



March 13th, 2012

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Madam/Sir,

Exposure Draft ED/2011/6 - Revenue from Contracts with Customers

The Israel Accounting Standards Board is pleased to have this opportunity to comment on the IASB's Exposure Draft ED/2011/6 *Revenue from Contracts with Customers* published in November 2011.

Please find below our detailed comments:

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 agree with that proposal. However, we believe that additional clarification and examples are required regarding paragraphs 35(b)(ii) and 35(b)(iii).

Furthermore, to our understanding, the Board's intention was also to correct a distortion in the financial statements of real estate developers that currently recognise revenues in accordance with IAS 18 only at delivery because the criteria in IFRIC 15 are not met (the customer can't specify the major structural elements of the design of the construction). Most of these real estate developers would meet the criteria for revenue recognition over time according to paragraph 35b(iii) of the Exposure Draft. We would appreciate if the Board could clearly state it in the basis for conclusion, if our understanding is correct.

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?

While we understand the approach of two line items that will present revenues that the entity expects to be entitled to and amounts that the entity assesses to be uncollectible separately, we are concerned with the effect of the proposed presentation on the amount presented as revenues in subsequent periods.

We believe that the requirement to classify subsequent changes in the estimates of amounts uncollectible from customers in the same line item as the initial assessment of amounts uncollectible from customers would impair the understandability of financial statements. The separate line item adjacent to revenues would include both credit losses on revenues recognised during the period and also changes in estimates of credit losses on revenues recognised during prior periods. Therefore, there will be no matching between the revenues presented in a particular period and the credit losses presented in the adjacent line item in the same period. Furthermore, in accordance with paragraph BC171, in most cases no credit losses are recognised on initial recognition and hence typically the credit losses included in the separate line item would be credit losses arising on revenues recognised in prior periods that have no connection to the revenues recognised in the current period. Therefore, we see no justification to include these credit losses in a line item adjacent to revenues. In our opinion, all credit losses should be included in an expense line item and not in the line item adjacent to revenues.

Moreover, in transactions in which the financing element (time value of money) is significant and the credit is for a period longer than one year, the credit risk shall be reflected as part of the interest income and not be presented separately in a line item adjacent to the revenue line item. To our understanding, subsequent changes in credit losses of these transactions would also be included in interest expense and would not be included in the line item adjacent to revenues. This treatment seems to be inconsistent, as the credit risk (and changes in the credit risk) would be recognised in two different line items - one operational and the other non-operational, based on

whether the transactions include a significant financing element. In our opinion, there shouldn't be different presentation of credit losses based on the existence of a significant financing element or based on the length of the credit period and all credit losses should be presented in the same expense line item. We also suggest adding an illustrative example to demonstrate the different treatment of transactions in which the credit is for a period longer than a year and of transactions in which the credit is for a period shorter than a year.

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 an 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?

We generally agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations. However, the relationship between paragraphs 81-84 and paragraph 85 is not quite clear. Paragraph 85 of the Exposure Draft includes an example of variable consideration that does not meet the criterion of "reasonably assured" in paragraph 81. It is unclear if the example is an extraordinary case or is it one of the examples and there are more cases where the criterion is not met. It is unclear what is the underlying concept to the deferral of revenues until the uncertainty is resolved in that example.

Relationship with other IFRSs

1. There is an apparent inconsistency between the constraint in paragraph 81 and the Conceptual Framework. Paragraph 81 requires "reasonably assured" probability in order to recognise revenues while paragraph 4.38 of the Conceptual Framework requires that "it is **probable** that any future economic benefit associated with the item will flow to or from the entity" (emphasis added) in order to recognise an element of financial statements.

2. Paragraphs 35(a) and 52(a) of ED\2010\9 relating to leases prescribe that the lessor shall include in the lease payments receivable an estimate of contingent rentals receivable that the lessor **can measure reliably**. We recommend that the recognition thresholds for contingent rents and variable consideration in lease and purchase transactions, respectively, would be similar.

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 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 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.

We believe that none of these disclosures should be required in interim financial statements and disagree with the proposal to amend IAS 34. Currently, paragraph 15 of IAS 34 requires disclosures of 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 and paragraph 16A requires additional specific disclosures. The disclosures detailed in Question 5 above present information regarding the entity's **ordinary activities** and are not the kind of

events and transactions required to be disclosed according to paragraph 15 or paragraph 16A of IAS 34.

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?

Generally, we agree with applying 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.

However, in our opinion, the practical expedient provided in paragraph 60 (ignoring the time value of money in cases where the period between the payment and the transfer of the good or service is less than a year) is appropriate for frequent sales of inventories, but not for sales of other assets such as property, plant and equipment and intangible assets. Usually, these sales are less frequent than the sale of inventories, and hence, the time value in these transactions should be taken into account.

We appreciate the opportunity to provide our comments.

Sincerely,

Dov Sapir, CPA, Chairman

Israel Accounting Standards Board