Response to ED / 2010/6 on “Revenue from Contracts with Customers”

1. The Securities and Exchange Board of India (SEBI) welcomes this opportunity to respond to Exposure Draft 2010/6 on “Revenue from Contracts with Customers”

2. General:
   a. While SEBI is generally in agreement with the provisions of the ED in so far as it relates to sales by persons other than contractors, SEBI believes the application of the ED to contractors may in some cases be inappropriate and onerous. It would therefore strongly recommend that sales by contractors should continue to remain as a separate standard and be dealt with accordingly.
   b. The ED uses the term “reasonably” in place of the term “reliably” previously used (e.g. in paragraphs 38, 40, 41 etc) in IAS 18 and in other standards (e.g. IAS 37). It is not very clear whether this is a deliberate decision and why this change is made. The term “reliable” is perhaps a more appropriate term as it demands a greater degree of discipline in its operation.
   c. The ED also uses the term “probability-weighted” (e.g. paragraphs 35, 37 etc). In a response to another ED, SEBI has already pointed out that a process of arriving at a “probability-weighted” average demands the identification of all possible alternatives and the assignment of weightages to each probability and the end result may not be more satisfactory than considering the most probable outcome. SEBI would therefore re-iterate that the term “probability weighted” be replaced by the term “most probable”.

3. Response to Questions

Subject to the above comments, SEBI’s response to the questions asked is as under:
a. **Question 5**

SEBI does not agree that the transaction price should reflect the customer’s credit risk. It believes that if there is any concern regarding the customer’s ability to honour its payment obligation, that should be the subject matter of a separate provision and should not be netted out from revenue.

b. **Questions 10, 11 and 12**

SEBI believes the disclosure requirements provided for in the ED, particularly in paragraphs 76, 77 and 78 are too detailed and onerous. When paragraph 70 quite appropriately gives discretion to the preparer to consider the level of detail necessary to satisfy the disclosure requirements, it is not necessary to provide for a list of a minimum number of disclosure details as is done in paragraph 75 or the level of detail provided for in paragraph 77.

c. **Question 13**

SEBI believes the proposed requirements should not be applied retrospectively but should apply only to contracts with customers which commence after the standard comes into force.

d. **Question 16**

SEBI believes the distinction between an exclusive license and a non-exclusive license is not appropriate. Revenue recognition in both cases should depend upon

(a) whether the entity providing the license has continuing obligations;

(b) the manner in which consideration for the grant of the license is receivable e.g. whether in lump sum or by periodic instalments; and

(c) the period for which the licence is valid.

e. **Other Questions**

SEBI is in agreement with the propositions made.