International Accounting Standards Board
30 Cannon Street, 1st Floor
London, EC4M 6XH
United Kingdom

Dear Board Members:

Re: Exposure Draft – Revenue from Contracts with Customers

The Canadian Bankers Association\(^1\) (CBA) would like to thank the International Accounting Standards Board ("IASB" or the "Board") for the opportunity to comment on the Exposure Draft Revenue from Contracts with Customers (the "ED").

The CBA appreciates the fact that the IASB and the FASB have issued a converged proposal on this topic. We strongly support the IASB in continuing to work with FASB to issue converged standards as we strongly support a single set of high quality global accounting standards. The IASB’s coordination with FASB is of particular interest to Canadian financial institutions given our proximity to the US financial markets.

Overall, we agree with the proposal. It enhances financial reporting by establishing a consistent framework to be applied for all revenue recognition decisions. We recognize that revenue recognition is an area requiring the use of significant judgment, and the proposed standard provides a framework for making revenue recognition decisions that are consistent across industries. However, we believe that the illustrative guidance to the ED should be expanded to provide examples that are relevant to financial institutions. We believe that the ED should clarify when contract costs are eligible for recognition as an asset in accordance with other IFRSs (as included in paragraph 57 of the ED) and that they are not required to be expensed, as required in paragraph 59 of the ED.

Our specific comments on questions raised by the IASB can be found in Appendix A. If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

[Signature]

Attachment: Appendix A

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\(^1\) The Canadian Bankers Association works on behalf of 51 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 249,000 employees to advocate for efficient and effective public policies governing banks and to promote an understanding of the banking industry and its importance to Canadians and the Canadian economy.
Appendix A

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 contract modification as a separate contract.

Agree because the proposal provides a uniform segmentation model applicable to contracts across multiple industries. Contracts with price interdependence should be accounted for together as a single contract. However, the interpretation of "price interdependence" may not always be intuitive. We suggest that IASB include additional illustrative guidance on the application of this concept.

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?

Somewhat agree. While the separation by function is a reasonable approach, the linkage to the existence of a distinct profit margin may not be necessary, as an entity in practice may have two separate performance obligations, which carry similar profit margins. An alternative separation criteria may be whether the characteristics of the good/service are dissimilar and whether the good/service is "separately identifiable".

Question 3
Do you think that the proposed guidance in paragraphs 25-31 and related applications 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?

Somewhat agree. While paragraph 62 of the Basis for Conclusion further elaborates on the transfer of control, it links the control of a good or service to the ability to receive the benefit from that good/service, which in turn is linked to either an increase in cash inflows or a decrease in cash outflows. We believe that the basis for the transfer of control should not focus on cash flows, especially in the case of services, but rather on the customer's ability to derive benefits from the use of a service. We also believe that the application guidance should be expanded to include examples relevant to the financial institutions. To that end we suggest that the existing illustrative guidance included in the appendix to IAS 18, titled: "Financial Services Fees" be added to the illustrative guidance in the ED.

Question 4
The boards propose that if the amount of consideration is variable, an entity should recognize 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 recognize 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 recognizing revenue when the transaction price is variable and why?
Somewhat agree. Revenue should be recognized on the basis of an estimated transaction price because it may produce a closer alignment between revenue recognition and the economics of the contract. However, we disagree with the criteria in paragraph 38, since this would only allow recognition of revenue when there is prior experience with this product/service. The IASB may consider expanding the basis for establishing a "reasonably estimated" transaction price.

**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 recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

The requirements contained in the ED, whereby revenue is recognized at the probability weighed amount of consideration expected to be received may result in significant estimation that may not be practical and could lead to earlier revenue recognition. We believe that no revenue should be recognized when substantial customer credit risk exists. Also, it appears that the proposal in the ED may conflict with the existing incurred loss model used for loan loss provisions. We believe that entities should apply the incurred loss model to receivables that arise as a result of revenue recognition, just as it is applied to other loans (i.e. no allowance is recognized at the inception date).

**Question 6**

Paragraph 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?

Agree because consideration of the time value of money produces a closer alignment with the economics and the substance of the transaction. In addition, this ensures that revenue is recognized on a consistent basis between entities and industries.

**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 stand-alone 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?

Agree because stand alone selling price provides a consistent method of allocation across entities.

**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 33-; IAS 16 or ASC Topic 360; and IAS 38 Intangible Asset or ASC Topic 985 on software), an entity should recognize 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?

Somewhat agree. While we believe that the requirements are operational, we suggest that the IASB should clarify when contract costs are eligible for recognition as an asset in accordance with other IFRS standards (as included in paragraph 57 of the ED) and that they are not required to be expensed, as required in paragraph 59 of the ED. For instance, if contract costs are eligible for capitalization under IAS 38, they would not be expensed as required by paragraph 59 of the ED.
Question 9
Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.

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

We agree with the costs listed in paragraph 58.

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?

Agree because the proposed disclosures are significantly more extensive than the current requirements and will enable a more comprehensive understanding of contract revenue, costs and the timing of the cash flows related to the on-going contracts.

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 amount its remaining performance obligations?

We somewhat agree with the disclosure requirement as it will enable the users to enhance their understanding of the expected cash flows and form a better expectation of expected earnings, however we believe that such disclosure should be a requirement on the premise that it would not cause undue costs to provide and that such disclosures are material.

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?

We agree that the proposed disclosure requirements may provide useful information to the users of the financial statements. We believe that the ED provides entities with flexibility as to the revenue disaggregation that best reflects the economic risk of the underlying businesses.

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

Somewhat agree because this would enhance inter-period comparability, which is important for the users to assess trends. However, retrospective restatement could be onerous and costly for some companies, particularly for the entities with complex arrangements where past contracts and arrangements may need to be individually reviewed for differences created by the ED. In such instances, the IASB may consider prospective application with an election to adopt on a retrospective basis.
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?

We suggest that an illustrative guidance should incorporate the examples similar to those currently contained in IAS 18 IE “Financial Services Fees”.

Question 15
On warranties

We do not have any comments on this question.

Question 16
On licensing arrangements

We do not have any comments on this question.

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?

Agree because this requirement ensures consistent accounting for transactions that bear similar economic characteristics.