

TRANSLATION

Montreal, October 22, 2010

Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Sir:

Please find enclosed the comments of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec on the Exposure Draft entitled "Revenue from Contracts with Customers."

Please note that neither the Ordre des comptables agréés du Québec nor any of the persons involved in preparing the comments shall have any liability in relation to their use and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

We would appreciate receiving a copy of the English translation of our comments.

Yours truly,

Annie Smargiassi, CA
Secretary to the Exposure Draft Review Committee

c.c.: International Accounting Standards Board (IASB)

Enclosures: Disclaimer and comments

DISCLAIMER

Subject to the conditions described herein, the documents prepared by the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec (the Ordre), hereinafter referred to as the "comments," provide the opinion of members on statements of principles, documents for comment, associates' drafts and final exposure drafts published by the CICA Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board and by other organizations.

The comments submitted by the Committee should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

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Users of the comments shall take full responsibility for, and assume all risks relating to, the use of the comments. They agree to release the Ordre from any claim for damages that could result from a decision they made based on these comments. They also agree not to mention the comments in the opinions they express or the positions they take.

COMMENTS OF THE EXPOSURE DRAFT REVIEW COMMITTEE OF THE ORDRE DES COMPTABLES AGRÉÉS DU QUÉBEC ON THE EXPOSURE DRAFT ENTITLED "REVENUE FROM CONTRACTS WITH CUSTOMERS."

TERMS OF REFERENCE OF THE COMMITTEE

The terms of reference of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec are to collect and channel the views of practitioners in public practice and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the Committee members share the results of their analysis. The comments below reflect the views expressed, and unless otherwise specified, all of the Committee members agree on these comments.

The Ordre has not acted upon and is not responsible for the comments expressed by the Committee.

FOREWORD

The Committee members would like to receive a copy of the English translation of the comments.

GENERAL COMMENTS

Members point out that, unlike what is currently being done, the Exposure Draft entitled "Revenue from Contracts with Customers" has an ambitious objective of proposing a single method for all types of revenue. This poses some application issues for certain types of revenue, more specifically revenue from service transactions and long-term contracts.

QUESTIONS

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?

Members 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?

Members do not agree that the principle should cover all types of contracts. They suggest retaining the principle included in IAS 11, Construction Contracts, for contracts accounted for using the percentage of completion method. Members point out that separating the components of a construction contract that were not negotiated separately with the customer would not adequately reflect the substance of the transaction. Members agree with the principle when it comes to other types of contracts.

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 the members' opinion, the proposed guidance is sufficient. However, some members are uncomfortable with the wording of the text, which suggests analyzing the concept of control from the customer's point of view. Members note that the transfer of control should be analyzed from the perspective of the transferor (supplier) and that this should be reflected in the terminology used in the standard.

Question 4: The boards propose that if the amount of consideration 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.

Members agree that an entity should recognize this revenue on the basis of an estimated transaction price. However, they recommend that paragraph .38 be clarified, as it does not clearly indicate that the criteria are only applicable if the amount of consideration is variable.

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?

Members agree that an entity should recognize revenue on the basis of an estimated transaction price and agree with the criteria proposed in paragraph 38.

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?

Members do not agree that the transaction price should reflect the customer's credit risk. In their view, this approach could limit transparency of the disclosures and prevent financial statement readers from assessing how the entity manages credit and rate risks. They indicate that sales and collections are two separate processes within an entity and that the financial statements should reflect this fact. Members also point out that entities do not have absolute control over credit risk, unlike for their control of rates, which is even more reason for separate treatment. Additional disclosures in the notes to the financial statements would not mitigate the problems mentioned.

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?*

Members agree with this principle.

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?*

Members agree with this principle.

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

Members agree that the proposed requirements on accounting for the costs of fulfilling a contract are operational and 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?

Members agree with the list.

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 the members' opinion, there are too many disclosure requirements. They believe there is a risk that readers will be flooded with countless details on the assumptions used in making the decisions, which would significantly reduce the relevance of the disclosures and prevent readers from understanding the financial information they are being presented. The quality and quantity of disclosures are for the most part a judgment call by the directors. Consequently, members feel that there will be significant

differences between entities and little comparability as well as a potential problem for the auditor attesting to this information.

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? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

Members believe that these disclosures would achieve the intended objectives. However, the periods indicated in paragraph 78 should be replaced by the following:

- (a) Less than one year;
- (b) More than one year / less than 5 years;
- (c) More than 5 years.

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?*

Members feel that the disclosure requirements in paragraphs 74 and 75 are already sufficiently covered by IFRS 8 and IAS 7.

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 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.*

Members are in favor of retrospective application, except for construction contracts covered by IAS 11. They suggest that these contracts be excluded from the scope of the standard and that they should continue to be accounted for as they are now, which is why they did not suggest an alternative method.

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?*

Members believe that the examples should have been more extensive with more complex cases that are found in practice and that additional presentation and disclosure examples should be provided.

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?

Yes, members agree with the proposals.

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 patterns of revenue recognition proposed by the boards? Why or why not?

Yes, members agree with the proposals. In their opinion, the recognition criteria properly reflect the concept of control of a licence.

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?*

Yes, members agree with the proposals.

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?*

N/A