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our references
C – 027 / 2012

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date
28.03.2012

Subject : Invitation to comment – IASB ED *Revenue from Contracts with Customers*

Dear Sir, Madam,

The Belgian Accounting Standards Board (BASB) is pleased to respond to the revised Exposure Draft on *Revenue from Contracts with Customers* issued by the IASB and the FASB (the “Boards”) on 14 November 2011 (hereinafter the “ED”).

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?

Answer to question 1

As mentioned in our first comment letter, we agree with the principle that revenue should be recognized over time for performance obligations that an entity satisfies over time. The proposed model seems to indicate however that for arrangements involving both goods and services where the customer does not control the goods as they are being constructed, the only way to determine that control passes over time is to evaluate whether the customer is obligated to make payments as contemplated in paragraph 35 (b) iii. We question if that was the Boards’ intent as many arrangements involving both goods and services do not provide the customer control of work-in-progress. Additionally the customer does not simultaneously receive and consume the benefits of the entity’s performance as it occurs.

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?

Answer to question 2

We agree with the model's proposed treatment of a customer's credit risk although we also believe that not all reporting entities manage their credit risk as explained in the ED. Conceptually we are of the opinion that the credit risk for a wholesale / retail company differs significantly with the credit risk of a construction company, nevertheless the proposed treatment for credit risk will only be valid for the wholesale / retail company in our example. As these companies also manage their credit risk separately from revenue as opposed to the construction company that will manage the credit risk as integral part of the related revenues.

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?

Answer to question 3

We believe constraining the cumulative amount of revenue recognized is appropriate when there is sufficient uncertainty about the amount of revenue the entity will be entitled to receive. However, we believe the Boards need to reconsider the application of this principle when the transaction price includes both fixed and variable amounts.

While the guidance in paragraph 85 seems appropriate for sales-based royalties, it is not clear why there is specific guidance provided for sales-based royalties on licensed intellectual property but not other arrangements that have similar economics. In particular, example 14 in IG71 involves trailing commissions for an insurance broker in which the broker is paid an initial commission for successfully selling an insurance policy on behalf of an insurance company. Additionally, the broker earns a smaller commission for each subsequent annual policy renewal, which does not require further effort on the part of the broker. In this example, while the broker's past experience provides evidence about the expected amount of consideration to be received, the actual customer's decision regarding renewal is going to be based on factors outside of the broker's control. There doesn't seem to be a significant difference between this example and sales-based royalties. We suggest the Boards reconsider why specific guidance is provided only for one type of contingent revenue (sales-based royalties on licensed intellectual property).

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?

Answer to question 4

As previously discussed, we do not agree with the model's overall principle of measuring this liability at the performance obligation level. We conceptually believe that this is not reflective of the overall economics of the arrangement and we urge the Boards to reconsider this aspect of the model.

Additionally, paragraph 89 implies that the impairment of a recognized contract asset affects the calculation/recognition of the loss for an onerous performance obligation. For some assets, the requirement (while not explicit) is more intuitive [e.g., if an inventory item is impaired, then the expected costs to satisfy the performance obligation (paragraph 87a) will decrease]. However, for costs incurred to obtain a contract (e.g., sales commissions), it is not clear how the impairment of that contract asset changes the expected costs of fulfilling a particular performance obligation. While not explicitly stated, it seems appropriate for an entity to include the carrying value of contract assets in calculating the expected remaining costs to satisfy the performance obligation for purposes of determining the potential onerous liability. We think it would be helpful for the Boards to clarify this point.

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:

- (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.

Answer to question 5

We continue to urge the Boards to field test the proposed disclosures with preparers and users in different industries to make sure the proposed disclosures provide decision useful information that can be prepared at a cost that does not outweigh the benefits achieved.

Regarding interim disclosures, we believe the proposals are particularly excessive and unnecessary. We believe interim disclosures should provide financial statement users meaningful information, at a reasonable cost, regarding the most significant changes in an entity's financial results since the entity's most recent annual report. Regarding revenue, consistent with the disclosure objectives currently described in IAS 34, we think the objective of interim disclosures should be to supplement the annual disclosures with information about the effects of significant new contracts entered into during the interim period, as well as significant changes in judgment or estimates for existing contracts. We do not believe the

reconciliation requirements in paragraphs 117 and 128-129 or the disclosures of performance obligations or onerous performance obligations in paragraphs 118-123 are necessary to meet this objective.

The appropriateness of the interim period disclosures also needs to consider the practical effects on companies, including reporting deadlines for interim results.

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?

Answer to question 6

While we are supportive of the application of the recognition and measurement principles of this guidance for the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities, we have concerns that the proposed model does not go far enough to deal with the potential issues that may arise in these transactions.

It is however unclear how to account for a transaction in which an asset is transferred to another party in exchange for both fixed and variable consideration. The proposed model does not provide any additional clarity on accounting for these transactions and this diversity will likely continue.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,

Jan Verhoeve
Chairman BASB
Belgian Accounting Standards Board