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From: Professor Richard Macve, FCA, Hon FIA, Emeritus Professor of Accounting
London School of Economics, Houghton Street, Aldwych, London WC2A 2AE, UK
Mobile: +44 7976 513336
Email: R.Macve@lse.ac.uk
personal homepage: <http://www.lse.ac.uk/collections/accounting/facultyAndStaff/profiles/macve.htm>

To: IASB/FASB

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Revised Exposure Draft on Revenue Recognition

Further to my comment letters of 21 October 2010 on the previous ED, and of 30 November 2010 on the Exposure Draft on Insurance Contracts, I remain of the view that the conceptual confusion that has now left preparers, auditors, regulators, investors and other users unclear as to the potential role (if any) for Fair Value (FV) in accounting requires that all these areas are revisited and re-exposed together.

An initial exploration of the main issues that are interrelated with other projects is given in: Horton, J., Macve, R. and Serafeim, G. (2011). 'Deprival value' vs. 'fair value' measurement for contract liabilities: How to resolve the 'revenue recognition' conundrum?. *Accounting and Business Research* 41 (5): 491-514.

There is now such conceptual confusion between the approaches proposed in the insurance project, the revenue recognition project, the fair value measurement project and the measurement phase of the conceptual framework project that a fresh start is needed to remove the bafflement currently facing your constituents. Academics, with no vested interest in the final outcome of the Boards' deliberations, may well be the only ones who lose no face by protesting that they simply cannot make sense of the Boards' overwhelmingly voluminous and inconsistent pronouncements.

I trust the paper sets out clearly why a principles based approach to revenue recognition needs to start from rigorous micro-economic analysis of how markets behave; and why this joint FASB/IASB project, which rightly abandons FV, now needs to go back to the drawing-board (alongside the other projects) to give proper consideration to the broader concept of 'deprival value', which the Boards have so far failed adequately to address. This would enable removal of a lot of the confusing 'conceptual' argument paraded in the current Exposure Draft and in the various papers on related projects.

While many difficult issues remain, it would also provide a sound conceptual basis—which is currently lacking—for continuing with much of present GAAP and in particular with much of the current format of income statement and balance sheet presentation.

In the meantime I can see no value in issuing a new Revenue Recognition standard when existing standards, supplemented by additional guidance on 'new' industries and situations as they emerge, are both familiar and largely adequate within the current framework.

(signed electronically)

Professor Richard Macve
Emeritus Professor of Accounting R.Macve@lse.ac.uk