



International Accounting Standards Board
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Exposure Draft (ED) of Revenue from Contracts with Customers

Dear Sirs

We very much welcome the opportunity to comment on the above-captioned exposure draft.

Holcim welcomes the IASB's decision to re-expose the proposals. We note that several significant changes to the original proposals (the "2010 ED") have been made based on feedback received from constituents. The re-exposure provides constituents with an opportunity to comment on these changes and assess whether the revised requirements are easily understandable and can be implemented in practice without unjustified costs or difficulties.

General comments

In general, Holcim welcomes the changes made to the 2010 ED. However, we disagree with the proposals to:

- Performing the onerous test at a performance obligation level;
- Limiting the onerous test to performance obligations satisfied over a period of time of greater than one year; and
- Requiring a list of specific disclosure requirements in IAS 34 *Interim Financial Reporting*.

Response to the questions asked in the exposure draft:

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?

Holcim agrees with the proposed criteria in paragraphs 35 and 36 of the ED. In our view, the new proposed criteria for when an entity satisfies a performance obligation over time are sensible and reflect that the IASB has listened to the criticism expressed by its constituents in response to the 2010 ED. As such, revenue (and the related costs) for construction contracts would be recognized in profit or loss over time based on work performed to date in a manner which is very similar to that under current IFRS.

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 (below) 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?

In our view, the event which gives rise to the generation of revenue (i.e. sales transaction) is different from the *subsequent* event which may give rise to credit losses on trade receivables (i.e. the expense for doubtful debts arising *after* the sales transaction has taken place) and therefore, this element – credit risk, should be recognized and measured *separately* in the income statement i.e. as a marketing and sales *expense* which is the case at present and not presented as a separate line item directly below net sales which is being proposed.

However, we agree with the proposal to capture subsequent credit risk effects in the same credit risk line. Based on the comments above, this naturally would be against marketing and sales *expense*. This has worked well in the past and continues to work well, and therefore we see no need to apply a model that seems to be of more relevance to financial institutions.

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?

In most sales transactions, Holcim is entitled to a fixed consideration for goods or services transferred to a customer. Notwithstanding this, Holcim agrees with the proposed requirements, as it would not result in a Group company overstating its net sales for a particular period.

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 onerous test should be performed at a contract level

In most sales transactions, Holcim incurs only one performance obligation in a contract, such as the sale of cement to a customer.

Notwithstanding this, Holcim disagrees with the proposal. We believe that the onerous test should be performed at a contract level rather than at the level of the performance obligation, as we consider this would result in more useful information. We do not think a future loss related to a single performance obligation *within an overall profitable contract represents a liability* for an entity.

In particular, losses recognised on individual performance obligations in an overall profitable contract would not meet the definition of a liability under the IASB's Conceptual Framework.

Similarly, the approach would be inconsistent with current IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which applies to "contracts" as a whole, rather than to elements (performance obligations) within contracts, and in fact prohibits recognition of future operating losses.

The scope of the onerous test should not be limited to more than one year

We do not agree with this outcome. For example, we think it is inconsistent that an 11-month contract would not be tested, while a 13-month contract would be covered by the onerous test even though the loss on the 11-month contract could be significantly higher than the loss on the 13-month contract.

Question 5

The boards propose to amend IAS 34 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:

- (a) The disaggregation of revenue (paragraphs 114 and 115);*
- (b) A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117);*
- (c) An analysis of the entity's remaining performance obligations (paragraphs 119–121);*
- (d) 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);*
- (e) 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.

Holcim strongly disagrees with the proposal as it does not consider the list of specific requirements to be in accordance with the principles on which IAS 34 is based.

Holcim acknowledges that revenue is an important figure and information about it should therefore be included in interim financial reports. However, we do not consider the list of specific requirements proposed in the ED to be in accordance with the principles underlying IAS 34 Interim Financial Reporting.

Currently IAS 34 paragraph 16A includes a list of only nine items for which disclosures should always be provided, if material. In addition, IAS 34 paragraph 15 requires an entity to *explain events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period*. This information should *provide an update of the relevant information* presented in the most recent annual financial report.

Holcim believes that the existing approach to disclosures in IAS 34 strikes the right balance between requiring information that is relevant to users and the costs to preparers. We are concerned that increasing the number of specific requirements would set a precedent that could lead to excessively detailed and unbalanced disclosure requirements for interim

reporting which, among other things, could also affect the timeliness of this reporting. If the IASB is concerned about the adequacy of interim reporting under IAS 34 then it should investigate that as part of a separate project on interim reporting.

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?

Holcim agrees that the proposals should also be applied to the transfer of non-financial assets (e.g. PPE) that are not an output of an entity's ordinary activities. In any event, the proposal would not impact current practice since a gain or loss on the sale of PPE is only recognized when the risks and rewards of ownership underlying the asset have been transferred to a third party.

We thank you for the opportunity to submit our contribution to your due process.

If you would like further clarification of the points raised in this letter, either of the undersigned would be happy to discuss these further with you.

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