Re - Discussion Paper on „Preliminary Views on Revenue Recognition in Contracts with Customers“: Impact of the proposed concept on preparers with project business (Construction Contracts).

Dear Sir David,

The IASB is seeking input from interested parties on the Discussion Paper „Preliminary Views on Revenue Recognition in Contracts with Customers”. Siemens has a very broad portfolio of activities and has performed a detailed analysis on the impact of the proposals on its various businesses.

Based on this analysis we have concerns regarding the application of the proposed model to customer-specific project business. Project business such as the construction of power plants, mobility systems or manufacturing lines is one of the core elements of our portfolio.

We would like to summarize our concerns as follows:

- Typically, contracts that are currently accounted for under IAS 11 are managed and controlled as comprehensive projects. Percentage-of-completion (PoC) accounting allows the alignment of the internal management and the external reporting perspectives by looking at the project as a whole. We strongly contend that this key element of current project accounting is to be preserved in a new revenue recognition standard even if it is based on an asset-liability approach.

- Furthermore, from our experience, we would like to emphasise that for customer-specific contracts, as a general rule, any revenue recognition concept needs to be flexible and not unduly burdensome as regards to changes in the scope of supply and services and in project timetables. It is important that the concept of pre-defined assets (as defined by the discussion paper) does not lead to disproportionate complexity in this context.
The new concept seems to put an increased emphasis on contract clauses and applicable law. Contracts which are comparable from an economic, risk and technical point of view could be treated differently in revenue recognition due to different legal frameworks of the countries of delivery (e.g. regarding the formal transfer of title). Depending on the IASB’s final definition of the underlying concept of ‘control’ a formal legalistic view instead of an economic view may in future be reflected in the financial statements of companies with significant project business. This may negatively influence the performance measurement function of the income statement.

Revenue recognition is the “heart” of every business’ IT-system and is linked to logistics, controlling, tax, other accounting as well as administrative processes of an entity. We believe that the proposed approach will impose significant additional one-time and ongoing implementation efforts and costs on the preparers of financial statements.


In addition we have approached Mr. Henry Rees to discuss in person the specific characteristics of project business. We are very thankful that Siemens has been invited to a meeting on July 6, at the IASB Headquarter’s in London.

Should you have any questions or require further information, please do not hesitate to contact us.

Yours sincerely,

Dr. Klaus Patzak
Corporate Vice President & Controller

cc: Joe Kaeser