



**FletcherBuilding**

Fletcher Building Limited  
810 Great South Road,  
Penrose  
Private Bag 92114  
Auckland, New Zealand  
Ph: 64 9 525 9000  
www.fletcherbuilding.com

The Chair  
International Accounting Standards Board  
1<sup>st</sup> floor, 30 Cannon Street  
London  
EC4M 6XH

Dear Sir,

**Comments on Exposure Draft ED/2011/6 Revenue from Contracts with Customers**

Thank you for the opportunity to comment on the revised revenue proposals.

Overall, we do not believe that the Board has demonstrated the need for a new IFRS on revenue recognition. We can understand the desire to consolidate and make consistent the guidance under USGAAP. However, there doesn't seem to be any indication that the current IFRS standards are failing. It begs the question why detailed new requirements are introduced for IFRS financial statements that would, most likely, result in very little change in the accounting for revenue for most entities.

We also found that the new standard is prescriptive, complex and difficult to read compared to the current standards that are more principles-based, easy to read and well understood. We believe that significant costs will have to be incurred when implementing this new standard or applying it to new transactions (even if it ultimately has no impact on the actual financial statements) because more technical advice will be required. We are concerned that accountants in business will "give up" trying to understand what is required and leave it to technical accountants and academics. This is not a good outcome for standard-setters or the profession.

We fail to see the benefit that the new standard would deliver over and above the current requirements.

## **Comments on specific questions raised**

Our detailed comments on the questions raised are set out below.

### ***Question 1***

We understand what the Board is trying to achieve with the requirements in paragraphs 35 and 36. However, as written, the requirements are very rules-based (like a checklist) and the drafting is convoluted. One has to read and re-read the standard and BC paragraphs in order to understand what is required. It is obvious that the Board had particular examples in mind where revenue recognition over time would be appropriate and hence the requirements were drafted in a way that would achieve that outcome. Our concern is that this approach does not future-proof the standard or would necessarily result in the “right answer” for situations that have not been considered to date. We suggest that a single principles-based requirement be developed. The proposed guidance, clarified as necessary with simpler wording from the BC paragraphs, could be used as examples to illustrate the principle.

### ***Question 2***

We disagree with the proposals set out in paragraphs 68 and 69. In our view the revenue standard should not create exceptions to or different treatment with regards to a receivable that is dealt with under the financial instruments standard. There is no basis for such difference and it will cause confusion. In an arm’s length transaction between two parties one would expect that the transaction would be conducted at fair value and therefore there should be no difference between the amount recognised as revenue (under a revenue standard) and the amount recognised as a receivable (under a financial instrument standard). As mentioned in the BC paragraphs, the issue of impairment arises after initial recognition. Therefore it is strange that the proposals would suggest it would be appropriate to have a difference at initial recognition.

We also disagree with the proposal to include a specific requirement about how the impairment should be presented (i.e. as a separate line adjacent to the revenue line). Firstly it will result in the same types of events (impairment) being presented on different lines in the income statement. Secondly, we believe that explicit presentation and disclosure requirements reduce an entity’s ability to present information in a manner that is useful for the readers of its financial statements. It creates a checklist environment that is inconsistent with where the general thinking around effective disclosures is heading and results in unnecessary conflict between preparers and reviewers of financial statements about clearly immaterial matters. The key is that the information is provided in a way that makes sense for the particular entity.

### **Question 3**

We are perplexed that a standard should deal with a common business decision in such detail. Standards cannot fix a general lack of integrity and creating rules to attempt that, simply incentivise the perpetrators to get around the rules. We believe that a general principle should suffice. Examples could be added as implementation guidance if the Board considers necessary to illustrate some of the more borderline cases considered during the development of the standard.

### **Question 4**

We agree that a loss should be recognised when a contract is onerous and that sometimes it is appropriate to recognise the loss in respect of individual performance obligations. However, we also consider that it may not be appropriate to do this, say for example where the contract as a whole is profitable. Therefore, we believe that judgement should be allowed. Again, we prefer a principles-based approach that will result in an appropriate outcome given a particular set of facts and circumstances. We also suggest linking the requirements to IAS 37, the principles of which are well understood.

### **Question 5**

We disagree with the proposals in respect of interim financial statements. As mentioned before, it is not useful to create rules around presentation and disclosures. In particular, requiring details about movements in balances in interim financial statements (e.g. reconciliations and analyses), would result in key messages being lost in the volume of information. The requirements are unnecessarily onerous where an entity's types of revenue and types of reconciling items are consistent over time – i.e. there are no significant changes to the types of information that was presented in the previous financial statements. We suggest that the final requirements in this regard be consistent with the rest of IAS 34 and consistent with the objective that interim financial statements should provide an update in respect of the current period. We believe that the presentation and disclosure requirements in the final standard should be limited to principles that focus on producing information that is useful to update readers of the financial statements on the key matters that occurred during the interim period.

### **Question 6**

We disagree with the proposed amendments to existing standards for the sale of property, plant and equipment, investment property and intangible assets. We suggest that the Board determines first whether there is an issue with the current principles in respect of the derecognition of such assets before embarking on a mission to introduce detailed and complex new wording in standards that are

well understood and, in our view, applied appropriately in practice. We disagree with an approach to make changes for change sake. Time could be better spend on business matters rather than having to undertake detailed analyses of changes to standards just in case there might be an impact.

## **Comments on other aspects**

### ***Use of the word “asset”***

We note that the Board uses “asset” interchangeably for goods and/or services. We understand the idea as described in paragraph 32. However, this is not consistent with the general use of the term “asset”. We believe that this may be confusing, especially because the term is not defined as such and it is not consistently used throughout the ED.

### ***Level of required disclosures***

We believe that the level of disclosures proposed in the ED is excessive and will require significant costs to generate. In some cases the level of detail that will be required to be disclosed is not collected because it is not used in making business decisions. As mentioned before (and in a number of current thought-leadership publications about disclosures), important messages are getting lost in the detail provided and financial statement disclosures become ineffective in a checklist environment. We are also aware that a number of international projects are currently considering the question of reducing disclosures or making disclosures more effective. We suggest that the Board reconsider the presentation and disclosure requirements proposed in light of these international developments and develop principles-based requirements that are based on the information provided to management for use in their decision-making processes.

If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely,

*John*

John Hames  
Group Controller  
Fletcher Building Limited  
CC NZASB