



**International Association of Consultants,
Valuers and Analysts**
707 Eglinton Avenue West, Suite 501
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13 March 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
www.ifrs.org

Dear Sir,

This letter of comment is submitted on behalf of the IFRS committee of the International Association of Consultants, Valuers and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters, issued or pending, covering 54 countries with nearly 10,000 members; they are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the valuation profession especially in Canada (an IFRS country), where we are incorporated, as well as the United States, which has at the moment, a majority of our members.

We appreciate the opportunity to comment on the Exposure Draft ED/2011/6 "*Revenue from Contracts with Customers*". Our observations on the questions set out in paragraph IN38 of this document are as follows:

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?

We concur with the Board's concepts relating to transferring goods and services over time. However, we suggest that the wording of paragraph 35 be expanded to cover the customers' control over items such as process plant modules that are prefabricated in a factory before being installed on site.

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 respectfully disagree with the Board's requirement that the provision for uncollectability be presented as a separate line item adjacent to the revenue line items. From a valuation point of view, a receivable impairment charge (bad debt provision) is an operating expense, not a reduction of revenue. The amount relating to any specific contract need only be disclosed if it has a material effect on the results of the reporting period; anything else is overkill.

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?

IACVA believes that, in the case of variable consideration, the amount recognized as revenue should be management's best estimate at the particular time of the amount to be received based on activities to date. This best estimate will reflect the factors listed in paragraph 81(a) and (b) as well as others management considers appropriate. The "reasonably assured" criteria appears to be unduly restrictive.

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?

The criteria in paragraph 87 relating to an "onerous performance obligation" appear reasonable.

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 recognised 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.

The degree of disclosure in an interim report is always a matter of disagreement. Our views are based on materiality with respect to the valuation process. Our views as to each of the five listed topics are:

(1) *Disaggregation of Revenue*

We believe that such disclosure both by type (products/services, etc.) and source (country/industry) is important for all entities in every reporting period.

(2) *Reconciliation of contract balances*

We suggest that this procedure gives little information with respect to the fair value of the entity or its future cash flow. Therefore, it should only be required in annual audited financial statements.

(3) *Analysis of Performance Obligations*

Our comments of the requirement of paragraph 118(a) to (c) and 119(a) and (b), relating to interim financial statements are:

118 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:

- (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);

This information should be included in the Note relating to the Basis of Presentation of the Financial Statements.

- (b) the significant payment terms (for example, when payment is typically due, whether the consideration amount is variable and whether the contract has a significant financing component);

This data may be important and should be disclosed only when the terms are not standard, as well as for material contracts (over say, 5% of period revenue) or those not at arm's length.

- (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

Again, only disclosure for material or non-arm's length contract is needed.

- (d) obligations for returns, refunds and other similar obligations;

If the obligations are general, they should be included in Note relating to the Basis of Presentation. This is sufficient unless special terms apply to a material or non-arm's length contract.

- (e) types of warranties and related obligations.

Again, if the warrants are standard, include in Note relating to the Basis of Presentation, specific disclosures should be limited to special terms that apply to a material or non-arm's length contract.

119 For contracts with an original expected duration of more than one year, an entity shall disclose the following information as of the end of the current reporting period:

- (a) the aggregate amount of the transaction price allocated to remaining performance obligations; and

This amount is in effect deferred income and should be shown as such in the Financial Statements.

- (b) an explanation of when the entity expects to recognise that amount as revenue.

The Note on Deferred Income normally sets out when it is expected to be earned by years and quarters to the next 12 months. Special disclosures should be only required for material and non-arm's length contracts.

(4) Onerous Performance Obligations

Our view is that the information covered by paragraphs 122 and 123 need only be disclosed on an annual basis.

(5) Deferred Cost Assets

We do not believe that the costs referred to in paragraph 128 gives rise to an asset and that they should be written off as incurred. An exception appears to be necessary for those relating to long term life insurance contracts where the considerable front end costs do give rise to a significant "customer relationship" intangible asset.

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?

With respect to sales of non financial assets, there are considerable differences between real estate and others. We see no need to change the current, well established accounting procedures for the sale of real estate set out in ASC360. We believe they should be included in the IFRS as those types of transactions are often very different from those in other non-financial asset classes. Plant & Equipment is usually sold directly or leased for a short term with a purchase option while intangible assets are usually licensed. The application of the control and measurement requirements of the new IFRS to plant, equipment and intangible assets, is therefore acceptable on the grounds of comparability.

Other Matters

Barter Transactions

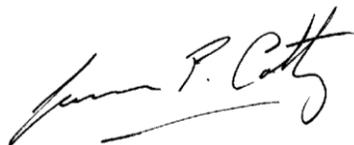
We are concerned that the existing US GAAP reporting for Barter Transactions (ASC605-20) have been deleted. This omission may give rise to revenue overstatement.

Advertising Costs

As set out in our answer to Question 5 (5) relating to Deferred Cost Assets, we believe all advertising expenditures and cost of obtaining contracts should be written off as incurred. An understandable but necessary exception is those relating to long-term life insurance contracts.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of the IFRS Committee of IACVA
Per

A handwritten signature in black ink, appearing to read "James P. Catty", with a horizontal line underneath.

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CGMA, CFE
Chair