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Corporate Accounting

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Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: commentletters@iasb.org

Dear Sir

EXPOSURE DRAFT ON REVENUE FROM CONTRACTS WITH CUSTOMERS

Sappi Limited is pleased to comment on the International Accounting Standards Board (the "IASB" or the "Board")'s Exposure Draft on Revenue from contracts with customers.

Our primary basis of reporting is International Financial Reporting Standards (IFRS), but we are required to comply with certain filing requirements of the Securities Exchange Commission (SEC) in the United States of America due to our listing on the New York Stock Exchange. We therefore are encouraged by the Board's commitment in converging IFRS with US GAAP while at the same time aiming to produce a standard on revenue recognition that would address issues encountered in applying the two reporting frameworks separately.

We would like to thank you for the opportunity to provide comments on this document. Our detailed responses to the invitation to comment questions are included in Appendix A.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Moses Sekgobela
Group Reporting Manager

EXPOSURE DRAFT REVENUE FROM CONTRACTS WITH CUSTOMERS

Appendix A: Invitation to comment

General comments

We note that the Board's intention in issuing the ED is to improve the accounting requirements for revenue recognition and we are encouraged the Board's efforts on this project. We have provided comments on the following specific questions asked by the Board:

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We agree with the Boards' proposal.

Question 3

Do you think that the proposed guidance in paragraphs 25 – 31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

In our view, the proposed guidance and related application guidance is sufficient for determining when control of a good or service is transferred.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We do not agree with the proposal in paragraph 43. Firstly we doubt if entities would enter into a transaction with a customer when there is a high risk that payment will not be made for the goods. An entity is only likely to sell to a customer if the receivable would constitute an asset as defined in the framework. The asset recognition criteria will have to be modified to be in line with the proposed revenue recognition criteria.

The Board seems to be moving to a measurement principle where probabilities are used to reliably measure amounts. A 40% probability that a group of customers could pay for the goods they purchase would result in recognition of revenue where there is significant doubt on recovery. Under currently applicable IFRS no revenue on such sales would be recognised. This proposal could be abused in that an entity may be able to artificially increase revenue especially closer to a financial period end and then reverse these later with the reason that the probability of repayment has reduced further.

Under current IFRS, revenue is generally not recognised if there is a risk that it may need to be reversed. Reversal of revenue in a subsequent financial period could indicate that

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revenue was previously overstated. In a volatile economic environment, the effect of reversing revenue can be material and could render previously published IFRS financial statements leading to decisions that may not have been made if users of financial statements knew that what is reported as revenue may be reversed at a later stage. Investors will be more cautious if there is a change that a significant portion of a company's profits may have to be reversed.

We also note that before the sub-prime crisis that arose, lenders extended finance to individuals with a high risk of default but still recognised revenue on these customers. Recognising lower revenue based on probability does not make it any more likely that a customer in financial dire straits will be able to pay.

We are of the view that revenue for such customers should not be recognised at all until an entity establishes that recovery is reasonably certain. The proposals therefore do not simplify or improve the quality of financial information that an entity would present in its financial statements.

Question 6

Paragraph 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree with the Boards' proposal.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all the separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We agree with the Boards' proposal.

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet the specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational or sufficient? If not, why?

We agree with the Boards' proposal.

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows affected by economic factors? If not, why?

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We agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows affected by economic factors.

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting period presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative that you think is better.

In our view, it will not be practical to apply the proposed requirements retrospectively. The costs incurred by entities that may attempt to apply the requirements retrospectively are likely to outweigh the benefits. The efforts necessary to restate all prior information (information which has already been used for decision making) is unlikely to be worth it given that this will only serve as comparative information.

We suggest a prospective transition approach whereby all non-recognised revenue and performance obligations are recognised using the new IFRS. Entities will have to build trend information as they apply the new IFRS.

Question 17

The Boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model.

Do you agree? If not, why?

We agree with the Boards' proposal (except for comments raised on other questions from this ED), we do not see any aspect of sales of non-financial assets that would make the proposal in the revenue model not applicable.