



AUTORITE DES NORMES COMPTABLES

**3, Boulevard Diderot
75572 PARIS CEDEX 12**

Phone 33 1 53 44 52 01

Fax 33 1 53 44 52 33

Internet <http://www.anc.gouv.fr/>

Mel jerome.haas@anc.gouv.fr

Chairman

JH

n°53

Paris, the 15th March 2012

Hans HOOGERVORST

Chairman

IASB

30 Cannon Street

LONDON EC4M 6XH

UNITED KINGDOM

Re : ED/2011/6 Revenue from contracts with customers

Dear Mr Hoogervorst,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned exposure-draft (ED). These views result from the ANC's due process, involving all interested stakeholders. More precisely, the due process includes fundamental work by a diversified experts working group, a full fledged discussion of its assessment by a complete Commission competent for all International standards and then a global and strategic discussion in the Collège (Board) before this letter was signed.

The ANC welcomes this renewed opportunity to comment on the IASB's modified proposals. However, these comments are provided in the context of the comment period colliding with the year-end closing of accounts and therefore raise the issues and concerns which have been identified to date, including as regards the subject of transition provisions.

The ANC has expressed, in its previous comment letters, its disagreement with a number of fundamental aspects of the IASB's proposals as regards revenue recognition.

In this context, the ANC is appreciative of the efforts made by the IASB in addressing some of those concerns raised by constituents and by the ANC to its proposals in the previous ED. This should translate into outcomes as per this ED which more appropriately reflect the underlying economic activity and performance of the entity, measured by its value-creation process in order to provide decision-useful information to users than under the previous proposals, although not for all industries (such as telecommunications companies), amongst which :

- the recognition of revenue in the cases of transfer of control over time for construction-type and service contracts ;
- the principle for distinguishing performance obligations ;
- the possibility to apply the most likely method in determining the amount of variable consideration for contracts with binary-type outcomes ;
- the treatment of statutory warranties ;
- the principle for combination of contracts ;
- the accounting treatment of the credit risk ;
- the accounting treatment of costs for obtaining a contract.

However, these improvements do not address the ANC's disagreement on the need for revamping the accounting for revenue recognition under IFRS. The ANC reiterates that it is not aware of major difficulties in existing IFRS in the large majority of cases. The existing IAS 18 and IAS 11 revenue recognition standards have proved to globally work well and provide decision-useful information to users of financial statements by reflecting appropriately the economics of transactions and the performance of entities. Regarding the fact that certain specific issues in IFRS deserve attention, such as multiple-element contracts, we remain convinced that these issues could be fixed through the development of well-targeted guidance. To be more specific, the ANC notes that, to date, approximately 5% of the questions addressed to the IFRS IC or of those published by ESMA from its EECS database relate to revenue recognition. This low level of questioning for such an important line of the financial statements is, to us, evidence that the principles in the existing standards are not deficient. There is therefore, in our view, not sufficient evidence to warrant a complete overhaul of the existing standards, even if these proposals derive from a process of convergence between US GAAP, which does indeed have extensive literature (the existence of such extensive literature may have been questioned for starters), and IFRS.

Nor do the improvements proposed address the ANC's fundamental disagreement as regards the concept of control developed in these proposals. This concept has not been fully considered and debated in the framework project, although this notion is pervasive to the recently published consolidation standard but also to the proposals that were made in the derecognition project. The ANC is particularly concerned with the fact that risks and rewards are now simply an indicator where there is no evidence that this principle was not relevant to IFRS financial statements (as evidenced above) and especially in view of the fact that the proposals on derecognition have been abandoned due to the effectiveness of this principle.

In addition, the ANC considers that undertaking a project on revenue without defining revenue in the context of a company's performance is non-sensical, all the more if this is a topic the IASB is going to pick up in the near future. We refer to our response to the IASB's consultation on its future agenda.

Nor are the following concerns previously expressed by the ANC been appropriately addressed in the ED :

- the proposed requirement to recognise a liability for an onerous performance obligation, even with the reduced scope of the test, while the contract is overall profitable does not result in a faithful representation of the economics of the contract ;

- the accounting for rights of use that are not sales that should have been discussed in the context of the ED Leases and not within this ED. The IASB has admitted in its ED on Leases the lack of conceptual justification for this situation. This, in our view, illustrates the need for changing the way of doing standard-setting, from evidencing needs and better scoping the projects at the outset to impact assessments.

In addition to the disagreements expressed above, the IASB requests comments both on specific aspects of the ED but also on whether ‘the requirements are clear and can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity’s contracts with customers. In this respect and in view of the above, the ANC notes that :

- as evidenced by the number of questions raised in the detailed comments, the draft standard is difficult to read and understand, even for accountants. The basis for conclusions does not always aid comprehension. This is particularly relevant with the use of the notion of ‘alternative use’, amongst others. Moreover, the need to refer to basis for conclusions illustrates the fact that the ED is not based on understandable principles ;
- this is all the more important since revenue recognition permeates an extremely wide variety of actors within an entity, the bulk of whom are not accounting technicians ;
- it is often times difficult to understand whether the intention is actually to change existing practice or not, and if it is the case on what basis ;
- the disclosures required to be provided are too far-reaching, with some of them not being particularly relevant in terms of decision-usefulness to users of financial statements ;
- the disclosures that are proposed regarding interim financial statements, beyond representing a burden for preparers for limited benefits to users, contradict the principle of IAS 34 of updating information from the most recent financial statements for those items that are significant for an understanding of the interim situation ;
- the application guidance is simplistic in the sense that it does not present a case where all of the various parts of the ED come into play, as it purports to foster understanding of a specific issue at a time. It is therefore extremely difficult to appreciate the magnitude of the impacts that the ED would have in such cases. The ANC would have expected the IASB to carry out fully-fledged real-life field tests to determine relevance, operational feasibility and costs of the change it intends to mandate for its preparer constituents.

The ANC concludes that the proposed requirements are not understandable and do not represent a meaningful improvement to the existing revenue recognition requirements in IFRS, all the more in view of the significant costs to be incurred.

For all of the above reasons, the ANC therefore disagrees with the IASB pursuing these proposals further.

Our detailed comments are set out in the attached Appendices as follows :

- in appendix 1 as regards the questions specifically asked by the IASB ;
- in appendix 2 as regards additional comments the ANC wishes to address on other aspects of the ED

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Haas', with a stylized flourish extending to the left.

Jérôme HAAS

Appendix 1 – Questions asked by the IASB

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?

The ANC appreciates the efforts made by the IASB to address some concerns expressed by the ANC and some constituents as regards the way the previous proposals did not enable an appropriate reflection of the underlying economic activity and performance of the entity, measured by its value-creation process in order to provide decision-useful information to users, especially as regards construction contracts and the provision of services over time. However, the proposed requirements are complex and difficult to understand and will thus lead to a number of interpretation issues.

To assess the transfer of control over time, the IASB proposes two criteria, one in the case the entity creates or enhances an asset that the customer controls as the asset is created or enhanced and the other whereby the entity does not create an asset with an alternative use to the entity. The latter is supplemented with three criteria, one of which should be met to qualify for recognition over time.

It is unclear why there is a need for such a distinction between the two cases as, surely, if the customer controls an asset as it is created or enhanced, the entity does not have any alternative use for it. BC 92 explains that the second criterion was developed for cases where it is not clear whether any asset is created or enhanced or for which the entity's performance does not result in a recognisable asset. This creates confusion as the asset notion as defined in the framework encompasses assets that are not recognisable on the balance sheet but also because the notion of alternative use would seem to permeate both cases depicted in the criteria. Determining whether a contract is within one or the other criteria is therefore sometimes tricky.

The ANC understands that the criterion in §35a will in fact be limited to cases whereby :

- the asset is created on land that is controlled by the customer, with this not always being assured in some jurisdictions ;
- the asset that is enhanced is indisputably controlled by the customer.

The ANC is concerned that the bulk of the contracts would actually not fall under §35a but would have to be examined under §35b.i to iii, and particularly that entities would have to rely on §35b.iii. Whilst not denying the usefulness of this criterion to capture some transactions difficulties may specifically arise in cases where the conditions relating to the right to payment are not specifically included in the contract : obviously, to avoid such difficulties, future contracts could be negotiated in such a way to prevent this, even if this may be difficult as it is not necessarily in the business practices to do so. This, however, generates an even greater

problem for the existing contracts and could create difficulties for preparers, either in renegotiating or for recognition of revenue under percentage of completion. The ANC understands that contracts need not be written per §13. It is unclear whether part of contracts may not be written and the enforceability criterion comes into play and other more jurisdictional aspects should be taken into account such as any legal general framework, business practices, etc. In addition, it is unclear whether difficulties could arise from the fact that not all performance obligations are enforceable.

In addition to the above and to illustrate the difficulties encountered in understanding the notion of alternative use, the ANC considered, amongst others, the cases below for which there seems to be no clear-cut answer :

- **Case 1** : An entity has a construction contract with a customer. Under the terms of the contract, should the customer cancel the contract, it is specified that the entity does not have a right to consideration of an amount that is equivalent to the performance to date, ie the payment it would be entitled to is not akin to costs plus a reasonable profit margin (§35b.iii). The entity would keep the construction and is entitled to recover costs plus a margin that is less than the normal profit margin. Would the entity be disqualified from recognising the contract over time ?
- **Case 2** : An entity has a contract in which the advance payments made by the customer are refundable should the customer cancel the contract. Should such cancellation be appreciated on the basis of whether it is probable or not to occur ? It would be surprising not to be able to recognise revenue under percentage of completion accounting in cases where the cancellation scenario is highly improbable due to the fact that the asset constructed is extremely specific and that no other entity would be able to finish the construction.
- **Case 3** : in the case of a predetermined timing of payments which does not coincide with internal milestones determined by the entity to define percentage of completion, could there be cases where the entity would be disqualified from recognising revenue over time ?
- **Case 4** : In the case of a construction type of contract which would qualify for transfer over time of control but for which a certain amount of work is common to the final products for the different customers, would this fact pattern have an impact on the recognition of revenue ? In other words, does the fact that for a given period of time the part that is common could be directed to any customer mean that percentage of completion can only be applied as of the time when the asset may not be directed to another customer ? Could there be a different answer if the market for those products is restricted to a very limited amount of customers ?
- **Case 5** : In the case of a specific product designed for one customer and that would be produced and sold for a given amount of units to be delivered and installed over time, the ED seems to recognise that there would be transfer of control over time and therefore the percentage of completion method would be applied. Whilst the contract is carried out, should a second customer want the exact same product and the entity can then divert (without jeopardising the contract with the first customer nor having to pay penalties) part of the production to satisfy the second customer, the ANC wonders what implications such fact pattern could have on the second contract : would the second contract be disqualified from percentage of completion ?

In view of such cases and more generally, the ANC is very concerned about the understandability of the exposure draft in view of the importance of its consequences. This standard is extremely important as, more than any other, it permeates all entities within a group but more deeply all operational aspects of an entity. As it stands now, it is extremely complex for accountants to understand and therefore to explain to such operational levels. Thus, there is a high risk of misinterpretations and inconsistency in practice, which could also lead to operational and legal risks.

For comments on the general control model, please refer to our comments in Appendix 2, point 2.2.

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?

Presentation of uncollectible amounts

We appreciate the IASB addressing a concern that the ANC had expressed, namely that customers' credit risk should continue to affect only whether revenue is recognised and not how much revenue is recognised.

However, as mentioned in our response to the previous ED, the ANC considers that the customer's credit risk should continue to be presented as a component of costs and not as a reduction of revenue, be it on a separate adjacent line.

The ANC disagrees by the rationale provided in BC 172. The ANC considers that credit risk, in effect, represents the cost of doing business not in the sense of an entity's selling activities but in the sense of its payment collection activities. Therefore, we see no reason why, as mentioned in BC173, this type of impairment should be presented differently from any other.

Link between credit risk and financing component

The ANC notes that there could be an interaction between the amount to be isolated as regards credit risk (under revenue as per the proposals in the ED) and the amount to be isolated (as interest income/expense) regarding time value of money. When the contract has a financing component that is significant to the contract, §61 states that the discount rate "would reflect the credit characteristics of the party receiving financing in the contract", when, on the other hand credit risk needs to be separately evaluated.

The ANC therefore recommends that clarification be brought to this effect.

Contract asset versus receivable

As mentioned in our response to the previous ED, the ED states that a contract asset becomes a receivable on the point in time at which the entity has an unconditional right to consideration (§106). We note that the definition of a receivable within IAS 32 does not require the right to consideration to be unconditional. We are generally not in favour of the use of different definitions within IFRS. In any case, we believe that the Board should clarify the impact of this difference, if any.

In addition, we believe that more guidance should be provided to help entities to determine the point in time at which a contract asset becomes a receivable.

Contract asset vs asset under IAS 11

The ANC considers that the nature of what contract assets represent should be clarified as it seems unclear whether, for instance, work-in-progress is included in the caption of contract asset. In considering collectibility aspects, this does become clearer but it may not be throughout the rest of the ED.

References vs consequential amendments to IFRS 9 or IAS 39

The ED indicates the credit risk on both a receivable and a contract asset should be determined by reference to IFRS 9 or IAS 39.

The ANC notes that some inconsistency would ensue since :

- with respect to IAS 39, one of the consequential amendments proposed is to specifically exclude from its scope any assets and liabilities that are accounted for under the present ED. Currently, we understand that accounts receivables are dealt with in IAS 39/IFRS 9, which is confirmed by the ED in §106(b). Therefore, it should be made clear that the scope exclusion in IAS 39 would only relate to contract assets and liabilities. If such were the case however, it seems strange to refer to a standard for impairment when the said-standard excludes from its scope the items the impairment should be calculated on. The ANC recommends that the scope exclusion should be clarified to state that it relates to contract assets/liabilities with the exception of impairment aspects.
- with respect to IFRS 9, no consequential amendment is proposed to relate to the fact that contract assets should be included in the scope as regards determination of credit risk. Moreover, IFRS 9 defines its scope by reference to the items that are within the scope of IAS 39. Therefore, the ANC would make the same recommendation as above.

Calculating credit risk

In addition, since the IASB is currently developing its proposals regarding expected losses, the ANC would like to recall that it has in the past considered that, in view of the developments regarding impairment, very short term trade receivables should be exempted from the expected loss approach and the incurred loss model should be maintained, such exemption not precluding from using statistical methods for portfolios made of small individual amount-trade receivables, as currently allowed by IAS 39.

Since we understand that it is the IASB's intention that not only trade receivables but also contract assets be dealt with by the upcoming impairment proposals, we encourage the IASB to consider whether their proposals are operational in the context of such items.

Consequential amendments to IAS 1

The ANC notes that, should a mandatory line item be required for showing uncollectible amounts, it follows that a related consequential amendment would be needed in IAS 1.

This, however, could be contradictory to the general flexibility that is provided for in IAS 1. It is therefore questionable that the IASB should require the use of both a mandatory line and a mandatory positioning of such line.

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?

Whilst the criteria required to be met in §81 appear reasonable as they aim to account for revenue to which an entity is reasonably assured to be entitled, there are some inconsistencies and items that warrant clarification, amongst which the following.

Scope of the constraint on the cumulative amount of revenue

The ANC is concerned that there may be difficulties in application due to interactions stemming from the wording of this section with other parts of the standard such as collectibility, changes in transaction price, guidance on sales with right of return, breakage, etc.).

We understand the constraint to be applicable when the amount is expected to be variable, ie when either the amount is totally variable or there is a variable amount in addition to a fixed amount.

It is unclear why there would be no such constraint in the case of solely fixed amounts. In the cases mentioned above, it is unclear whether the ED considers that a contract with a fixed consideration for which there is a right of return is to be considered as a contract with variable consideration.

Amount of consideration highly susceptible to factors outside an entity's influence

Under §82(a), we understand that factors highly susceptible to factors outside an entity's influence may not be predictive of the amount of consideration to which the entity will be entitled.

The ANC understands the objective of this indicator but notes that there are a number of items that are outside an entity's influence that are, in fact, predictive. Therefore, there is a risk of variability in appreciation of what is highly susceptible and not predictive.

Moreover, the ANC considers that it should be made clear that the same set of data in terms of projection of future cash flows should be used for constraining revenue as for any impairment calculation, before any element related to credit risk is taken into account.

The ANC understands that §85 systematically rejects taking into account variable consideration based on sales by the customer in the case of intellectual property until the sales by the customer actually occur.

It would therefore potentially appear that :

- in the cases of intellectual property for which variable revenue is based on sales by the entity's customer, the variable revenue by the entity would be recognised only upon the sales performed by the customer ;
- in the cases of other goods or services for which variable revenue is based on sales by the entity's customer, which could, for instance, be the case of some type of consignment arrangements, the entity would have to make a judgment call as to whether the amount of consideration is highly susceptible to factors outside the entity's influence thus potentially leading to diversity in practice ;
- in the cases of other goods or services for which variable revenue is based not on sales by the customer but on the customers' customer for example, the entity would also have to exercise judgment to determine whether it can recognise the variable revenue based on the predictability of its experience.

The diversity of treatment of these different cases is puzzling. Unfortunately BC 203 does not appear to provide any convincing rationale for such differing treatments.

The ANC would therefore recommend that the IASB more clearly articulates the rationale relating to §§ 82a and 85.

Licences of intellectual property

In addition to the issue raised above which relates to the scope of the transaction (limit to intellectual property), the ANC wonders whether this paragraph, if deemed appropriate, captures the right types of transactions as :

- some transactions give rise to consideration that may be entirely variable and not only have a fixed and an additional amount that varies, as the paragraph seems to imply ;
- some transactions give rise to consideration that may vary based on other types of metrics such as the customer's level of margin, its production, its added value, or even in the case of success fees.

The ANC sees no reason why the scope of this requirement should be restricted and considers that, if the intent is such that the transactions captured are restricted, the rationale needs to be more clearly articulated and rationalised.

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?

As mentioned in our response to the previous ED, the ANC considers that recognising losses on a performance obligation basis, even with the limitations brought into the current ED, whilst the contract is overall profitable, will not provide useful information to users as it does not reflect the economics and the performance of the contract.

It appears counterintuitive to recognise an onerous provision for the first performance obligation to be performed when the subsequent profitable performance obligations are also recognised within the contract asset/liability caption.

We therefore believe that the existing IAS 37 approach, based on an overall approach of the contract (after segmentation/combination), provides relevant information on onerous contracts and thus should be maintained.

We understand that the limitations brought into the current ED as regards the scope of the onerous test are meant to alleviate the burden of preparation for preparers. However, it may have as a consequence that no liability would be recorded for performance obligations that are to be satisfied within a year or at a point in time and that are onerous, when that amount could in fact be quite material. These may have been captured by the general provisions of IAS 37 on onerous contracts but for the deletion of the scope exception proposed. This unbalanced way of approaching the analysis of onerous performance obligations reinforces our view that it is nonsensical to recognise losses when the contract is overall expected to be profitable.

Therefore, the ANC considers that the scope exception in IAS 37 should be maintained to refer back to the standard dealing with contracts with customers.

In addition, the ANC notes that the ED uses different terminology than that in IAS 37 : the ED refers to the ‘lowest cost of settling’, when IAS 37 refers to the ‘unavoidable costs of meeting obligations under a contract’. The ANC wonders whether such difference in terminology is warranted.

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.

General disclosure requirements

As mentioned in our previous responses, the ANC considers that the information required will result in disclosure overload for less benefit to users than is actually expected in comparison to the significant costs that preparers would have to incur to produce such disclosures. From the way the disclosures are required, it is unclear whether materiality comes into play when preparing disclosures under these proposals.

Whilst the ANC understands users' requests for more disclosures, it notes that some of the information required to be disclosed is not captured in existing financial reporting systems, because management is not based on those types of numbers but also because users have not requested such type of information in the past, even for companies applying IAS 11. This is particularly the case for the reconciliation of contract balances and of the cash collected, and even more so for sales for which revenue is recognised point in time. To these two particular points, the ANC notes that example 19 on the reconciliation of contract assets and liabilities requests information which in effect would be akin to some information which would be provided under a direct cash flow statement, to which the ANC is opposed. Preparers would therefore have to incur significant costs to put in place systems that would be able to produce such numbers. Moreover, users do not appear to be overly enthusiastic about these disclosures.

Therefore, the ANC recommends that the relevance of these disclosures be field-tested with users, auditors and preparers to more positively determine the cost/benefit ratio.

Disclosures required for interim financial reports

The ANC disagrees with the proposals to provide more detailed disclosures in interim reports than are currently provided in accordance with the underlying principle of IAS 34. This principle consists in updating the information provided in the most recent annual financial statements for events and transactions which are significant for the understanding of the changes since those financial statements.

The requirements are based on the rationale (see BC272-273) that the information regarding revenue recognition would be expected to change significantly from period to period and that they would therefore be compliant with the general principle in IAS 34. The ANC disagrees with this reasoning and would rather go for a more principle-based approach by stating that in accordance with the general principle in IAS 34, an entity would consider whether the disclosures required in §§ 114, 117, 119, 122, 123 and 128 could be helpful in representing the significant changes, if any, that occurred during the interim period.

Moreover, the ANC is concerned that :

- as mentioned above, these are not the type of disclosures that users request of preparers;
- the sheer volume of disclosures that would have to be provided in interim accounts could delay the production and publication of those accounts.

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?

As expressed in our comment letter to the previous ED, the ANC disagrees with the proposal to amend other standards as regards transfers of non-financial assets that are not an output of an entity's ordinary activities as the ANC disagrees with the general model of transfer of control (see Appendix 2, point 2.1).

Moreover, there appears to be a contradiction between the scope of the standard on contract with customers as defined in §§9-10 and the fact that other standards, which are not included in the scope, would refer to this one (same type of issue as that raised under question 2). The ANC considers that contracts regarding goods or services which are not outputs of the entity's ordinary activities are out of the scope of this ED and should not be modified through this ED.

Appendix 2 – Additional comments

Other comments

As the IASB has asked a limited amount of questions in its re-exposure, the ANC provides in this second Appendix an analysis of additional issues that should be raised.

- 2.1. Absence of a definition of revenue
- 2.2. The new concept of control ;
- 2.3. Identification of a contract ;
- 2.4. Combination of contracts ;
- 2.5. Treatment of contract modifications ;
- 2.6. Bundling of promised goods or services ;
- 2.7. Time value of money ;
- 2.8. Warranties ;
- 2.9. Customer options for additional goods or services ;
- 2.10. Consignment arrangements ;
- 2.11. Relief to be provided in the context of transitional provisions ;
- 2.12. Presentation of net contract asset and contract liability ;
- 2.13. Licences and rights to use that are not sales

2.1. Absence of a definition of revenue

The ANC notes that the IASB defines revenue as “income arising in the course of an entity’s ordinary activities” (Appendix A) with income resulting from changes in assets and liabilities.

The ANC considers that there is a fundamental need to link the definition of revenue to that of the performance of the entity. After all, the company’s performance is the basis for such revenue.

Therefore, the ANC considers that, pending such debate and definition, the IASB should not proceed with any new standard on revenue.

2.2. The new concept of control

As expressed in our previous comment letters, the ANC considers that the concept of control has not been fully considered and debated in the framework project

The definition of control is fundamental in the accounting model developed by the IASB.

The IASB has recently discussed this concept, which relegates the notion of risks and rewards to the status of indicator, in several of its projects such as the consolidation project or the derecognition project. On this latter occasion, this concept was highly challenged as regards the notion of risks and rewards to the extent that the proposals were dropped.

In the revenue recognition project, this has, amongst other aspects, translated in a shift from the perspective of the entity to the perspective of the customer.

The ANC considers that there is no evidence to sustain such changes as there is no demonstration that the current principles have failed to provide decision-useful information to users of financial statements.

Therefore, given the importance of the concept of control and its wide-ranging implications within the IASB model, we consider that it deserves a comprehensive debate with constituents and that this debate should take place in the context of the conceptual Framework project and not in the context of the development of new standards.

2.3. Identification of a contract

The ANC notes that the “enforceability” notion has been upranked from each performance obligation to the contract as a whole and understands that the concern was that there may have been issues at the performance obligation level.

As previously mentioned in our comment letters and as addressed by the IASB in BC32, the ANC notes that the definition of a contract differs as per this ED to that in IAS 32. The IASB explains that the differences in question precisely relate to the notion of enforceability and justifies this by wanting to avoid unintended consequences in the accounting for financial instruments.

The ANC moreover notes that :

- IFRS 11 refers to contractual arrangements and these seem to require to be enforceable (IFRS11.B2) ;
- The ED on Insurance contracts does not define the term in the same way as it focuses more on the nature of the contract (Appendix A and implementation guidance in Appendix B) ;
- The ED on Leases refers to contracts without defining them.

The ANC considers that, as the IASB seems to focus more and more on contracts when it previously was focusing on transactions, the discrepancies that exist between the definitions and the use of the term contract or any variation thereof are extremely unhelpful. The consequences and justifications provided for such discrepancies are unclear and create uncertainties and potential interpretation issues.

2.4. Combination of contracts

The ANC is concerned that the « contracts entered into at or near the same time » (§17) criterion for combination may create unnecessary difficulties by shifting more contracts than currently under IAS 11 to be dealt with as contract modifications or as options for additional goods or services. In its view, this criterion should not be part of the overall criterion but should be considered as an indicator, with a reference to general business practice to analyse such indicator.

Also, it is unclear whether contracts entered into by different entities within the same group with the same customer and meeting one or more of the criteria in §17 would qualify for combination.

2.5. Treatment of contract modifications, discounts, changes in transaction price

The ANC notes that there is an inconsistency between the treatment of :

- changes in the transaction price can be, under some conditions (§76), allocated to only one performance obligation (§78) ;
- allocation of discounts and changes in the transaction price can be made to one or more performance obligations (respectively §§75 and 79).

The ANC considers that there is no reason for such a difference in allocation between the two situations.

2.6. Bundling of promised goods or services

It is unclear whether, under §§ 28 and 29, a company which has a contract to construct over time a certain number of units that are identical to each other would have to identify the production of each unit as a separate performance obligation. Moreover, it is unclear whether the answer would be influenced by a more or less long period of time between the delivery of each unit and/or by the fact that marginal costs are higher for the production of the first units than for the last ones.

The ANC considers that this lack of clarity would potentially lead to various interpretations and discrepancies in practice.

2.7. Time value of money

The ANC notes that the practical expedient, whilst pragmatic, could have unintended consequences for cases where the time value of money which could be material for short term contracts with high implicit rates (BC148).

In this respect, both §59 and the general notion of materiality would appear to be sufficient for the analysis.

The ANC therefore concludes that the practical expedient is not warranted.

2.8. Warranties

The ANC welcomes the changes brought to the treatment of warranties. We note that lengthy discussions may occur to appreciate the notion of long coverage periods (§B13b) and the impact on the classification of the related warranty, especially in connection with understanding whether the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (§B12).

This could potentially lead to varying interpretations.

2.9. Customer options for additional goods or services

The ANC considers that the requirements to deal with customer options are complex.

There are a number of questions related to the notion of providing a material right to the customer, the measurement of the option (as evidenced by application guidance). In this respect, we consider it important that the treatment of customer options be consistent with the requirements in the upcoming ED on Lease contracts. This would imply a high probability level of exercising the option, in which case the additional goods or services would be part of the initial contract at inception. If the exercise probability is not high, then the additional goods or services would not be taken into account.

During the life of the contract, when the option is exercised, an analysis should be carried out to determine whether the addition modifies the initial contract, in which case retrospective application would be required.

Another solution in the sense of simplifying would be to consider that all options are dealt with when exercised in a prospective way.

Moreover, the ANC considers that there is no reason for considering that these requirements are to be applied solely in the context of contracts with more than one performance obligation as per §B21.

2.10. Consignment arrangements

The ANC is concerned that consignment arrangements are more narrowly defined in the ED than is currently understood in practice, in the sense that it refers to 'typical' arrangements whereby the entity is able to require the return of the products (§B50).

It is unclear whether implies that when the entity is not able to require the return of the products, the arrangement would not be a consignment arrangement but a sale with a right of return. If that is the case, the ANC understands that this would imply a change in practice. It is unclear whether such change is intentional.

2.11. Relief to be provided in the context of transitional provisions

As mentioned in our previous comment letters, we agree with the proposed retrospective application. However, we are convinced that the proposals will be really burdensome for some entities. Thus, we urge the IASB to contemplate a sufficiently long lead time of three years to help alleviate some of the concerns due to this proposal.

2.12 Presentation of net contract asset and contract liability

As mentioned in our response to the previous ED, this requirement will lead to significant costs for some entities as they will be requested to review and adapt their IT systems to capture the necessary information, whilst it's decision usefulness for users is unclear. The ANC therefore recommends that the IASB reassess this requirement in the light of its benefits for users.

The ANC also notes that advance payments would no longer be presented separately on the balance sheet as they will be subsumed within the net contract asset/liability.

2.13 Licences and rights to use that are not sales

As mentioned in our response to the previous ED, the accounting treatment of contracts relating to licences and rights to use that are not sales should be discussed within the ED on Leases.

In its ED on Leases, the IASB proposed to exclude the leases of intangible assets from the scope of the future ED Leases based on the following rationale: "Although the boards have identified no conceptual reason why a lease accounting standard should exclude intangible assets, the boards decided that they would not include leases of intangible assets within the scope of the proposed IFRS until they had considered the accounting for intangible assets more broadly». (ED "Leases" BC36).

At the same time, the IASB requested and still requests the views of its constituents in the ED Revenue Recognition on the accounting for the granting of intellectual property of the entity.

The ANC continues to disagree with the process followed by the IASB eg to propose to scope out intangible assets from a project aimed at dealing with both lessee and lessor accounting and at the same time to request views on the lessor accounting of some other intangible assets, especially given the fact that the common concept behind these items is the "right of use".

The ANC disagrees with the rationale provided in BC310-316 to justify including licensing and rights to use within the revenue recognition ED.