraph 35(b)(iii)

We recommend clarifying how an entity should assess whether it is “entitled to an amount that is intended to at least compensate the entity for performance completed to date” when determining whether the entity has a right to payment in accordance with paragraph 35(b)(iii). The basis for conclusions in paragraphs BC101 and BC102 suggests that an entity should evaluate the terms of the contract and contract law in the entity’s jurisdiction in order to assess whether it has a right to payment. Therefore, if the Board intends for the evaluation to be performed based only on the contractual provisions (and contract law), we recommend the Board clarify the language in paragraph 35(b)(iii) accordingly. In addition, we recommend clarifying, as noted in paragraph BC101, that there does not have to be a present unconditional right to payment in order to satisfy the criterion in paragraph 35(b)(iii).

In addition to the suggestions noted above, some Standing Committee No. 1 members recommend the Board clarify that the right to payment in paragraph 35(b)(iii) must survive customer default under the contract, and the right needs to be substantive. For example, an entity may have several contractual and legal remedies in the event the customer does not perform, including (a) a right to terminate the contract and retain the asset and consideration received prior to termination (such as a deposit) or (b) sue the customer for specific performance of the contract. Even though an entity has the contractual right to sue the customer in event of customer default, the entity may rarely pursue such remedy, and instead opt to terminate the contract. This remedy is consistent with that of other vendors in the entity’s market. Irrespective of the entity’s history and general business environment, an entity may determine that the criterion in paragraph 35(b)(iii) is met as it has the contractual and legal right to payment. The other Standing Committee No. 1 members do not believe it would be appropriate to recognize revenue over time in this example as these members do not believe the right to payment is substantive.

We also believe the Board should clarify how the indicators of control would be applied when assessing the transfer of control of an undivided interest in an asset. It is not clear whether an entity should assess the transfer of control of the whole asset or the undivided interest. Further, Example 7 clearly illustrates that the proposed standard intends to permit recognition of revenue on an uncompleted apartment if the criterion in paragraph 35(b)(iii) is met. We think the Board should revise the example to clarify whether an entity should assess performance completed to date based on the apartment or building as a whole and how an entity should assess the land and common areas that are attributable to each apartment when assessing performance to date.

Interaction between the contract modification guidance and evaluation of an asset’s alternative use to an entity

We also recommend that the Board clarify the impact of a contract modification on an entity’s conclusion about whether an entity’s performance creates an asset with alternative use to the entity (as discussed in paragraph 35b). We understand that after contract inception, alternative use would only be reevaluated if a contract modification results in a separate contract or contract termination pursuant to paragraphs 21 and 22a. However, we believe the guidance should be revised to clarify the situations when alternative use would be reevaluated. In addition, based on our understanding of the guidance, it would not be appropriate for an entity to reevaluate whether an asset has alternative use upon macro changes in an entity’s regulatory or business environment. For example, if an entity’s performance is deemed to create an asset with no alternative future use to the entity at contract inception because of

government restrictions on the entity's use of the asset, our understanding is that the guidance would not permit a reevaluation of whether assets have alternative use if the government deregulates the industry in which the entity participates. This could result in an entity continuing to recognize revenue over time for contracts that exist at the date of the deregulation, while revenue on any new contracts would be recognized at a point in time. Without additional clarifying language, it is not clear whether our understanding is consistent with the Board's intent.

**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?

**Response:**

Most Standing Committee No. 1 members believe it is important for the effects of a customer's credit risk to be presented adjacent to the revenue line item, as opposed to the treatment in current practice which presents uncollectible amounts as an operating expense. This view is consistent with the Board's view that customer credit risk should be considered in determining whether there is a substantive contract with a customer but otherwise should not affect recognition or measurement of revenue. Accordingly, impairment losses from contracts with customers are properly presented in a separate line item adjacent to revenue on the statement of comprehensive income.

However, some Standing Committee No. 1 members disagree with the proposal. These members believe that 'day 1' customer credit loss should be recorded in the revenue line item and 'day 2' credit loss should be recorded as an operating expense. These members do not believe that losses from uncollectible receivables should be included within gross margin. These members note that credit losses reflected in the current period can be associated with prior period transactions.

**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 recognizes 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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

**Response:**

We are generally supportive of the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations. However, in situations where an entity does not have experience with similar types of performance obligations, and has to assess other evidence such as access to the experience of other entities, we believe that the Board should clarify the level of assurance that is necessary for the entity to conclude that the experience of other entities is appropriate to be used to satisfy the criterion in paragraph 81(a).

In addition, we believe the Board should clarify the following with regard to the constraint on the cumulative amount of revenue recognized:

- We believe the Board should clarify how an entity should apply the guidance in paragraph 84 in situations where an entity determines that it is not reasonably assured to be entitled to an amount allocated to a performance obligation due to changes in facts and circumstances, even though the entity previously met this threshold. Because the cumulative amount of revenue is constrained to an amount that is reasonably assured, it is unclear whether revenue already recognized would be reversed.
- We believe the Board should be more explicit that the constraint on revenue for licenses of intellectual property provided for in paragraph 85 is an exception to the general guidance on constraining revenue, as provided in paragraphs 81 through 83. We believe that without clarification there is a risk that constituents may interpret the guidance as a guideline and not a rule.

**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 recognize 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?

**Response:**

Some Standing Committee No. 1 members do not believe the Board should include the one-year practical expedients, as noted in paragraphs 60, 86 and 97, for the time value of money, onerous test, and incremental costs of obtaining a contract. Those members do not believe these practical expedients have any conceptual merit and a similar objective will be met by applying general materiality concepts to these aspects of the model. Other members believe that providing the practical expedients is a reasonable way for the Board to alleviate both cost and reporting burdens, in cases in which financial reporting will likely not be materially impacted.

In addition, it is unclear whether the guidance in paragraph 30 would allow for an onerous test to be performed at a level higher than the individual performance obligation.

**Question 5:**

The Boards propose to amend IAS 34 and 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 recognized from the costs to obtain or fulfill 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 statements? 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 statements.

**Response:**

We generally agree that entities should be required to provide the disclosures listed above in their interim financial statements. We believe the Board should also consider requiring disclosure about credit losses recorded in the current period that are associated with prior period transactions. If the Board retains its current proposal for accounting for collectability apart from revenue, the Board should also consider implications for its evaluation of costs vs. benefits.

**Question 6:**

For the transfer of a nonfinancial 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 guidance on control to determine when to derecognize the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

**Response:**

We agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities. In addition to amending other standards, we think the Board should provide an illustration in the proposed standard to demonstrate how an entity should apply the proposed guidance on control and measurement when derecognizing a nonfinancial asset that would not otherwise be in the scope of the proposed standard.

**Other Comments**

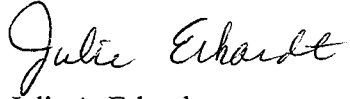
**Variable consideration**

Most Standing Committee No. 1 members agree that the standard should allow an entity to estimate the transaction price using either the expected value or the most likely amount depending on the circumstances, as provided for in paragraph 55. One Standing Committee No. 1 member thinks that the expected value method to estimate transaction price should be required to be applied to all contracts because this member believes expected value most accurately depicts the estimate of the transaction price. If the current approach in paragraph 55 is retained in the final standard, all Standing Committee No. 1 members think the standard should explicitly require an entity to apply the same method of estimating transaction price to similar contracts. The guidance notes that the scenarios in paragraph 55(a) and (b) "may" support that use of either the expected value or most likely amount to estimate transaction price is appropriate. If the guidance is intended to suggest that additional factors should be considered aside from those noted (i.e. large number of contracts with similar characteristics, only two possible outcomes), an example would help to both clarify the intention as well as illustrate the logic used in choosing a method in the example. The Board should consider providing an example illustrating how an entity should evaluate which method is a better predictor of consideration to which it will be entitled.

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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,

A handwritten signature in cursive script that reads "Julie Erhardt". The signature is written in black ink and is positioned above the typed name.

Julie A. Erhardt

Chairman IOSCO Standing Committee No. 1

International Organization of Securities Commissions