Dear Sirs,

**COMMENT TO ED/2010/6 ON REVENUE FROM CONTRACTS WITH CUSTOMERS**

The A.P. Moller - Maersk Group is a worldwide conglomerate. We operate in some 130 countries and have a workforce of some 115,000 employees. In addition to owning one of the world's largest shipping companies, we are involved in a wide range of activities in the energy, logistics, retail and manufacturing industries.

Before responding on the questions in your exposure draft we would like to add some general comments.

We agree with your statement in paragraph IN1 that revenue is a crucial number to users of financial statements in assessing a company's performance and prospects. It is also one of the most important key figures for our management. Unfortunately, we do not find there is consistency between your overall statement and the proposed principles for revenue recognition and measurement.

Therefore, we support fully the comments from EFRAG that they are concerned that the ED has been issued without thorough conceptual debate on why revenue is an important figure. It would be highly appreciated if the Board complete the work on the Conceptual Framework including a definition of revenue and performance, before issuing replacements to IAS 18 and IAS 11. At least, the Board should justify why they issue a new standard on Revenue before a new Conceptual Framework.

We are very concerned that the new model on revenue recognition will have some unanticipated effects on Financial Statements. In particular for some service providers and for companies accounting for construction contracts the transfer of control model may not be appropriate for measuring performance. Also, the probability-weighted approach, where revenue may not be equal to the actual value of the sales (gross vs. net), could be in contradiction to how the management wishes to review the business activities. Consequently, we anticipate that internal reporting may move away from the external reporting, where most companies today use the same recognition principles internally and externally. This will entail required reconciliations between the segment reporting of revenue and results and the IFRS revenue and results, which in our view is not desirable for either issuers or users.

The control model may for the same service providers and constructers result in more fluctuations in revenue between periods. The timing for recognising revenue will follow some arbitrary patterns for when the services or projects are transferred to the customers. We find that the control criterion is relevant for the recognition and derecognition of assets, but it is not relevant in relation to an entity’s value creation. An entity has a certain level of capital and capacity and the value creation depends on the allocation and utilisation of that capital and capacity. It is on that basis the entity’s ability to achieve orders, execute and complete sales shall be evaluated over time and with other entities.

Following this argumentation we find the activity-based revenue recognition model proposed by EFRAG appropriate for both internal and external reporting. In addition, we find EFRAG’s alternative model much simpler and with less need for interpretation and application guidance.
In fact, the exposure draft is quite difficult to read and comprehend, and we encourage the Board to aim for more simplicity. IFRS must be applied by all our companies around the world, small and large, and the more complicated it is, the greater the cost to ensure that the principles are uniformly complied with. Principles such as probability-weighted amounts will result in significantly more time and effort needed to perform training, discuss assumptions, perform calculations, control and audit. Adding to this, the increased number of disclosure requirements is a heavy task to be performed. The Board should consider that this development is not only increasing costs but also the time needed to finalise the accounts.

**Question 1  Combination and segmentation of contracts and contract modifications**

We support EFRAG in their response to this question.

We would like to add that the application guidance on contract modifications is very unclear to us as well. The scenarios in example 2 have some peculiar conclusions and we find them in contradiction to the criteria for price interdependency in paragraphs 13 and 14. Section B3 in the application guidance is confusing rather than enlightening on the principles.

**Question 2  Identification of separate performance obligations – distinct goods and services**

We find the principles in paragraphs 22 and 23 for identification of separate performance obligations for very complicated and bureaucratic. They will require major changes in the procedures and IT systems for handling sales invoices and accruals. In our opinion this is a consequence of applying the control approach for satisfaction of performance obligations and evidence that control is not the right approach to apply for revenue recognition.

We agree with EFRAG that only the entity’s own customary business practice should be considered when determining distinct goods and services, rather than the business practice of any other entity.

**Question 3  Satisfaction of performance obligations - control**

As mentioned in the beginning we disagree that the transfer of control is a proper criteria for recognising revenue. We therefore support EFRAG in their response to this question. In addition we would like to bring forward the following:

We recommend that the Board considers separating sale of goods and services as in IAS 18. As services are not of physical substance it is difficult to define when a service is “transferred” to a customer and when the customer has “control” of a service. For services with no immediate delivery we find that the ED is creating a vacuum compared to IAS 18.

As a supplier of shipping and other transport services we find that the control approach can be applied following two different interpretations of the ED:

**Argument 1**  - the customer obtains control of a transport service at the delivery of the goods at the agreed position. Only then the benefits from the service are received.

**Argument 2**  - the customer obtains control of a transport service continuously from departure when the agreed volume capacity is at his disposition.

The first argument is making an analogue between delivery of goods and services. It is not clear if that is the Board’s intention.

Following the second argument an analogue is made between (this particular type of) services and customer-specific assets. It says in paragraphs 26 and 27 that “control includes the ability to prevent other entities from directing the use of, and receiving the benefit from, a good or service” and “the customer’s ability to direct the use of a good or service (ie an asset) refers to the present right to use the asset for its remaining economic life or to consume the asset in the customer’s activities.”
From the time of departure the occupied capacity cannot be used by other customers and it is at the customer’s disposal during the transport time (the “economic life” of the service). It is not clear whether it is the Board’s intention that a customer-specific service can be accounted for as an asset. The word “service” is mentioned in paragraph 27, but then it is interjected “ie an asset”.

We find it appropriate if services can also be considered customer-specific. A transport service cannot be returned and the customer has an unconditional obligation to pay. If he wants to return the goods at arrival, he will have to pay for a return transport.

Following the second argument, APMM will be allowed to recognise revenue during the course of the transport according to the distinct services satisfied from A to B. Such approach makes much more sense and will be a lot easier to manage.

**Question 4  Determination of the transaction price**

We support EFRAG in their response to this question, but want to add the following:

We fail to understand why a probability-weighted amount is less arbitrary than an amount that passes a probability threshold. Probabilities are difficult to predict and document, ie will be subject to lengthy discussions internally within our entities and externally with our auditors. We prefer the “go/no-go” approach as the recognised revenue, trade receivable and eventually cash flow equals the invoiced amount. We believe it is a good approach to outline uncertainties in a narrative disclosure.

We find that revenue should continue be measured at fair value as the current IAS 18. Estimation of the fair value will take into consideration the uncertainties of any variable components of the transaction price. This approach is in line with IAS 39 principles for measuring trade receivables.

In regards to paragraph 37, we find the proposed approach peculiar. The recognition of a refund liability and a corresponding asset reflecting a right to recover products from customers on settling the refund liability is unnecessary. The obligation to refund customers within a return period should be covered by IAS 37. We can see no purpose recognising a liability and asset separately and therefore encourage IASB to remove paragraph 37.

**Question 5  Customer’s credit risk reflected in revenue**

We support EFRAG in their response to this question and the following enhances the argument against reflecting credit risk in revenue.

Customer’s credit risk should not affect how much revenue an entity recognises but rather whether it recognises the revenue. When the entity has reasons to believe that a customer may fail to pay at the time of the revenue recognition, it should not recognise the revenue. The proposed model in the ED assumes that some of the amount may not be paid and therefore revenue shall reduced by an amount reflecting credit risk. At the time revenue is recognised, we think the assumption should rather be that the customer pays the invoice in full or nothing. In rare cases where the entity has reason to believe it will recover only part of the receivable, we believe this will be reflected in the estimation of the fair value.

In addition we find it improper to offset a potential loss which is the result of the entity’s credit policy in revenue. An entity may take high risks on granting credit and this will show in the earnings. Revenue is a measure for performance on sales which is the driver of costs and capacity allocation. Consistency between the activity level and the revenue will be distorted by the offsetting of credit losses.

It should be noted that we consider it proper to offset discounts and rebates in revenue to reflect the net selling prices.

**Question 6  The time value of money reflected in revenue**

We support EFRAG in their response to this question.
Question 7  Allocation of the transaction price to separate performance obligations
We support EFRAG in their response to this question.

Question 8  Contract costs – requirements for accounting
We support EFRAG in their response to this question.

Question 9  Contract costs – what costs to include or exclude
We support EFRAG in their response to this question.

Question 10  The objective of proposed disclosure requirements
We are in favour of transparency and we do agree with the general objective to help users understand the amount, timing, and uncertainty of revenue and cash flows arising from the same. However, we are uncertain about the usefulness of such details compared to the cost of preparing them. There is a risk of information overload at the cost of clear and focused communication. We suggest that the IASB defines the user groups and their information requirements in the Conceptual Framework and on that basis initiate an evaluation of the costs and benefits associated with the disclosure requirements. Subsequent to this work a more informed decision about relevance could be made.

It also seems that IFRS 8, e.g. disaggregation of reported revenue, already covers some of the disclosures. In addition some of the disclosures abandoned when IAS 14 was replaced by IFRS 8 now seems to be reintroduced. We suggest that the Board reconsiders the arguments for the abandonment.

Question 11  Disclosure on remaining performance obligations
We agree with the proposal.

Question 12  Disaggregation of revenue
We agree with the proposed disclosures, although we find that the disclosure requirements in IFRS 8 already covers same.

Question 13  Effective date and transition
We agree that the proposed requirements should be applied retrospectively.

Question 14  Application guidance
We think that the standard is unclear and that this should be addressed by clarifying the principles rather than by using application guidance. We do realise that application guidance can be necessary to address industry-specific issues. As mentioned in the beginning of this letter, we find that the use of the alternative alternative model suggested by EFRAG is much simpler and with less need for interpretation and application guidance.

Question 15  Distinction between types of product warranties
We do agree to distinguish between different types of product warranties, or between a failed sale and a warranty. We do agree with the proposed accounting for the latent defects, however, we do not agree with the accounting for the warranty arising after the product is transferred to the customer. We find the accounting for the latter type of warranty far too complicated and feel that IAS 37 much better covers the issue.

Question 16  Licences
We agree with the proposal.
**Question 17  Consequential amendments**

We agree with the proposal.

Kind regards

**Jesper Cramon**
Senior Vice President
Group Accounting