



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

June 5, 2009

Sir David Tweedie
Chair
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via E-mail to commentletters@iasb.org

Dear David

International Auditing and Assurance Standards Board – Comments on IASB-FASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*

Staff of the IFAC's International Auditing and Assurance Standards Board (IAASB) appreciates the opportunity to comment on the IASB's and FASB's Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers* (the "Paper"). This comment letter has not been reviewed and approved by IAASB, but we have had the benefit of views from interested parties at the IAASB.

We commend the IASB and FASB for jointly embarking on this project. We believe that establishing a set of principles for the recognition and measurement of revenue arising from customer contracts that can be applied universally will serve the public interest by establishing a consistent basis for revenue recognition that preparers, auditors and users of financial statements can understand without having to refer to detailed accounting rules.

We do, however, have some specific concerns from an auditability perspective regarding how the proposed contract-based revenue recognition model will be applied in practice.

Identifying Performance Obligations and Determining When they are Satisfied

We agree that the proposed definition of a performance obligation provides a useful framework for entities to identify performance obligations more consistently than they do at present. We also agree that a focus on control should, from a conceptual standpoint, result in more consistent decisions about when assets are transferred and performance obligations satisfied. However, we are concerned about the significant judgment that may be involved in the application of these principles for all but the simplest and most straightforward transactions. As the Paper itself notes in paragraph 6.31, identifying performance obligations can be a difficult exercise. In addition, ascertaining when control of an asset passes and therefore when a performance obligation is satisfied may necessitate overly legalistic determinations in complex situations that preparers and auditors alike may not be fully competent to make, leading to significant practical

difficulties and potentially significant disagreement between the preparers and the auditors.

We recommend that the boards consider the practical implications of the proposed new model and undertake appropriate impact assessments and field tests to ensure that it can be universally applied and that the benefits of adopting it would outweigh the costs of changing over from existing revenue recognition approaches. Further, we recommend that the boards provide sufficient appropriate application/implementation guidance to assist preparers and auditors in understanding and applying those principles.

Measurement of Performance Obligations

Paragraph 5.46 of the Paper indicates that the proposed model would require the allocation of the transaction price to each performance obligation in proportion to the standalone selling price of the promised good or service underlying that performance obligation. It further states that where standalone prices are not observable, the entity would estimate them. Whilst we agree that estimating standalone selling prices for allocation purposes represents a logical approach to measuring performance obligations, we are concerned that it may not be possible to reliably estimate such prices in all circumstances where these prices are not observable. The proposed model does not provide for an alternative approach in these situations. We note that under the IASB's *Framework for the Preparation and Presentation of Financial Statements*, a liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be *measured reliably*. Where the entity does not have a reliable basis for estimating standalone prices, the measurement of the separate performance obligations will not be auditable.

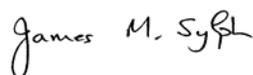
Accordingly, where estimated standalone selling prices cannot be reliably determined, we recommend that the boards consider permitting appropriate alternative bases (such as the expected costs of the promised goods or services) to be used that would enable entities to establish verifiable support for their allocation of the transaction price to the separate performance obligations.

* * *

Subject to our above comments, we encourage the IASB and FASB to move to developing an exposure draft of a revenue recognition standard for IFRSs and US GAAP based on the proposals in the Paper.

Please do not hesitate to contact me or Ken Siong (kensiong@ifac.org) should you wish to discuss any of the matters raised in this submission.

Very truly yours



James M. Sylph
IFAC Executive Director, Professional Standards