

From: Johannsen, Kai (K-FR/G) [<mailto:kai.johannsen@volkswagen.de>]
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To: Commentletters
Subject: Exposure Draft ED/2010/6 - Revenue from Contracts with Customers

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

Exposure Draft ED/2010/6 – ‘Revenue from Contracts with Customers’

Dear Sir/Madam,

Thank you for the opportunity to comment on your Exposure Draft 2010/6: Revenue from Contracts with Customers. The Volkswagen Group is one of the world's leading automobile manufacturers and the largest carmaker in Europe. With our 100%-owned subsidiary Volkswagen Financial Services AG we are also the largest automobile financial services provider in Europe. On behalf of Volkswagen AG, Wolfsburg, we are pleased to provide you with remarks to the proposed Exposure Draft in response to your invitation to comment.

Volkswagen generally supports the aim of the IASB and FASB to unify the revenue recognition approaches within IFRS and US-GAAP and to improve the comparability of financial statements. However, we have strong concerns if these aims will be reached with the current exposure draft. Beside conceptual questions, we have to state that the standard is very abstract while sufficient guidance is missing. It therefore offers the possibility for a wide spread of interpretation. As we joined several discussions with different counterparties including preparers, auditors and standard setters we got aware how unequal the topics of the draft are already construed. Though this is also true for some topics like multi element arrangements where specific guidance's is missing in the existing IFRS, the present regulations are all in all much more understandable than the proposed wording.

We generally reject the idea that revenues should normally not match to the amount invoiced. The amount invoiced is a highly verifiable measurer and the relevance of revenue as major key performance indicator for users as well as for the company itself largely is based on that fact. Though, again it is also true that revenue is not always measured at the amount invoiced even today, these are – at least in most industries – rare exceptions. Hence, we ask the boards to conserve that convention not to dilute the acceptance of one of the last “hard” key performance indicators left in the IFRS.

For your questions in detail: To keep it short, we refer to the view of Daimler AG that we share in all points, added by the following additional remarks:

Question 5 – adjustments for the customers credit risk

We generally reject that approach as already stated in our comment on your proposed expected loss model. To shorten revenue by the expected credit losses provides a high potential for window dressing and therefore will dilute the acceptability of revenue as key performance indicator.

Question 7 – allocation of the transaction price

We do not agree, that the proposed treatment is suitable in any situation. First of all it should be clearly stated, that when allocating revenue on different components the allocated revenue of a component should not be below costs when the contract in full is not onerous. Second, at least if the stand alone-selling price of some parts can be measured more reliable than the stand alone-selling price of the other parts, the residual value method should be available.

Question 10 – disclosures

On public discussion in Frankfurt we were told by IASB members that the new disclosure requirements only refer to construction contracts. If so, the Boards should state this more clearly; if not, we see no need for more disclosures within the notes for financial statement as this is done more sufficiently in the management report where our users refer to.

Question 14 – sufficient application guidance

We believe that the rules within the standard itself should be clearly stated and understandable not only for high sophisticated specialists, but also – as we are talking about revenue recognition – by the accountants in the smallest reporting unit all over the world, which is clearly not the case. We agree to the board, that a single set of principles is more feasible than a broad set of industry specific standards. However, with the goal of an enhanced comparability between the companies of the same business it would be preferable to have also industry specific guidelines at least for all common transactions in most common industries based on those single set of principles.

Question 15 – warranties

Applying the new concept deferring revenue recognition for standard product warranties normally will have only marginal effect on revenues (at Volkswagen deeply below one percent), but the new approach means substantial implementation costs as well as running expenses as the approach differs to most local GAAPs we are obliged to account in our single statements. Further the approach raises new potential for window dressing and will dilute the acceptability of revenue as major key performance indicator. We therefore ask the board to retain the existing ruling for standard warranties.

Best Regards,

Ingrun-Ulla Bartölke

Dr. Ingrun-Ulla Bartölke
Leiterin Konzernrechnungswesen
und externe Berichterstattung
VOLKSWAGEN AG
D-38436 Wolfsburg