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Dear Sir/Madam

IASB Exposure Draft ED/2010/6 Revenue from Contracts with Customers and FASB Proposed Accounting Standards Update Revenue Recognition (Topic 605) – Revenue from Contracts with Customers

We appreciate the opportunity to respond to the Exposure Draft Revenue from Contracts with Customers, issued by the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) (together, the Boards). We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network, including KPMG LLP (U.S.). This letter is being submitted to both the IASB and the FASB.

We support the Boards’ efforts to develop a consistent revenue recognition model that would be applied to transactions across industries, eliminate inconsistent U.S. GAAP guidance, and provide more guidance than currently is provided in IFRSs. We also generally support the broad principles of the model proposed in the standard. Establishing those broad principles is an important step in the development of comprehensive revenue recognition standards and the convergence of IFRSs and U.S. GAAP in relation to revenue recognition.

In order to meet the Boards’ objective to develop a common revenue recognition standard for U.S. GAAP and IFRS that would apply across entities, industries, jurisdictions, and capital markets, it is critical that the new standard provide a framework capable of addressing the broad range of current and emerging revenue recognition issues. While the Boards have made
significant progress in the development of the model from the time of the Boards’ Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers, we believe there are a number of significant areas that need revision or further development.

Areas that need revision or further development include the concept and indicators of transfer of control, identification of distinct performance obligations, determination of the transaction price for transactions with variable consideration, consideration of collectibility in the determination of the transaction price, recognition of onerous performance obligations, and identification of constructive performance obligations. In addition, we believe the Boards need to field test a revised model to ensure that it is capable of being applied to the multitude of transactions that exist in practice – across industries and jurisdictions. Without the benefit of the results from field testing across transactions, industries, and jurisdictions, we are concerned that further revisions or specific guidance may need to be developed after the standard is issued, which would be contrary to the objective of the project.

We also identify other important areas that we believe warrant additional consideration in the appendices to this letter.

Transfer of Control

We do not believe that all of the indicators of control in paragraph 30 of the Exposure Draft are consistent with the definition of control provided in paragraphs 26 and 27. It appears that some of the indicators may describe circumstances in which the customer may desire to have control but do not actually provide evidence that the customer does control. For example, although a customer may have an unconditional obligation to pay or may specify the design, those indicators do not necessarily suggest that the customer has the present ability to direct the use of and receive the benefit from the good or service. Paragraph 27 of the Exposure Draft indicates that the ability to direct the use of a good or service refers to the present right to use or consume the asset and that the customer’s ability to receive the benefit from the good or service refers to the present right to obtain the potential cash flows from the asset. The customer’s present right to use and ability to receive benefits may not exist when the proposed indicators of control are present in many situations – particularly when an asset is under construction and no party has the present ability to “use” or “benefit from” the partially-constructed-asset. Further, it is unclear how significant a factor legal ownership is in the determination of whether control has been transferred. To the extent that legal ownership is a persuasive indicator, there could be significant differences in accounting for arrangements between jurisdictions with different legal frameworks.

Additionally, the four indicators are not always effective or applicable for assessing transfer of control for the provision of services. When services are being provided, it is unclear how to identify the “assets” that are being transferred and when control of that asset has been transferred from a vendor to a customer. For example, does a freight transportation entity transfer the control of an asset as it makes progress towards transporting a customer’s freight to its ultimate destination or only when it has successfully delivered the freight to its ultimate
destination and which indicators would be applicable to assist the freight carrier in evaluating when transfer of control of the transportation service occurs? Therefore, we believe that other indicators may be necessary for assessing when control of a service transfers to the customer (i.e., when an entity that provides services that do not result in the ultimate provision of a physical good to a customer satisfies its performance obligation) in order for the model to be applied to many service transactions.

Ensuring that the principle for when a performance obligation is satisfied is clear and operational should be a priority for the Boards during its redeliberations because the success of the guidance in this area is critical to consistent application of the standard and comparability of information provided to investors. In addition, the model needs further development to distinguish a good or service for which revenue should be recognised upon delivery from a good or service for which revenue should be recognised on a continuous basis. If that principle is not better clarified, we are concerned that there could be an unacceptable level of diversity in practice. Under the proposed model, that issue includes the determination of who controls work in progress for goods being manufactured or constructed for a customer (i.e., is it the entity manufacturing or constructing the item or the customer who will ultimately determine how it is used).

Based on the description of the indicators of control in the Exposure Draft, it appears that the Boards may have intended the concept of transfer of control to be based on “effective” rather than legal control. We support focusing on an appropriately defined concept of “effective” control and believe that this approach could better align the concept and the indicators of control. In addition, using a concept of effective control for certain types of arrangements could provide a more practical approach to making the required determinations about the transfer of control resulting in more consistent application of the final standard and conveying information more useful to investors, particularly about the vendor’s progress on contracts that extend beyond a single reporting period.

To achieve an appropriate level of consistency in practice, the final standard could include additional indicators for continuous transfer of control of a constructed asset. Effective control could be assumed to transfer continuously when a good is specifically produced by the entity under an arrangement with a customer that affects multiple accounting periods and requires dedicated resources of the entity to produce a particular good to the customer’s specifications and the entity does not have significant discretion to substitute deliverables not produced under contract in satisfaction of the performance obligation. For instance, in the commercial shipbuilding industry, an obligation to produce a ship for a customer may take several years to complete. While the design of the ship may be fairly standard and the title of the ship may remain with the builder while it is in the builder’s shipyard for the entire period of construction, we do not believe it would be appropriate to recognise all of the revenue related to construction only upon delivery of a completed ship if the ship is effectively controlled by the customer throughout the construction period. This may be the case if the ship is built specifically under contract using specific vendor resources and the vendor has little discretion to substitute one ship for another during construction. Further, the nature of these arrangements usually is such
that even though a standard design may be used, the customer has the ability to direct the vendor to make modifications and otherwise influence the construction process during the construction period.

Conversely, a conclusion that control transfers only upon completion of the construction when legal title transfers could result in economically similar arrangements receiving different accounting. For example, rather than entering into one arrangement to construct a ship to the buyer’s specifications, the ship-builder could sell the ship’s hull structure with title passing to the customer and separately contract for the build-out of the vessel. While we understand that legal transfer of title occurs at different points in these arrangements, we are not convinced that fundamentally different accounting for those two arrangements would be representationally faithful to the economics of the arrangements since the customer’s ability to use the ship is the same in either arrangement.

We believe a concept of effective control with a presumption of the transfer of effective control for those types of contracts would eliminate that potential difference. However, if the Boards are unable to develop a single model that proves operational in field testing across various industries including construction, a separate model may be necessary to appropriately address transfer of control for construction and service arrangements.

Distinct Performance Obligations

We agree with the notion that distinct goods and services should be accounted for separately. However, the definition of a distinct good or service could be simplified. It is unclear how the proposed requirement that a good or service have a distinct profit margin is indicative that the good or service is distinct and applying that requirement in practice may result in what we believe would be inappropriate treatment in some situations. For example, the costs and related resources associated with the development of intellectual property typically are primarily related to research and development activities of prior periods and the same resources may be involved in ongoing development of enhancements of the technology. In many cases, those research and development activities may have contributed to the development of multiple units of intellectual property. How would the distinct profit margin analysis apply or be particularly relevant in those circumstances? In paragraph BC55, the Boards indicate that absent a distinct profit margin, they are concerned that the entities will be unable to estimate a selling price. This view seems inconsistent with a market assessment approach to determining the estimated selling price which is identified as a suitable approach by the Exposure Draft.

We agree that the concept of a distinct good or service should focus on whether a good or service could be sold separately; however, the requirement for a distinct profit margin should be eliminated.

In addition to eliminating the “distinct profit margin” concept because we believe it is unnecessary, the concept of “contract management services” described in the Implementation Guidance and Basis for Conclusions of the Exposure Draft should be further developed and
included in the standards section of the document. For example, the following additional guidance could be an essential part of the determination of whether a good or service is distinct:

Judgement is applied in determining the substance of the performance obligation when performance by the entity involves a series of interrelated tasks. When a significant contract management service is associated with a series of tasks or deliverables, those tasks or deliverables may represent a single integrated performance obligation.

Determining whether the existence of an umbrella contract management services obligation creates a single integrated performance obligation will depend on, among other things:

- the significance of the contract management service to the overall arrangement;
- whether it would be realistic for a customer to purchase components of the project from separate vendors (i.e., could the customer or another party effectively perform the contract management function);
- the extent of common resources expected to be utilised in managing and performing the required tasks; and
- how the vendor markets and sells projects.

Additional guidance would help ensure more consistent application for contract management services. For instance, consider a software company that licences its software and performs implementation services and also sells the software in some cases without the implementation services because the customer could acquire software implementation services from other vendors. The entity in this scenario would likely conclude that an obligation to deliver software is distinct from its obligation to perform related implementation services because the implementation services are sold separately by other vendors and because of the absence of a significant contract management service. In contrast, a long-term construction contractor, depending on facts and circumstances, may view the obligation to design and construct an asset as a single integrated performance obligation.

Transaction Price – Variable Consideration

The Exposure Draft proposes that the transaction price reflect the probability-weighted amount of consideration that an entity expects to receive from the customer in exchange for transferring goods or services. We believe that when estimating the transaction price for contracts with variable consideration, the use of probability-weighted amounts, particularly when there are binary outcomes, could lead to recording revenue at an amount that is not a possible outcome under the contract. For example, if an entity is entitled to receive a bonus of CU 100 if performance criteria are satisfied and CU 0 if the criteria are not satisfied and the vendor determines that there is an 80% probability the performance criteria will be satisfied, the vendor
would initially include CU 80 in the transaction price and subsequently would adjust that amount to either CU 100 or CU 0. We believe that including CU 80 in the initial transaction price and subsequently adjusting that transaction price would not represent the best estimate of future cash flows unless the vendor has entered into a large number of homogeneous transactions.

In the absence of a large number of homogeneous transactions, we believe that using a most likely amount to determine the transaction price would be more appropriate than the probability-weighted amount.

**Collectibility**

The Exposure Draft proposes that in determining the transaction price, an entity reduces the amount of promised consideration to reflect the customer’s credit risk. We believe that the final standard should include an explicit minimum threshold of collectibility (e.g., probable) for recognising revenue. This approach would be consistent with the Boards’ reasons for including the guidance in paragraph 10(b) of the Exposure Draft that the parties be committed to satisfying their respective obligations in order for a contract to exist. Paragraph BC15(b) indicates that “the Boards thought this requirement would be useful when there is significant doubt about the collectibility of consideration from the customer. In some cases, that doubt indicates that the parties are not committed to the contract and that the entity does not have an enforceable right to consideration.”

Once it is determined that the collectibility threshold has been met, we believe revenue should be recognised at the most likely amount that is expected to be collected. This is largely consistent with the Boards’ proposed approach; however, as indicated in our discussion of variable consideration above, we support using the most likely outcome, rather than a probability-weighted amount, particularly in the absence of a large pool of homogeneous transactions.

If the entity ultimately collects more consideration than the amount that was expected when the receivable was initially recognised, we believe that additional amount of consideration should be recorded as additional revenue rather than outside of revenue in the profit or loss statement. For example, there may be circumstances (such as sales to a new customer in a foreign country where no credit data is available) in which an entity concludes that it cannot reasonably estimate the amount of transaction price that will be collected. In those circumstances, it may be appropriate based on the Exposure Draft to recognise no revenue at the time of delivery of goods or services. Assuming that performance has occurred and the entity has an unconditional right to payment, the Exposure Draft would suggest that subsequent cash receipts from that customer would be recorded as income outside of revenue. We question whether that presentation would be decision useful.

Under our proposed approach, if an entity determined that, for example, there is a 40% likelihood that the customer will pay, the entity would not recognise revenue. However, if an
entity determined that it is probable that the customer will pay, but it expects (i.e., the most likely outcome) to collect only CU 90 on an invoice for CU 100, it would recognise revenue of CU 90. If the entity ultimately collects CU 100, the additional CU 10 also would be recognised as revenue. Conversely, if it is expected that the entity will collect the entire invoiced amount of CU 100 from the customer, it would recognise that amount as revenue.

We encourage the Boards to further consider whether a reduction in the expected amount to be collected should be characterised in the profit or loss statement as a reduction in revenue or outside of revenue. We note that in some instances, entities grant customers price concessions and other billing adjustments, and it may be difficult to determine whether the subsequent adjustment represents a reduction associated with a customer’s difficulty to pay or a bona fide adjustment to the price for goods or services.

**Onerous Obligations**

We agree with the Boards’ conclusion that agreements that are onerous to the vendor should result in the recognition of a loss. However, the onerous test should be performed at the contract level, rather than at the level of each performance obligation. We believe that recognising a loss for an onerous performance obligation when the overall contract is expected to be profitable could distort an entity’s financial results and would provide financial statement users with financial information that is not decision-useful in many situations.

Additionally, how to apply the onerous test is unclear when an individual contract with a customer is not designed to recover all of the directly-attributable costs of fulfilling the performance obligation as is the case, for example, with the sale of an individual airline ticket or an individual ticket in the entertainment industry (movies, concerts, professional sporting events). For example, at a sporting event, there may be multiple performance obligations that are related but included in multiple contracts with different customers and customer types (e.g., advertising and sponsorships, ticket sales, concession and parking sales at the event and broadcasting rights). If the onerous test was applied at the individual contract level (i.e., each ticket sold), a vendor could conclude that it has an onerous contract. Based on the provisions of the Exposure Draft, it appears that the onerous provisions would result in the recognition of all related costs when the first ticket is sold with the resulting revenues being recognised when the performance obligation is satisfied. As a consequence, we believe the Boards should clarify that it is appropriate to aggregate contracts in determining whether a group of similar or related customer contracts are onerous or, alternatively, how the direct costs of fulfilling a performance obligation should be allocated to multiple contracts.

A further complication arises when much of the transaction price involves variable consideration that is not reasonably estimable. The Exposure Draft specifies that the onerous test compares the present value of the probability-weighted costs to the transaction price allocated to a performance obligation. If a vendor’s entire fee is variable and the susceptibility of the outcome to external factors is so great that the variable transaction price cannot be reasonably estimated (e.g., an asset management fee determined on the basis of how the fund
performs relative to the market), the contract would be onerous under the provisions of the Exposure Draft because the initial transaction price would be deemed to be CU 0, which would be less than the present value of the probability-weighted direct costs of satisfying the performance obligation. In this example, it would appear that the Exposure Draft would require the vendor to accrue all the related costs and recognise a loss immediately, even though it may be probable that the eventual fee will be sufficient to cover the direct costs. Consistent with the current guidance in IFRSs and U.S. GAAP, we believe there should be a threshold for recognition of the loss (e.g., when it is probable that there will be a loss) before a liability for an onerous contract would be recognised.

Constructive Performance Obligations

We agree with the Boards’ conclusion that a contract can have both explicit and implicit rights and obligations. However, the definition of a performance obligation in the Exposure Draft is limited to “an enforceable promise” to transfer a good or service. Limiting the definition of a performance obligation to “enforceable” promises could result in a conclusion that obligations of an entity that are not strictly enforceable at law would not be accounted for. We recommend expanding the definition of “performance obligation” to include constructive obligations where an entity’s specific statements or past practices establish a valid expectation by the customer that performance will occur. We believe this is consistent with the current application of both U.S. GAAP and IFRSs (e.g., the definition of a constructive obligation in IAS 37 Provisions, Contingent Liabilities and Contingent Assets), and would provide more meaningful information to financial statement users.

For example, a software company may have an historical practice of delivering “when-and-if-available” upgrades for no additional consideration even though it has no legal obligation to do so. We believe this historical practice should be viewed as giving rise to a performance obligation that should be evaluated under the contract. Likewise, an airline might have an historical practice of granting miles to customers who are members of its customer loyalty programme and may intend to continue to do so; however, the legal terms of the arrangement may give the vendor the right to cancel or discontinue the programme at any time such that performance under the programme would not be required. We believe that the historical practice also would give rise to a performance obligation until the vendor has given notification of the programme’s discontinuance.

We note this approach is implicit in the Application Guidance included in the Exposure Draft, in that Example 13—Free on board shipping point and risk of loss appears to support a conclusion that an entity’s historical practices can create performance obligations that are separately evaluated. In that example, an entity ships goods to the customer free on board shipping point and has a past business practice of replacing products that are lost or damaged in transit at no cost to the customer. The example concludes that control of the goods transfers at the shipping point and that the vendor has an additional performance obligation for risk coverage. We believe that this principle should be better articulated in the main body of the final standard and not introduced by way of example.
Field Testing and Application Guidance

In order to meet the Boards' objective to develop a single revenue recognition standard that would apply to all revenue transactions across industries and jurisdictions, the application of the proposed model must be tested to ensure that it is capable of being applied to the many types of revenue transactions in a consistent manner. We believe that should include considering whether the model can be appropriately applied to revenue transactions currently addressed in U.S. GAAP and IFRSs and field testing the proposed standard, including obtaining feedback from financial statement users as to whether the resulting application provides information in a sufficiently transparent manner. Without sufficient consideration of how the model might be applied in these situations in advance of the final standard, we are concerned that revisions to the model or specific guidance on specific transactions may be necessary after the standard is issued, which would be contrary to the objective of the project.

For the standard to be effective, it must clearly articulate the underlying principles and provide clear examples that demonstrate the application of those principles to real-life fact patterns. The examples in the application guidance are relatively simple. We believe the examples should illustrate more complex situations and not just fact patterns where the conclusions are straightforward, especially in the areas of continuous transfer and warranties. For example, with respect to continuous transfer, Example 15 – Manufacturing services versus manufactured equipment provides two scenarios with obvious conclusions and does not address more likely scenarios in which there is a high degree of customisation and non-refundable payments but the customer does not have rights to the work in progress upon termination of a contract. Clear examples that illustrate the application of the principles to more complex transactions will help to demonstrate that the principles are articulated sufficiently to address real-life fact patterns in a consistent manner.

In addition, some of the key principles of the Exposure Draft are currently included in various examples in the Implementation section of the Exposure Draft (e.g., warranty arrangements, right of return and principal versus agent considerations). We believe those principles should be clearly articulated in the standards section of the final standard.

Attached to this letter, we have provided answers to the questions posed in the Exposure Draft (Appendix A) as well as our other observations (Appendix B).
If you have any questions about our comments or wish to discuss any of these matters further, please contact Mary Tokar or Philip Dowad with KPMG’s International Standards Group in London at +44 (0)20 7694 8871, or Mark Bielstein, Tamara Mathis or Paul Munter with KPMG LLP in New York at +1 (212) 909-5419, +1 (212) 909-5302, or +1 (212) 909-5567, respectively.

Yours faithfully

KPMG IFRG Limited

KPMG IFRG Limited
Appendix A

KPMG’s Responses to Specific Questions posed by the Boards

Question 1: Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether:

(a) to combine two or more contracts and account for them as a single contract;

(b) to segment a single contract and account for it as two or more contracts; and

(c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Combining Contracts

We agree with the principles in the Exposure Draft as they apply to combining of two or more contracts.

Contract Segmentation

We generally agree with the principles in the Exposure Draft as they apply to segmenting contracts. However, in paragraph BC38(b), the Boards indicate that one reason for requiring certain contracts to be segmented is to reduce the number of circumstances in which a variable transaction price would need to be attributed to multiple performance obligations in a contract. That is, if a contract is segmented into separate contracts, “the entity would not allocate changes in the transaction price of one bundle of performance obligations identified as a contract to another bundle of performance obligations identified as another contract.” We believe that the instances in which an entity will actually meet the segmentation requirements will be rare. It will be rare that an entity will be able to determine that the bundled goods are not sold at a significant discount, particularly if the entity is unable to reasonably estimate variable consideration. As a result, we believe that in many cases this proposed requirement will not meet the Boards’ objective.

Additionally, Example 1 in the Exposure Draft describes an arrangement in which three products are sold together. Products A and B are regularly sold together as a unit at a discount to their standalone selling prices, but when they are sold together with Product C, there is no additional discount. The example concludes that the contract to sell all three products would be segmented into two contracts, one for the sale of Products A and B, and one for the sale of Product C. This conclusion raises a question about how much segmentation analysis would need
to be performed by an entity that sells a large number of goods and services bundled in a contract to determine whether any embedded discount should be attributed to some sub-set of the goods or services contained within the arrangement. In an arrangement involving several different goods and services, there could be numerous possible permutations that an entity would need to evaluate to determine whether the contract should be segmented into two or more contract segments.

**Contract Modifications**

While it is necessary to distinguish between modifications that should be accounted for as a new arrangement (i.e., with no adjustment to previously-recognised revenue) and modifications that are, in essence, a component of an ongoing arrangement and accordingly should result in an adjustment to previously-recognised revenue, we believe the principle for distinguishing between the types of modifications should be refined.

We believe the indicators of “interdependence” outlined in paragraph 13 of the Exposure Draft do not provide a useful framework for evaluating the nature of a subsequent contract modification that was not contemplated at contract inception. For example, a modification rarely would meet the indicator that it is entered into at or near the same time as the original contract. Furthermore, even if the indicators in the Exposure Draft were operational when applied to contract modifications, we disagree with the Exposure Draft’s conclusions that there would not necessarily be an accounting consequence in circumstances where the vendor has granted a concession, such as those discussed in ASC paragraphs 985-605-55-18 through 55-21 (TPA 5100.56) of U.S. GAAP. Therefore, we believe that contract modifications should be evaluated as falling into one of three categories:

**Category 1: Contract Additions**

In some cases a contract may simply be modified so that additional items are delivered. These contract additions should generally be accounted for as separate arrangements as long as a concession on the original arrangement has not been granted. In these situations, the accounting for the original arrangement should not be affected either currently or on a prospective basis. For example, assume a builder agrees to build 50 homes for CU 2.5 million, or CU 50,000 per home, with a substantial amount of the payment upfront. Assume that six months later the contract is modified such that the builder agrees to build an additional 30 homes for an additional CU 1.8 million, or CU 60,000 per home. Assuming the negotiation for the 30 additional homes was based on then-current market conditions and the new homes are separate and distinct from the original 50, we believe the arrangement to construct additional homes should be accounted for as a new and separate arrangement, with the accounting for the original contract unmodified.
Category 2: Renegotiated Contracts

In some cases, the unsatisfied performance obligations in an existing arrangement may be modified in an equitable exchange of rights and obligations that establishes a single new arrangement. We believe these arrangements should be accounted for as new arrangements, with no adjustment to previously-recognised revenue but a prospective reallocation of any remaining arrangement consideration. For example, assume an entity agrees to deliver 5 years of hosting services for CU 500, to be paid in equal instalments at the beginning of each year. After four and a half years, the entity renegotiates the contract, agreeing to provide three and half years of a new enhanced hosting service from the date of renegotiation and a software product for an additional CU 400. In this case, since the deliverables under the original arrangement have been modified, we believe the CU 50 of remaining deferred revenue from the original contract should be added to the CU 400 of additional consideration on the renegotiated contracted for a total of CU 450 of arrangement consideration to be allocated to the deliverables on the new arrangement.

Category 3: Concessions

In some cases, a customer may be able to convince an entity to sacrifice a valuable asset on an existing contract. In contrast to categories 1 and 2, where there is a reciprocal exchange of promises that is best reflected on a prospective basis, we believe such concessions should result in a negative current accounting impact to reflect the sacrificed value in the period of the concession. For example, assume an entity agrees to deliver 5 years of hosting services for CU 500, to be paid in equal instalments at the beginning of each year. After three years, the customer convinces the vendor that the price of the services is too high and the contract is modified such that the fee for years 4 and 5 is lowered to CU 50 per year. Whether the current market price for such services is CU 50 or not, the vendor has sacrificed a valuable contractual asset in the period of the concession and we believe this should be accounted for via adjustment of cumulative revenue recognised on the arrangement. In this case, total arrangement consideration has been lowered to CU 400. Therefore, the adjusted fee attributable to each year of service is CU 80, and CU 60 of revenue would be reversed in the period of concession.

In contrast to the above approach, Scenario 1 of Example 2 of the Exposure Draft concludes that an entity can lower the price of an existing contracted-for deliverable to the then-current market price with no negative accounting effect in the period of modification. We believe such an approach disguises a sacrifice of value that should be reported and that the above framework provides a more operational and informative approach to contract modifications than what is currently described in the Exposure Draft.

Additionally, with the elimination of modification guidance in ASC Subtopic 605-35 and IAS 11, the Boards should consider whether the principles in the Exposure Draft provide sufficient
guidance for long-term contract arrangements where change orders and claims are fairly common.

**Question 2: The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?**

We agree with the notion that distinct goods and services should be accounted for separately, and we agree that the concept of a distinct good or service should focus on whether a good or service could be sold separately. However, we believe the proposed requirement for a distinct profit margin should be eliminated. Instead, the concept of “contract management services” described in the Implementation Guidance and Basis for Conclusions of the Exposure Draft should be further developed and included in the standards section of the document. Please see “Distinct Performance Obligations” in our covering letter for a more detailed discussion of our views.

If the Boards retain the approach in the Exposure Draft, we believe the final standard will need to expand on the meaning of distinct risk. **Example 11—Construction contract** does not sufficiently illustrate the concept. It is unclear what risks should be evaluated to determine if there are distinct risks. For example, would software that has been delivered to the customer have distinct risks from related upgrades? In addition, clarification of “distinct function” and “utility” may be required since these terms are not well-defined in the Exposure Draft. The language in the Exposure Draft suggests that most activities could have a distinct function because of the linkage of distinct with “utility either on its own or together with other goods or services”. For this concept to be operational, we believe the Boards will need to clarify what is meant by “other goods and services that the customer has acquired from the entity.” Could the goods or services “acquired from the entity” be goods or services included in the current contract such that order of delivery matters? If this is the Boards’ intent, this needs greater clarity and a final standard should include discussion about the level of certainty a vendor needs to have about the order of delivery before concluding an undelivered item is distinct.

We believe Example 23 in the Exposure Draft does not sufficiently articulate why the product placement service is distinct or how it has distinct risk. We disagree that these services are distinct because such services do not have utility separate and apart from sale of products to the customer.

Lastly, it appears that there may be a different accounting treatment for a volume rebate and a volume discount under the Exposure Draft. We understand that volume rebates would be treated as variable consideration (cash consideration paid to a customer), based on the guidance in paragraph 36 of the Exposure Draft, and therefore would be reflected in the allocation of the transaction price. There are differing views on how volume discounts would be treated under the Exposure Draft. Some believe that the language in paragraph 36 indicates that volume
discounts also would be treated as variable consideration. However, others believe that a
volume discount would be evaluated as a contract option under paragraph B25 (because it is
subject to the customer’s option to make additional purchases), in which case it would be
deemed a separate performance obligation only if it is determined to be a material right. We
recommend that the Boards clarify the accounting for volume rebates and volume discounts. We
believe that the substance of volume rebates and volume discounts is quite similar, and,
therefore recommend that they receive similar accounting treatment.

Question 3: Do you think that the proposed guidance in paragraphs 25–31 and related
application guidance are sufficient for determining when control of a promised good or
service has been transferred to a customer? If not, why? What additional guidance would you
propose and why?

We do not believe that all of the indicators of control in paragraph 30 of the Exposure Draft are
consistent with the definition of control provided in paragraphs 26 and 27. In addition, the
indicators are not effective or applicable for assessing transfer of control for the provision of
services. An alternative approach that may better align the concept and the indicators of control
would be to focus on “effective” rather than legal control. Additionally, to achieve an
appropriate level of consistency in practice, the final standard could include additional
indicators for continuous transfer of control of a constructed asset. Please see “Transfer of
Control” in our covering letter for a more detailed discussion of our views.

If the Boards decide to retain the proposed guidance in the Exposure Draft, we believe
additional guidance and clarification would be necessary, in particular, in the following areas:

• Paragraph 31 stipulates “not one of the preceding indicators determines by itself whether the
customer has obtained control of the good or service.” The Boards should clarify whether an
entity could conclude that control has transferred in situations where an entity assesses that
only one of the control indicators exist (e.g., customisation of the product) or whether at
least two of the indicators need to be present. We assume that the Boards intend that no one
indicator would necessarily be determinative but that in some cases one indicator may be
sufficient.

• The Boards should clarify how transfer of control would be assessed in arrangements where
a vendor has a right of recall (e.g., in the consumer products industry the vendor may have a
call option on its products sold into the chain to keep fresh supply of products available to
the end user at the customer’s location) and whether probability and vendor history should
be incorporated into the analysis.

• The Boards should clarify whether “solely as protection against the customer’s failure to
comply” in paragraph 28 means that retention of title for other reasons would not be
considered protective in this context. For example, sometimes rights may be retained by the
seller of real estate to retain the property tax obligations or to avoid transfer tax or other
valid business reasons, but control over the asset resides with the buyer.
The Boards should clarify if a “termination penalty” is viewed the same as an “unconditional obligation to pay” as specified in paragraph 30(a).

**Question 4:** The Boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

*Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?*

We generally agree with the principle proposed in the Exposure Draft. However, we believe that using a most likely amount to determine the transaction price would be more appropriate than the probability-weighted amount, particularly in the absence of a large number of homogeneous transactions. Please see “Transaction Price – Variable Consideration” in our covering letter for a more detailed discussion of our views.

The Boards should clarify how the guidance related to “experience with similar contracts” for estimating a transaction price would be applied for a new entity with no previous experience. For example, a new entity enters into its first contract with a customer and may earn a performance bonus if a delivered good meets certain performance requirements. If the results of the entity’s extensive testing procedures provide a basis to reasonably estimate whether or not the good will meet those performance requirements, we believe that could provide a sufficient basis on which the new entity may reasonably estimate the variable consideration.

**Question 5:** Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We believe that the final standard should include an explicit minimum threshold of collectibility (e.g., probable) for recognising revenue. Once it is determined that the collectibility threshold has been met, we believe revenue should be recognised at the most likely amount that is expected to be collected. If the entity ultimately collects more consideration than the amount that was expected when the receivable was initially recognised, we believe that additional amounts of consideration should be recorded as additional revenue rather than outside of revenue in the profit or loss statement. Please see “Collectibility” in our covering letter for a more detailed discussion of our views.

**Question 6:** Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?
While we agree that time value should be considered in determining arrangement consideration in circumstances where financing is a significant element of the arrangement, we are concerned that, as drafted, the guidance in the Exposure Draft may be an unnecessarily complex approach and may be costly to implement in arrangements where there are multiple performance obligations that are satisfied at different times. In particular, we believe the interaction of the guidance on time value with the guidance on allocating consideration to multiple performance obligations should be clarified.

Alternatively, if the Boards retain the existing principles in the Exposure Draft, we believe the Boards will need to provide additional guidance as to how time value should be incorporated into the determination of the transaction price and its allocation to multiple performance obligations. Based on the guidance in the Exposure Draft it appears that in order to determine the impact of time value on the transaction price in a multiple performance obligation arrangement, one would need to know the amount of arrangement consideration allocated to each performance obligation. Since the amount of arrangement consideration allocable to each performance obligation depends on the amount of accreted or discounted arrangement consideration, a strict reading of the guidance in the Exposure Draft would suggest that simultaneous equations may be necessary to solve for the related variables in a manner that preserves the relative estimated selling price allocation methodology required by the standard. While we understand that it may not have been the Boards’ intent to require the use of simultaneous equations in this area, we believe that the Boards will need to provide some discussion and illustration of an appropriate methodology to accomplish the Boards’ objective in this area. Further, we are concerned that even simplified approaches for incorporating time value (for instance, allocating discounted arrangement consideration at inception and then accreting each individual performance obligation on a standalone basis) may contain their own complexities. For example, an option that represents a material right and which may be exercised over a long period of time would seem to attract a large amount of accretion under simplified methods. Therefore, we urge the Boards to consider how any final guidance on incorporation of time value into the analysis would operate in the context of multiple performance obligation arrangements that are performed or satisfied at different times over a long period of time with numerous progress payments.

We also believe the Boards could address many of the time value complexities described above by excluding time value from consideration when payment is expected to be made in proximity to (e.g., within one year of) delivery of goods and services and there is no evidence that the parties intended to incorporate a financing element into the arrangement, which would be consistent with other Board proposals (e.g., Leasing). Additionally, we question whether it is always conceptually appropriate to accrete a liability to perform when payment is made by the customer before revenue is recognised and the related resources in progress (purchased materials, labour, etc.) are not also adjusted for the time value of money. For example, if the customer is paying in advance because the vendor must deploy the consideration in fulfilling the contract or because the vendor requires a security deposit to undertake a capital-intensive construction project, it seems that the prepayment may not be financing in nature.
Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We agree with the principle proposed in the Exposure Draft. However, we recommend that the guidance for suitable methods for estimating a selling price be clarified to indicate that an entity should consider both market conditions and entity-specific factors in estimating a selling price. As currently written, it appears an entity could apply the expected cost plus a margin approach and ignore market conditions, or an entity could apply the adjusted market assessment approach and ignore entity-specific factors such as the entity’s pricing strategy.

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

We generally agree with the principle proposed in the Exposure Draft. However, application of the criteria, as well as the amortisation of those assets, is not clear in the context of an arrangement that involves the continuous transfer of a good or service to the customer, for example, the construction of a building on the customer’s land. With respect to the discussion of “amortisation” of contract costs in paragraph 61, the Boards should clarify whether the costs may be “derecognised” only on a “systematic basis.” The Boards also should clarify if the amortisation of initial costs (design, migration and testing of data centre costs) in paragraph B90/Example 28 should be recognised in proportion to revenue or straight-line over the contract period.

Regarding the recognition of costs in profit or loss, based on a joint FASB-IASB webcast on the potential effects of the Exposure Draft on construction accounting, we understand that fulfilment costs associated with a distinct performance obligation should be recognised based on the overall profit margin for that performance obligation, even if it is fulfilled over time. We agree with that; however, this treatment is not clear in the Exposure Draft. We recommend that the final standard include specific guidance indicating that all fulfilment costs (whether contract costs, inventory, or other costs) associated with a distinct good or service for which control transfers on a continuous basis should be recognised in profit or loss in a manner that results in a consistent profit margin for that good or service.

We also believe the Boards should consider the relationship between the guidance on identification and satisfaction of distinct performance obligations and the guidance on contract
costs. The recognised margins for similar contracts could be very different if the cost guidance is not clarified. For example, consider an example of a contract to design and produce twenty units. Depending on the facts and circumstances, such a contract could be evaluated as:

- a single integrated performance obligation recognised as revenue on the basis of proportional costs;

- a single integrated performance obligation recognised as revenue on the basis of units delivered; or

- twenty performance obligations to deliver individual units.

Assume that based on the entity’s experience it knows that the discrete costs incurred to construct the twenty units will decline over the course of the contract, such that the first unit will cost significantly more than the last unit. These costs are foreseeable and reasonably estimable at inception of the contract. While we understand that the Boards do not wish to reconsider the general model for accounting for inventory costs and internally generated intangible assets as part of this project, we believe this particular issue should be considered more explicitly since the relationship between contract costs and contract revenues is essential to the faithful depiction of the arrangement.

Lastly, with regard to recognition of an asset for costs incurred in fulfilling a contract, the Boards should clarify the recognition threshold for “costs are expected to be recovered” (e.g., probable, more-likely-than-not).

**Question 9:** Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

*Do you agree with the costs specified? If not, what costs would you include or exclude and why?*

We generally agree with the principle proposed in the Exposure Draft with respect to costs that relate directly to a contract.

However, paragraph 59(a) requires that all costs of obtaining a contract be expensed. We note that this requirement is in conflict with requirements of IAS 38, *Intangible Assets*, and the Exposure Draft does not propose any amendments to IAS 38. In addition, this guidance does not appear to be aligned with the Boards’ joint Exposure Draft, *Leases*, and the IASB’s proposals in ED/2010/8, *Insurance Contracts* (paragraphs 24 and 39 of that Exposure Draft). We believe the Boards should consider the need for consistency in the accounting for contract acquisition costs across these projects.
Question 10: The objective of the Boards’ proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

We generally agree with the disclosure objectives proposed in the Exposure Draft. However, the Boards should continue to obtain information on the needs of the financial statement users and the costs to preparers when determining the disclosure requirements for revenue recognition. We have concerns that recent new pronouncements have included both a disclosure objective and a long list of detailed, prescriptive disclosure requirements that would seem to be inconsistent with a principles-based approach.

We believe the Boards should also evaluate the proposed disclosure requirements for consistency with the direction of the FASB’s disclosure framework project. However, we do not believe that the Boards should delay this project for completion of the FASB’s disclosure framework project.

We also believe there should be a clear distinction between requirements for interim and annual reporting.

Question 11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

Please refer to our response to Question 10.

Question 12: Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

Please refer to our response to Question 10.

Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (that is, as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We understand and appreciate financial statement users’ desire to have comparable financial information across multiple accounting periods. However, we believe that full retrospective
application of the proposed guidance is likely to be costly to many entities – especially those with long-term arrangements, and those costs may outweigh the benefits of retrospective application. In addition, it will require entities to re-evaluate prior years’ contracts that have been completed prior to the effective date of the standard which may increase the cost of initial application of a final standard. Application of the guidance under the Exposure Draft could also result in changes in entities’ systems and processes. While we note that the Boards have issued a separate consultation document on the effective date of this and other Memorandum of Understanding proposals, we believe the Boards will need to consider preparer implementation processes in the determination of the effective date and transition method. If full retrospective application is required, we believe that preparers will need more time to implement the proposed guidance than if other transition methods are allowed.

We note that recently-issued U.S. GAAP standards related to revenue recognition (ASUs 2009-13, Multiple Deliverable Revenue Arrangements, 2009-14, Certain Revenue Arrangements That Include Software Elements, and 2010-17, Milestone Method of Revenue Recognition) have allowed financial statement preparers the alternative for either prospective or retrospective adoption. We believe that this alternative would be an acceptable transition method for the proposed requirements.

**Question 14:** The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

For the standard to be effective, it must clearly articulate the underlying principles and provide clear examples that demonstrate the application of those principles to real-life fact patterns. The examples in the application guidance are relatively simple. Without clear examples that illustrate application of the principles to more complex transactions, there will be uncertainty as to whether the principles and guidance can be applied to those more complex situations. Additionally, some of the key principles of the Exposure Draft are currently included in various examples in the Implementation section. We believe those principles should be clearly articulated in the standards section of the final standard. Please see “Field Testing and Application Guidance” in our covering letter for a more detailed discussion of our views.

**Question 15:** The Boards propose that an entity should distinguish between the following types of product warranties:

(a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.

(b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in
addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

With respect to warranties, we agree with the proposal from a technical point of view, however, we have concerns over the practical application. We believe in many cases it will be difficult in practice to draw a meaningful distinction between latent defects and defects that arise after the transfer of goods, especially for “standard” warranties covering long periods of time for which the latent defect may be detected. It is unclear from the guidance in the Exposure Draft whether the distinction would be based on how the warranty is packaged (i.e., is a warranty bundled with the product always considered a warranty for latent defects?) or on some other basis. As such, we are concerned that without better clarity unnecessary diversity in practice could arise.

We appreciate that in many situations the distinction will not have a significant impact on revenue recognition by the vendor. However, in situations where there is an unexpectedly large warranty obligation as a consequence, for example, for a product recall, under the proposed guidance, the vendor would be required to reverse revenue previously recognised if it is deemed to be related to a latent defect and recognised again when the defective product is replaced, whereas an onerous performance obligation may exist if it is deemed to be coverage for defects that arise subsequent to delivery.

Question 16: The Boards propose the following if a licence is not considered to be a sale of intellectual property:

(a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and

(b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?

We do not agree with the distinction the Boards have made with respect to licensing arrangements for intellectual property. We believe that the timing of transfer of control of a licence of intellectual property is not dependent on whether the intellectual property is licensed on an exclusive or non-exclusive basis. We believe that an entity transfers control of any licence
to intellectual property at the point in time in which the customer has the right to use and receive the benefits of the licensed asset.

In addition, it is not clear if the proposed guidance for licensing and rights to use is limited to intellectual property or if it would also apply to licences of other intangible assets, such as agreements not to compete and customer lists, etc. The Boards should clarify if licences of other intangible assets would apply this same guidance.

*Question 17: The Boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?*

We generally agree with the principle proposed in the Exposure Draft.

*Question 18 [FASB only]: Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?*

We believe that if the guidance is sufficiently operational then the recognition and measurements principles of the model should be applied by both public and private entities.
Appendix B

Other Observations

Depicting Continuous Transfer

The Exposure Draft perpetuates the longstanding distinction between output measures and input measures, but does little to clarify the underlying principle for evaluating which method best depicts transfer. The Exposure Draft does not provide a common understanding of what represents an appropriate output measure in practice or when an input measure might be more appropriate than an output measure. For example, consider an arrangement to design and construct twenty units. Assume the contract will take five years and that several units are produced simultaneously. Further assume that design and construction are considered to be an integrated performance obligation that is delivered over time in a continuous fashion. The customer will make progress payments based on costs incurred to date plus a predetermined margin as construction progresses and the vendor has little discretion but to deliver the particular units in construction upon contract completion.

Following the statement that output measures represent the “best” means of depicting performance might result in a conclusion that all revenue should be deferred until completed units are delivered, which might be late in the contract lifecycle. That method of revenue recognition would be consistent with a “units produced” output measure, but we believe most people would argue that “units produced” is not the best method of depicting performance if the substance of the arrangement is a design and construction service with payments commensurate with performance. A “cost to cost” or “hours to hours” inputs-based measure of performance seems to better reflect the economics of the arrangement. We recommend that the Boards delete the language in paragraphs 33 and BC74 indicating that output methods are usually superior to other methods.

Consideration of Other Topics

A contract with a customer may be partially within the scope of the Exposure Draft and partially within the scope of other Topics/Standards. Paragraph 7 of the Exposure Draft states that if the other Topics/Standards specify how to separate and/or initially measure any parts of the contract, an entity first applies those separation and/or measurement requirements. The Boards should specify what other Topics/Standards specify how to separate and/or initially measure any parts of the contract as is the case currently in U.S. GAAP.

Criteria for Determining if a Contact Exists

The Boards should clarify whether paragraph 10(a) of the Exposure Draft refers to gross or net cash flows that are expected to change as a result of entering into the contract.
The Boards should clarify why a contract need only be cancellable by either party versus both parties in order for a contract not to exist as specified in paragraph 11. It does not seem appropriate that a vendor would conclude that a contract does not exist for a wholly unperformed contract in which the contract is cancellable by the customer, but not the vendor, and one or more performance obligations are onerous. In that case, the vendor would delay the recognition of the onerous performance obligations even though the customer can enforce performance.

We recommend that the Boards modify the language in paragraph 10(b) such that the sub-paragraph reads: “the parties to the contract have approved the contract and have the intent and the ability to satisfy their respective obligations.”

Sale of a Product with a Right of Return

The Boards should clarify the type of asset to be recognised by an entity, e.g., inventory in respect of rights to recover products from the customer, as discussed in paragraph B12 of the Exposure Draft.

Principal versus Agent Considerations

The Boards should clarify how the guidance related to obtaining control of the asset before transfer to the customer in paragraph B21 of the Exposure Draft interacts with the indicators for determining if an entity is acting as an agent in paragraph B22. Do the indicators in paragraph B22 assist in the analysis of whether the vendor obtains control of the asset before it is transferred to the customer?

We believe the indicators in the Exposure Draft for assessing principal versus agent could result in a change in conclusions related to recognition of revenue on a gross versus net basis in comparison to existing US GAAP. If it is the Boards’ intention that there would not be a change in practice from the proposed guidance in the Exposure Draft, we believe that the principal versus agent indicators in the Exposure Draft should be consistent with the existing guidance in FASB ASC Subtopic 605-45, Revenue Recognition – Principal Agent Considerations.

Franchise Rights

With regard to Example 8 – Franchise Rights in the Exposure Draft:

- The Boards should clarify why an entity’s promise to stand-ready to provide products to the customer is not considered a material right given to the customer (i.e., could others outside of the franchise network buy the products from the entity?).

- The Boards should clarify what is the recognition period for the upfront franchise fee (i.e., is it the five-year contract period or longer if the renewal option provides a material right?).
Contract Costs

It does not appear from the consequential amendments that the guidance in ASC paragraphs 340-10-25-1 through 25-3 would be impacted by the guidance on contract costs in the Exposure Draft. Certain of the costs within the scope of ASC Section 340-10-25 appear to be costs directly related to a long-term supply contract and it is unclear why these costs would not be within the scope of the cost guidance in the Exposure Draft. We believe the FASB should reconsider whether some or all of the guidance in ASC Section 340-10-25 should be superseded by the final standard.

Scope of the Exposure Draft

The Boards should clarify if certain additional guidance in U.S. GAAP such as for mineral property conveyances and timeshare interests would be replaced by the Exposure Draft.

Onerous Performance Obligations

We recommend that the Boards clarify the timing of recognition of a loss for a performance obligation (or contract) that is onerous at contract inception. Would a loss be recorded at the time of entering into the contract or at the time of commencement of performance?

IFRIC 18

The proposed standard would supersede existing guidance in IFRIC 18, Transfers of Assets from Customers. We believe the application guidance in the new standard should provide an example of the application of a transaction that currently is in the scope of that guidance and how questions related to the definition of an asset and to measurement of the transferred item of property, plant and equipment on initial recognition should be interpreted and applied under the new standard.

Free on board shipping point

Example 13 Free on board shipping point and risk of loss of the Exposure Draft uses the delivery term “free on board shipping point”. We believe there is a potential for confusion internationally with the term “free on board, FOB” as used in Incoterms 2000 which does not prescribe transfer of title of goods at shipping point and eliminate use of the term “free on board”.