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International Accounting Standards Board
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Exposure Draft ED/2011/6
A revision of ED/2010/6 Revenue from Contracts with Customers

Dear Sirs,

Instituto Iberoamericano de Mercados de Valores (IIMV) is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft ED/2011/6.

IIMV is an organization formed by securities regulators from the Iberoamerican area that is committed to the development of the transparency and integrity of the securities markets, improve the knowledge of their structure and regulation, enhance the harmonization and encourage the cooperation between supervisors and regulators. Attached we present a list of members of IIMV.

IIMV is of the opinion that the current ED represents an improvement compared to the previous 2010 ED. Although the 2011 ED enhances the consistent application, our main concerns, that are explained in detail in the answers to the specific questions, are related precisely to some aspects of the consistent application. Revenue is an important driver in the assessment of the entities' performance, and divergent views could result in strong differences in the practical application. In that sense, we have included some recommendations in the answer to the specific questions in Appendix A in order to enhance the clarity, and some other issues that we think are important to achieve that goal that have been included in Appendix B.

In general we agree with the proposed changes included in the new 2011 ED, and especially (I) the proposal to present separately and adjacent to the revenue line item the amounts related to the uncollectable promised consideration because of a customer's credit risk and (II) the proposal to specify the disclosures required of interim reporting.



Instituto Iberoamericano
de Mercados de Valores

To the contrary, we are of the opinion that the proposal to apply the onerous test at a performance obligation level could lead to a departure from the objective of relevant and reliable information stated in the IFRS. In addition, allowing early application will have a detrimental effect on the comparability between entities

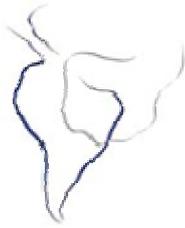
We are pleased of your consideration on the comments included in this letter. If you have any questions concerning them, please contact the General Secretary in Madrid, by email acf@iimv.org or at phone + (34) 91 585 09 01.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'S Cuadra'. The signature is fluid and cursive, with a long horizontal stroke underneath it.

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INSTITUTO IBEROAMERICANO DE MERCADOS DE VALORES (IIMV)

The Council of IIMV is comprised of the maximum authorities of the securities market supervisory bodies in Ibero-american countries and a senior representative of the public administration with regulatory responsibilities for capital market affairs. The Council is chaired by the Chairman of the Superintendencia de Valores de República Dominicana

The current memberships are:

- Comisión Nacional de Valores de Argentina
- Comissao de Valores Mobiliários de Brasil
- Autoridad de Supervisión del Sistema Financiero (ASFI) de Bolivia
- Superintendencia de Valores y Seguros de Chile
- Superintendencia Financiera de Colombia
- Superintendencia General de Valores de Costa Rica
- Superintendencia de Compañías de Ecuador
- Comisión Nacional de Valores de España
- Secretaria de Estado de Economía de España
- Superintendencia del Sistema Financiero de El Salvador
- Ministerio de Economía de Guatemala
- Comisión Nacional Bancaria y de Valores de México
- Secretaria de Hacienda y Crédito Público de México
- Superintendencia de Bancos y Otras Instituciones Financieras de Nicaragua
- Superintendencia del Mercado de Valores de Panamá
- Comisión Nacional de Paraguay
- Superintendencia del Mercado de Valores de Perú
- Comissao do Mercado de Valores Mobiliarios de Portugal
- Secretaria de Estado do Tesouro e das Finanças de Portugal
- Superintendencia de Valores de República Dominicana
- Banco Central de Uruguay
- Superintendencia de Valores de Venezuela

Appendix A: Responses to Specific Questions Posed by the Boards

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 recognizes 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 are generally supportive of the principles specifying when an entity transfers control of a good or service over time. We agree that the proposal improves the one included in the previous ED in order to achieve a greater grade of consistent application. Nevertheless, we are of the opinion that there are still aspects of the proposed guidance that may be improved and clarified to achieve that consistency application goal:

Guidance on identifying whether an asset has an alternative use

Impact of contractual legal limitations

The level of customization of an asset is not included as one of the criteria that could demonstrate that the entity's performance does not create an asset with alternative use to the entity (see paragraph 35 (b)) for the reasons stated in BC 93:

"The boards observed that the level of customization might be a helpful factor to consider when evaluating whether an asset has an alternative use. However, the boards decided that it should not be a determinative factor because, in some cases (for example, some real estate, software or some manufacturing contracts), an asset might be standardized but yet still might not have an alternative use to an entity as a result of contractual or practical limitations that preclude the entity from readily directing the asset to another customer. If a contract precludes the entity from transferring an asset to another customer, the entity does not have an alternative use for that asset because it is legally obliged to direct the asset to the customer."

Conversely, the existence of contractual limitations to transfer a remaining performance obligation is disregarded pursuant to paragraph 35 (b) (ii):

"(ii) another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfill the remaining obligation to the customer. In evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in progress) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity."

Consequently, it seems that the effect of contractual clauses have different implications in the analysis of the existence / non-existence of alternative use. In accordance with paragraph 35 (b) (ii) those clauses are disregarded from the analysis whereas the level of customization of an asset, which in normal circumstances could be considered an indicator of the transfer of control, is not factored in the evaluation for the reasons included in the basis of conclusions.

The implications of the right of payments (paragraph 35 (b) (iii))

Illustrative example 7 described a situation in which the asset (apartment) created by the entity's performance does not have an alternative use to the entity as:

- The contract has substantive terms that preclude the entity from directing the unit to another customer.

- The entity concludes that it has a right to payment for performance completed to date because the customer is obliged to compensate the entity for its performance rather than only a loss of profit if the contract is terminated.
- The entity expects to fulfill the contract as promised.

Therefore, in accordance with the IASB conclusion, the terms of the contract and the surrounding facts and circumstances indicate that the entity has a performance obligation that it satisfies over time.

However, it is not clear how the criteria stated in paragraph 32 are met. In accordance with this paragraph, “... control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly in many ways, such as by:

- a) using the asset to produce goods or provide services (including public services);
- b) using the asset to enhance the value of other assets;
- c) using the asset to settle liabilities or reduce expenses;
- d) selling or exchanging the asset;
- e) pledging the asset to secure a loan; and
- f) holding the asset”

We understand that the facts and circumstances described in example 7 are not conclusive to demonstrate that the transfer of control has taken place pursuant to the above criteria above. Furthermore, the customer has no legal title to the asset, physical possession has not been transferred, the customer has accepted the asset (see paragraph 37) and it is questionable whether the risks and rewards of ownership have been transferred.

The application of paragraph 35 (b) leads the boards to conclude that the performance obligation is satisfied over time despite the fact that other evidence seems to suggest that there is no continuous transfer of control.

As the transfer of control plays an important role in the revenue recognition process, we encourage the IASB to better articulate a clear definition of what constitutes control, which could be provided within the Conceptual Framework. The concept of transferring control in the case of a performance obligation satisfied over time could lead to inconsistent application. In that sense, we encourage the Board to clarify what is meant in paragraph 36 to be unable, either contractually or practically, to readily direct the asset to another customer, and in concrete, to explain the concept of “practically”. In the side of contractual limitations, we also recommend the Board to clarify the impact of contract modifications on the conclusion of whether there is an alternative used to the entity, specially when a change in the legal or regulatory environment would permit an alternative use forbidden or restricted before that change.

Question 2: Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) 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?

IIMV is of the opinion that it is important for investors to see the effects of uncollectable promised consideration due to a customer’s credit risk. Revenue is one of the most important figures to assess the entities performance, so we are of the opinion that the

presentation of the effects of the customer's credit risk is a separate line adjacent to the revenue line constitutes a significant improvement compared to the previous ED, We also support that presentation as being an indicator of the earnings to be assessed by investors.

Having agreed with the proposal, we have some concerns on the following aspects:

- There could be a mismatch between customer credit losses and the corresponding figure of income, as some of the recorded credit losses may relate to previous income reporting periods. In that sense, we encourage the Board to consider a practical solution, as for examples differentiate current losses from previous income losses, or presenting the previous ones as operating expense.
- In relation to the reference to IFRS 9 when assessing the impairment losses, IIMV does not have a complete view as the IASB has not yet taken a final decision on the issue.

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 recognizes 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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?*

IIMV agrees on the proposed constraint on the amount of revenue that an entity would recognize when it is variable. But we have some concerns on the practical application: although paragraphs 81 and 82 provide some guidance as to when an entity is reasonably assured to be entitled to consideration, application of the principle is unclear. This appears to be a highly judgmental area (as also acknowledged in paragraph 83). Also, the introduction of the new threshold "reasonably assured" may lead to differing interpretations and it appears to counteract the requirement of estimating variable consideration (54 and 55). Thus, we suggest reconsidering if estimation of variable consideration in the first place is appropriate. If deemed appropriate, then the distinguishing factors regarding what or what does not constitute reasonable assurance should be clarified by providing a definition of this term.

The fact that the consideration of indicators in paragraph 82 are not decisive according to paragraph 83 may lead to important inconsistencies in the application of the entities' experience to predict the consideration to be entitled, as a lot management judgment may be applied. This could lead to the recognition of very different income figures, especially on those sectors that are very intensive in the use of these types of contracts. Acknowledging the difficulties in establishing a clear set of requirements, IIMV is of the opinion that entities should disclose the facts and circumstances (i.e. how the entity assessed the maximum consideration to be entitled) taken into account in reaching to that figure. In that sense, IIMV encourages the IASB to develop disclosure requirements on this aspect.

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 recognize 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?*

Paragraph 86 restricts onerous performance obligations to performance obligations satisfied over a period of more than one year at contract inception. Paragraph BC208 notes that this is a practical expedient, thus limiting unintended consequences and because this scope is closest to current IAS 11 requirements. However, we find this threshold arbitrary and current practice is to record provisions for such contracts and it is therefore unclear why this practical expedient is needed, specifically because we are currently not aware of unintended consequences. In the practice, applying the general materiality concept to these performance obligations scoped out would have a more robust accounting merit. Scoping out such obligations may result in certain situations in unrecognized contract losses at interim or annual reporting dates which we believe may not be a faithful representation of an entity's financial position as it is recalled under BC204, which states that "*the onerous test provides users with important information by, in effect, remeasuring performance obligations to reflect significant adverse changes in circumstances*".

To the contrary, there are long term contracts that are agreed over a *global* profitability objective, especially on the construction sector, although some of the individual milestone could result in a loss. In that sense, we encourage the Board to test the onerous performance obligation at contract level. IIMV is not convinced by the reason explained in BC297 that using the contract as the unit of account could be arbitrary, as paragraph 17 establishes the requirements for combining two or more contracts. Recording an onerous performance obligation on such situations indeed results in deceptive information to investors.

Question 5: *The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:*

- 1) *The disaggregation of revenue (paragraphs 114–116)*
- 2) *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- 3) *An analysis of the entity's remaining performance obligations (paragraphs 119–121)*
- 4) *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)*
- 5) *A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill 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 statements? 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 statements.

IIMV agrees that there is also a need for relevant disclosures not only at annual financial statements information but also at interim level, when they are material and indeed help investors to assess the revenue performance of the entity. In that sense, we welcome the proposed disclosure requirements.

Nevertheless, we would encourage the boards to obtain the necessary feedback from users and preparers of financial information regarding the appropriateness of the level of disclosures. Furthermore, the level of revenue disclosures to be included in the interim financial statements should be based on *the presumption that anyone who reads an entity's interim report will also have access to its most recent annual report; virtually none*

of the notes to the annual financial statements are repeated or updated in the interim report. Instead, the interim notes include primarily an explanation of the events and changes 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. The requirements of additional disclosure requirements should be governed by a cost-benefits approach. Performing a field testing could help to ensure that all disclosures are relevant for decision making and provided at a reasonable cost by companies.

Lastly, in relation to the customers' credit losses recognition in a separate line item, IASB could consider to add a requirement to split that credit losses into *current period related* and those recorded in the same period but related to previous periods income.

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

We support the application of the control and measurement guidance to the transfer of non-financial assets that are not an output of an entity's ordinary activities.

Appendix B: Other comments

Scope

The scope of the ED excludes non-monetary exchanges of products between entities in the same line of business to facilitate sales to customers other than the parties to exchange for the reasons stated in BC38. However, under US GAAP an exchange transaction where finished products are transferred for raw materials or WIP should be recorded at fair value by the party delivering the finished products (ASC 845-10-30-15).

The example included in the BC refers to the oil industry. However, this issue might also significantly affect real estate companies, especially in the current environment where the lack of liquidity is increasing the utilization of non-monetary exchange transactions. Therefore, we consider that the accounting treatment should be expanded and the interaction with exchanges with commercial substance clarified.

Contract modification

In accordance with paragraph 18 and 19 of the ED, *“A contract modification exists when the parties to a contract approve a change in the scope or price of a contract (or both). If a contract modification has not been approved by the parties to a contract, an entity shall continue to apply this [draft] IFRS to the existing contract until the contract modification is approved.*

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. To estimate the transaction price in such cases, an entity shall apply paragraphs 50–67.”

The reference to the *expectation that the price of the modification will be approved* is not sufficiently elaborated and, consequently, the absence of guidance on the application of this concept could lead to different interpretations, a circumstance that should be avoided.

Identification of separate performance obligations and bundles of products

In order to identify if a bundle of goods and services is a single performance obligation, paragraph 29(a) has been added. It is unclear, however, how goods and services can be distinct (paragraph 28) if they are highly interrelated (29(a)). BC79 explains that this relates to significant integration services, for example in the construction industry, but it may be unclear in other circumstances what this interdependence means and how such interrelation and integration (29(a)) and significant modification or customization (29(b)) should be determined. We believe the IASB should clarify this question.

Transaction price and non-cash consideration

Paragraph 63 requires non-cash consideration to be measured at fair value. Paragraph 50 states that the transaction price (which may include non-cash consideration) is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services. Thus, the inclusion of a fair value measurement seems to contradict the principle of measuring the transaction price at an expected value, specifically in cases where the consideration is variable.

Contract costs

Paragraph 91 and example 15 (IE14) seem to introduce a new class of asset for costs that do not give rise to an asset eligible for recognition in accordance with another IFRS.

Such costs relate directly to a contract, are expected to be recovered and “generate or enhance resources of the entity that will be used in satisfying performance obligations in the future”. This seems fairly open to a wide interpretation. For example, an IT outsourcer will likely have higher costs in the initial stages of a contract even though the contract is satisfied over time. From example 15 and BC220 it appears that their upfront costs for design, migration and testing can be capitalised under the new proposals if they fulfill the criteria in paragraph 92. However, it is unclear how learning curve costs, loss leader costs, costs incurred at a customer’s premises (for example for the design of a customer’s petrol station) and costs of products under long-term contracts should be dealt with (BC 230 – 234). It is also unclear because BC221 refers to not being able to normalize margins over the life of the contract by linking deferral of cost (for example those under paragraph 93) to future satisfaction of performance obligations. It appears that accounting for these costs is unclear and that prohibition of normalizing profit in BC221 is a key point, and as such this guidance should be further developed and considered for inclusion in the standard itself.

Onerous performance obligations

The guidance provided on accounting for onerous performance obligations is unclear. Paragraphs 86 to 90 only address circumstances in which the performance obligation is satisfied over a period of time greater than one year. Other performance obligations are scoped out of the onerous test. For performance obligations satisfied at a point in time, BC210 states that other standards may have relevant guidance and refers to IAS 2.31, which in turn refers to IAS 37. However, as a result of consequential amendments to IAS 37.2(b) (D21), rights and obligations arising from contracts with customers are excluded from the scope of IAS 37. It is therefore unclear how to test performance obligations satisfied at a point in time for whether or not they are onerous (see also AV8(c)).

If performance obligations satisfied at a point in time are tested under IAS 37 if they are onerous, we would like to point out that the measurement basis would be different from requirements under the ED. Paragraph 87(b) requires to take into account costs in paragraph 92, including depreciation of equipment (92(c)). In contrast, IAS 37.68 requires considering unavoidable costs and IAS 37.69 requires an impairment test of equipment dedicated to the contract before recognition of an onerous contract provision. Under IAS 37 it is therefore practice to exclude depreciation of equipment dedicated to the contract because these are not unavoidable, incremental costs.

Disclosures

The ED requires extensive disclosures. This will potentially require entities to capture a large quantity of elements throughout a group of entities. We agree that current disclosure may not always be sufficient (BC243, BC247), for example when accounting policy disclosures are of a boiler-plate nature. It is, however, important to strive for an adequate balance based on a cost-benefit assessment (BC248). From the extensive disclosure requirements it appears that that balance may not have been achieved. We question whether certain new disclosure requirements provide relevant and predictive information to users. For example, reconciling contract assets may provide limited predictive value because there will likely be numerous additional contract wins in the following year and order-backlog information may be a better indicator of future sales. We therefore suggest reconsidering disclosure requirements. We also note that some regulators are questioning the amount of disclosures, thus obscuring the really relevant information.

Classification of asset for the right to recover

B3 requires the recognition of an “asset” for the right to recover products from customers on settling the refund liability. B7 requires the asset to be measured initially by reference

to the former carrying amount of the inventory less any expected costs to recover those products. It is not clear whether the ED is proposing the creation of a new category of assets or whether the products estimated to be returned could or should be presented as stock in consignment (part of inventory) or as contract assets. In our view, the definition of a contract asset is not met, but the company has not sold its inventory and it should present it as such in the balance sheet.

Customer acceptance

ED B58 states that the transfer of goods delivered to customers for trial or evaluation purposes does not occur until either the customer accepts the product or the specified date passes. However, we would challenge, in this scenario, whether a contract exists (ED 13). Consequently, those transactions would not be covered by the ED.

Licensing

The background information included in Example 26 (IE23) states that the franchisor sells similar training services and equipment separately. In our experience, most franchisors provide training services as an integral part of the franchise agreement. Training services are not provided by third parties or to non-franchisees because of the specific nature of the franchise agreements. Therefore, in common circumstances, the provision of training services by the franchisor would not appear to have a distinct function as franchise operations and training are entirely interdependent. As a result, in common circumstances, a franchisor would not have distinct performance obligations, but rather a single performance obligation. We therefore question the specific fact pattern of the example.

Consideration payable to a customer

Example 23 discussing the accounting treatment of product placement fees (slotting fees) by the vendor that was included in the 2010 ED has been withdrawn. However, there is no reference in the BC or other parts of the drafts that clarifies the reasons why this decision has been taken. This issue is particularly relevant because expense recognition rather than a reduction of the transaction price was a significant change from current U.S. GAAP guidance in FASB ASC Subtopic 605-50, Revenue – Customer Payments and Incentives.

Consequently, it would be recommendable to clarify whether and why the boards have reached a different conclusion.

Early adoption

According to the ED, early application will be permitted. We agree that this can cause a lack of comparability between entities and, in consequence, we do not support an early application of the Standard.