



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

Brussels, Monday 12th March 2012

Ref.: **Exposure Draft ED/2011/6 “Revenue from Contracts with Customers”**

Dear Madam, dear Sir,

We welcome the opportunity to comment on the IASB Exposure Draft *Revenue from Contracts with Customers* published by the IASB in November 2011 (the “ED”).

FIEC is the European Construction Industry Federation, created in 1905, representing via its 34 national Member Federations in 29 countries (27 EU & EFTA, Croatia and Turkey) construction enterprises of all sizes, i.e. small and medium-sized enterprises as well as 'global players', carrying out all forms of building and civil engineering activities.

According to your request, our comments will be focused on Question 1 to 6 (IN38) and on proposed requirements we think are not clear.

Our answers to the ED Question are detailed in the appendix.

We thank you for the opportunity to submit our contribution on this matter.

Yours sincerely,

Ulrich Paetzold

FIEC Director General

Appendix 1

Question 1: Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Although we agree, in general, with the proposal contained in the ED, in our opinion the “Right to payment” criterion proposed in paragraph 35(b)(iii) might be difficult to assess, especially if the interpretation of the criterion depends on contract law which differs with the jurisdiction relevant for the contract. This would require a case by case assessment which is onerous and would infer with uniform accounting principles within an entity.

In addition, we believe it is not clear if the indicator for transfer of control “customer acceptance” is a relevant factor for performance obligations satisfied over time. Looking at the placement of the passage relating to this indicator in the standard [paragraph 37(e)], it seems that it is not relevant for performance obligations satisfied over time. However, paragraphs B55-B58 do not explicitly address the irrelevance of “customer acceptance” for performance obligations satisfied over time.

BC 93 states that “ ...For instance, in many cases an asset will have an alternative use because it is a standard inventory-type item and the entity has discretion to substitute the item across contracts with customers. Because the entity has discretion to substitute the asset being created for a similar item, the customer cannot control the asset.” Then as the core issue of a construction contract is the fact that it is not an inventory-type and so well did the IASB to capture this aspect we propose that the “performance obligation satisfied over time” is provided only with “alternative use” indicator and not also with indicator by 35 b) i)ii)iii). In fact the prediction of the “alternative use” indicator only identifies the core issue and avoids subjective interpretation of the indicator by 35 b) i) ii) iii).

Question 2: Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

We appreciate that the Board has slightly changed its initial proposal that required credit losses to be recognized as contra-revenue. However, the new proposal is not satisfying too. In our opinion collectability losses should be differentiated according to their origins and then presented distinctly in the statement of profit or loss. We agree that credit risk should not impact the revenue line, as we believe it is important to maintain a figure for revenue that represents the consideration the entity is entitled to, under the terms of its contracts with customers and its commercial practice. The risk of non-performance of the customer is of a completely different nature as long as it does not call into question the very existence of a contract, and thus it should not be mixed up with the revenue figure. We therefore believe that such credit risk should not impact the gross margin whose role is to depict the business activity of the current period, and it should not thus be presented in an adjacent line to revenue but be shown as a cost outside gross margin. We believe that mixing expectations about credit loss related to current activity and impairments of receivables relating to activity in previous periods is misleading and doesn’t improve the quality of financial figures reported in the profit and loss statement.

Another aspect to be addressed is par. 69. In this case, we request clarification on whether it really is the intention for the showing of the value adjustment of the account receivable to be dependent upon whether said account receivable contains a substantial financing component or not (...if the contract does not have a significant financing component in accordance with paragraph 58, an entity shall present any

impairment of the receivable (or change in the measurement of an impairment) in profit or loss as a separate line item adjacent to the revenue line item). If this should be the case, there is no basis to justify the "value adjustment" (anticipated loss) at the time the sale. We are of the view that both the initial and the subsequent valuation of the risk of loss should not be shown separately. Insofar as a substantial financial component is included, we do not consider it appropriate for this to be shown directly below the sales revenues. In fact, in our opinion the proposed way to represent credit risk is a significant change from the current practice of representation of credit risk and doesn't provide decision useful information. The disclosure requirements of IFRS 7 already provide sufficient information on credit risk and of a better quality.

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Yes, we agree.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

First of all, we note that the Board has tried to limit the scope of "onerous performance obligations" by providing some scope exclusions; we think that restricting the requirement for tests for onerous obligations to obligations satisfied over time only is questionable.

Second, we disagree with the assumption that the amount rationally paid by an entity would be the lowest amount possible. Where the entity has a stated policy or an observed past practice of settling at a higher amount, we believe liabilities should be measured at the present value of the cash outflows the entity will expect to incur at the time it satisfies its duty. Only in this way will the information provided be of any use in helping users to forecast future outflows.

In addition, we believe that the paragraph 87 b) concerning the notion of "the amount the entity would pay to exit the performance obligation" should be redrafted. Indeed, in view of the debate around Fair Value Measurement and IAS 37 in recent years, it would be useful to reintegrate in the main text, rather than in the basis for conclusion (BC215), the specific point that the exit notion does not require entities to include a margin in this measurement.

Another concern related to par. 86, is that it should be clarified if a provision for contingent losses is to be established at the level of the individually identified performance obligations or at the level of the performance obligations summarised for accounting purposes. Accordingly to the discussion conducted in the past relating to the level at which a goodwill impairment test (segments before or after summary, IAS 36.80) has to be carried out, we think that the level at which the "onerous contract test" should be

performed is the one used for accounting purposes – i.e. after summarizing the performance obligations. In our opinion, onerous test should not be performed at the separate performance obligation level but on the contract level as required by IAS 37. The recognition of a liability for a separate performance obligation will result in information that is not decision-useful if the overall contract is profitable.

Question 5: The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are: • The disaggregation of revenue (paragraphs 114 and 115) • A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117) • An analysis of the entity’s remaining performance obligations (paragraphs 119–121) Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123) • A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfil a contract with a customer (paragraph 128). Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We do not support the proposed disclosures for interim financial reports. In our view, the existing guidance in IAS 34 is sufficient and does not need to be complemented by any additional list of specific requirements. In fact, the main principle as described in IAS 34 paragraph 15 (explanation of events / transactions that are significant to an understanding of the changes in financial position and performance) coupled with disclosures already required in paragraph 16A (in particular, the nature and amount of unusual items, comments about seasonality, changes in estimates and segment information), already strikes the right balance between relevant information for users and costs for preparers. Moreover, even for annual financial reports, we do not agree with providing reconciliations for assets and contract liabilities, as this information does not meet user’s needs (if we can judge by our experience with the “due to / due from” disclosure requirement of IAS 11), and is considered as irrelevant by the management. Obtaining such information will probably require significant changes in accounting reporting systems and we therefore believe that this cost will outweigh the benefits (if any). We would agree to give more detail on some balance sheet items which are relevant information for analysts, for example advances received and trade receivables.

Question 6: For the transfer of a non-financial asset that is not an output of an entity’s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity’s ordinary activities? If not, what alternative do you recommend and why?

While we understand the rationale for replacing all current references to IAS 18 by the new principles for revenue recognition, we would ask the Board to be very cautious with these amendments and their unintended consequences. Indeed, while the forthcoming standard on Revenue recognition is dealing only with one side of the transaction (i.e. the seller side), both IAS 16 and IAS 38 also deal with the recognition aspect. We therefore wonder how the new principles for revenue will interact with the

recognition and measurement of acquired assets. The Interpretation Committee is currently working on some of these aspects (variable payments for assets, time value for inventories ...) and we believe that the Board should first study the whole issue and conduct a serious and comprehensive analysis, before amending the above mentioned standard. As we believe that such analysis goes far beyond the scope of the current project, we suggest the Board to defer the partial planned amendments to other standards.

Other issues:

1. Contract modification (par. 19)

Par. 19 states that "if the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply this [draft] IFRS to the modified contract when the entity has an expectation that the price of the modification will be approved". Accordingly to IAS 11.13 the acceptance of the modification to the contract is due if it's "probable" (even if not approved yet). This raises a question: Is it really the intention of IASB to adopt an increase in the requirements for the consideration of contract extensions? What would be the advantage compared with the provision in force up to now? Is the assumption appropriate that a written addendum to the original agreement signed by the parties involved is not required on account of it being, in accordance with ED, a matter of the legal enforceability of rights and obligations, with the result that the time of the inclusion is apparently dependent on the respective national law. In our estimation, this would not be in line with the principle of "substance over form". We are therefore of the view that amendments to the contract should be taken into consideration if the management regards agreement as being likely (and is taken account of in the planning accordingly). This would correspond to the current provision of IAS 11 to a very great extent and also represent a parallel to IFRS 8 as well as IFRS 7, where the viewpoint of management is clearly classified as being relevant to the decision.

In addition we wonder a variation as provided in IAS 11.13 is in the scope of par. 19 ED Revised? If so then it is appropriate that the variation is treated as the claim (defined in ED Revised as change in price) and then related to the concept of "expected or most likely" (see par 55 of ED revised). In this way there will be a consistent, in fact, for the claim there will be "expected value or most likely amount" and for the variation there will be an "expected event or most likely event".

2. Identifying separate performance obligations

The intended scope of "bundled performance obligations" proposed in paragraphs 27-30 is not sufficiently specific. Especially the criteria "highly interrelated", "significant integration service", and "significantly modified or customised" proposed in paragraph 29 are not clearly defined. Therefore, the intended level of granularity of contract unbundling is not sufficiently clear. Depending on the interpretation of these criteria, the extent of contract unbundling might vary significantly and might lead to a significantly different number of performance obligations as compared to the current accounting based on IAS 11 and IAS 18. For example, it is not clear how to unbundle a contract that comprises multiple elements which do not greatly influence each other but which are integrated by contract management and the explicit intention of the customer to contract for the bundle rather than for the separate elements (e.g. a batch of similar customer specific items). Also, the scope of the criterion "same pattern of transfer" proposed in paragraph 30 is not sufficiently clear. The effect of this criterion on unbundling might be quite different if the same period of time for the rendering of different services included in a multi-element contract is interpreted as a year or as a month.

Although, we are of the view, however, that this cannot be avoided on account of the standard having to be applied industry wide, we believe that in relation to the “same pattern of transfer”, an indication by IASB as to whether this should concern one accounting period (quarter or year) would be necessary where quarterly financial reports are published. We assume that the intention is for the time at which the sales revenues are realised to be virtually identical with or without the summary of the performance obligation, with the result that this evidently depends of the rota of the publications. A similar problem (does the quarterly or annual financial statement take precedence?) had to be resolved by IFRIC 10, which means we share the view that clarification should ensue via IASB.

3. Application of input-methods for contracts comprising significant components procured from another entity

We believe that the timing of revenue recognition for components constructed by suppliers / subcontractors that are part of an integrated performance obligation is not clear, i.e. recognition of revenues should be accounted for during construction or at delivery to customer?

4. Capitalization of contract costs: scope of costs to fulfill a contract and incremental costs of obtaining a contract

The scope of “costs to fulfil a contract” (paragraphs 91-93) is not sufficiently specified so that it is unclear what kind of costs should be capitalised (e.g. start-up costs relating to service contracts, mobilisation costs relating construction sites etc.).

5. Table of reconciliation

Preparers in construction industry are used to apply IAS 11. We ask a table of reconciliation between IAS 11 and ED revised.

6. Effective date and transition

Implementation on 1 January 2015 is difficult and onerous, because of the necessary changes to policies, systems, and procedures, especially due to the proposed disclosure requirements. A delay in the publication of final standard will aggravate this problem. We urge that there should be a minimum period of two years between the date of issuance and the effective date due to the many adjustments to reporting systems and processes that are necessary in order to comply with the proposed standard on revenue recognition.

Also, retrospective application to running long-term contracts is onerous. We perceive a serious mismatch between the benefit of retrospective application for information provided to decision-makers and the costs to produce the required data.