

June 5, 2009

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

Dear Sir David:

Comments on Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers

Thank you for the opportunity to comment on the IASB discussion paper Preliminary Views on Revenue Recognition in Contracts with Customers. The Mexican Institute of Public Accountants, through the Commission for the Analysis and Dissemination of Financial Reporting Standards, has analyzed the Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers. The following are our related comments:

Chapter 2 Contract-based revenue recognition principle

1. Do you agree with the boards' 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?

Response: We agree with the basic revenue recognition principle, based on changes in assets and liabilities derived from a contract. The principle has logic and coherence, simplicity and breadth enough to contain - by means of a model - the greater part of revenue recognition transactions. The model will serve as an overall principle to unify criteria and have a consistent basis of application. These characteristics assure that the model will be comprehensible and by its

breadth, will encompass all the transactions that involve revenue recognition, and could take the place of the greater part of current standards, in relation to revenue recognition.

2. Are there any types of contracts for which the board's 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?

Response: The types of contracts in which the basic principle will not provide information useful for **decision-making**, are the contracts already mentioned in the draft, such as: financial instruments, insurance contracts, leasing agreements. Other contracts, such as trust agreements, royalties and dividends could be added.

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.

Response: Yes, the definition meets the terms given by dictionaries and by international law.

Chapter 3 Performance obligations

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.

An entity's performance obligation is a promise in a contract with a customer to transfer an asset (such as a good or a service) to that customer.

Response: Yes, we believe that this definition will help entities identify the deliverables or contract components, because in general terms, contracts for the sale of goods or services imply obligations to do.

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 assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

Response: Yes, we agree, given that clients consider obligations satisfied at the time of receiving the assets or services established in the contract. However, we suggest considering cases in which there can be sales that affect different segments, even when there is only one “performance obligation”.

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?

Response: Yes, we believe that the obligation to accept returns is a “performance obligation” that is independent of the sale of an asset. This is an obligation that derives from the sale of the asset and that should be recognized at different moments in time. The question is how to value this additional service (acceptance of the return).

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?

Response: We consider that sales incentives give rise to a new “performance obligation”. The examples make it clear that the incentives are not related to the conditions of use or functionality of the products sold, and this should be clear in the contracts.

When the discounts can be identified with the product itself, but in taking place at different times, they are finally not attributable to the product sold, in consistency with the response to question 6. We recommend that the standard clarifies the accounting treatment of the deferred income.

Chapter 4 Satisfaction of performance obligations

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.

Answer: We agree with the control-based approach suggested by the board, because the risk and rewards approach will require, in more cases than not, judgment by issuers of financial information and could probably give unexpected results and possibly lead to lack of comparability. For this reason, the definition of control is critical in this standard and should be carefully reviewed by the boards prior to the issuance of the final standard.

In the case of services, we believe that the customer really has been satisfied when he receives the service and in some instances accepts the service as established in a contract.

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.

Answer: Other than those excluded from the scope of this discussion paper, we can not think of any contract that could be affected by this proposed revenue recognition model.

Chapter 5 Measurement of performance obligations

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?

Response: Yes, because the sales price reflects the market value (fair value) at the date the contract is entered into. Perhaps the proposal of an exit price is

similar to the determination of a fair value, in view of the lack of observable market values.

(b) Do you agree that a performance obligation should be deemed onerous and re-measured 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?

Response: Yes, since we do not consider that deferring losses is adequate. Refraining from doing so does not provide useful information to the users of the financial information. This can influence the decision making process in an adverse manner.

(c) Do you think that 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 characteristic of the obligations makes that approach unsuitable? Please provide examples.

We believe that in the application of the proposed standard, the preparers of the financial information could have problems when they do not have available prices for the goods or services that are delivered at the same time. For example, products that are sold with a one to three-year guarantee, and the guarantee is not sold separately. The standard should consider this type of situations, to make it more robust.

(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.

No; however, we consider it necessary to strengthen the standard to include the manner in which we should measure the guarantees mentioned in the response to the previous question. In relation to the method proposed - in this case, guarantees - perhaps it would be convenient to consider the exit price approach.

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?

Response: Yes, even when there is no precise match between the expenses expected to be recovered and their related revenues in the same period, we believe that these effects are not significant. The intention of providing a match between the income and the expenses, may be more laborious and onerous than the usefulness of this information.

(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.

Response: The contract origination costs must be expensed as incurred, except when another standard permits their capitalization.

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?

Response: Yes, we agree, since this will avoid management estimates, and instead market values used by the entity are considered.

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?

Response: Yes we agree, this is consistent with our responses to questions 10c) and 10 d).

Eduardo Ojeda López Aguado

*Chairman of the Mexican
Institute of Public Accountants
(IMCP)¹*

Fernando Morales Gutierrez

Vice-president Legislation

José Javier Jaime Peralta

*President of the Commission for the Analysis and Dissemination of
Financial Information Reporting Standards*

¹ Spanish acronym