

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

Re: File Reference No. 1820-100, Revenue from Contracts with Customers

Technical Director, File Reference No. 1820-100 Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856-5116 United States of America

Re: Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Madrid, 22 October 2010

Dear Madam/Sir,

We welcome the opportunity to comment on the proposals set out in the Exposure Draft on "Revenue from contracts with customers", on behalf of SEOPAN. Please, find enclosed as Appendix our answers to the specific questions in the exposure draft.

SEOPAN (Asociación de Empresas Constructoras de Ámbito Nacional) is a grouping of some of the main Spanish construction companies and its members are worldwide leaders in the transport infrastructure concessions industry.

Although we support the new model for Revenue Recognition developed, we would like to call your attention on the following issues:

- Outstanding performance obligation disclosure: We do not think that this
 information will improve the quality of financial reporting. See our answer to
 question 11.
- Product warranty: We do not agree with the change proposed and do not consider these obligations as liabilities any longer. Please, see our answer to question 15.

Do not hesitate to contact us for any additional information or explanation of our suggested answers.

Yours sincerely,

Carlos Gasca SEOPAN



Appendix: Responses to the questions asked in the ED

Recognition of revenue (paragraphs 8-33)

Question 1: Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- (a) to combine two or more contracts and account for them as a single contract;
- (b) to segment a single contract and account for it as two or more contracts; and
- (c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We agree with the proposed principle.

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 proposed principle.

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?

We do think that the proposed guidance is sufficient.

Measurement of revenue (paragraphs 34-53)

Question 4: The boards propose that if the amount of considerations is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

In general we agree with the proposed criteria in paragraph 38. But we would appreciate a deeper explanation of paragraph 35 and the probability-weighted approach. We consider that it can be misunderstood and could be interpreted that contract modifications should be considered at inception (and not according to paragraph 19 that states that shall be recognise in the period in which the modification occurs).



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 as it is very difficult to consider that at inception a company will accept to contract with a customer if expects any default risk. In our opinion, this will happen in a later moment, and as a consequence the credit risk should not be considered in the transaction price allocation rather than as a doubtful debt provision in the moment the company realizes that a default risk exists.

Question 6: Paragraphs 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?

In general we do agree. But we will appreciate if additional guidance relating when a financing component is to be deemed material.

Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all 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 do agree.

Contract costs (paragraphs 57-63)

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 specific criteria.

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

We do think that the suggested requirements are sufficient.



Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

We do agree with the costs specified.

Disclosures (paragraphs 69-83)

Question 10: The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

In general, we agree. But, please also refer to our comments to questions 11 and 12 for our concerns with respect to the disclosure proposals discussed in those questions.

Question 11: The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? In not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We do not agree with the disclosure requirements about performance obligations, in particular the disclosure of the amount of the transaction price, allocated to the performance obligations remaining at the end of the reporting period that are expected to be satisfied in future reporting periods. We do not think that these disclosures will improve the quality of financial reporting, since in the best scenario will only predict revenue for the contracts outstanding at a date. It will not allow predicting the revenue or cash-flows for future years due to a numerous reasons, new contracts awarded in the next year, hazards that amend the expected performance obligation satisfaction schedule, different pattern in performance obligations satisfaction and cash collection, etc.

It should be considered the cost-benefit to provide such disclosures as the periods considered in paragraph 78 are not the same as management analyse this information.



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 are affected by economic factors? If not, why?

We do agree as we interpret that this information is requested at the 'Operating segment' levels as established in IFRS 8.

Effective date and transition (paragraphs 84 and 85)

Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (i.e. as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods 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 and why you think it is better.

We do agree. We do not see a big hurdle.

Application guidance (paragraphs B1-B96)

Question 14: The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

In general we agree, please refer to our answer to question 4 and 6 to consider if additional guidance is necessary for this explicit purpose.

Question 15: The boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?



We do agree with the proposed distinction between types of product warranties and that separately offered extended warranties should be accounted for as a separate performance obligation, accounted for with a deferral of the associated revenue until the performance obligation is satisfied.

We do not agree with how a product warranty should be accounted for the following reasons:

- An entity should allocate the transaction price to all the separate performance obligations at inception (paragraph 50) and an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception (paragraph 53). For a non-commodity industry is hardly difficult to do a perfect estimate of the cost to be incurred for warranty costs at inception. In the case of the construction industry for example, every project is unique and warranty cost can not be estimated based on statistics.
- Due to the difficulties explained above the allocation of the transaction price will
 not be as much reliable as if the product warranty were not considered as a
 separate performance obligation.
- There is another reason to do not consider the product warranty as a separate performance obligation and better to be considered as a liability for the company.
 BC 199 states that the boards considered viewing a quality assurance warranty as either:
 - o a liability to replace or repair a defective product (in that case it will recognize a separate liability for its obligation to replace or repair)
 - o an unsatisfied performance obligation because the entity has not provided the customer with a product that is free from defects at the time of sale. (in that case should be considered as having an unsatisfied performance obligation and revenue should be deferred until the performance obligation is satisfied.
- In our opinion is difficult to distinguish in practice an unsatisfied performance obligation as a performance obligation shall be considered satisfied when the customer obtains control of that good or service. It is difficult to determine that every time that a customer obtains control of a good or service is fully satisfied at that moment and will continue to be in the future for the quality of the goods or services he has been provided. This problem could arise once revenue has been recognised, as originally the customer did not manifest any unsatisfaction for the goods or services transferred.
- If the main reason to reject that warranty should be considered a separate liability is due to that liability is measured at cost, in our opinion this decision should be taken in conjunction with the IAS 37 project

Due to all the difficulties explained above, in our opinion a better fair presentation will be obtained if product warranties are considered a separate liability and not a separate performance obligation.



Question 16: The boards propose the following if a licence is not considered to be a sale of intellectual property:

- (a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and
- (b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the pattern of revenue recognition proposed by the boards? Why or why not?

We agree with the proposal.

Consequential amendments

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 proposal.

Non-public entities

Question 18 [FASB only] Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?