Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  

United Kingdom

Exposure Draft ED/2011/6 Revenue from Contracts with Customers  
(A revision of ED/2010/6 Revenue from Contracts with Customers)

Dear Mr. Hoogervorst:

We appreciate the opportunity to comment on the re-exposed draft ‘Revenue from Contracts with Customers’ (herein referred to as ‘the ED’).

First, we want to share our appreciation of the Boards’ substantial efforts in revising the original disclosure draft based on the comments received by their constituents. We believe that the current exposure draft presents a significant improvement over the proposed guidance in the original draft.

Our detailed comments on the questions raised in the ED are included in the appendix to this letter. However, we would also like to take this opportunity to share concerns related to this ED on issues not specifically addressed in the questions raised by the Board.

Another area of major concern is the continued expansion of disclosure requirements that were already included in the original disclosure draft and have not been significantly revised or reduced in the redeliberation process.

As stated in our comment letter to the original disclosure draft, we agree with the Board’s general objective to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we also continue to believe that the proposed disclosure requirements will not meet that objective.

The proposed disclosure requirements are substantially more extensive and detailed than the existing requirements. The inclusion of the detailed qualitative disclosure requirements will likely increase the size of disclosures. These additional disclosures will likely not translate into more decision useful information for the users of financial statements.
Instead, we continue to believe that the current disclosure requirements in IAS 11, IAS 18 and IFRS 8 “Operating Segments” are appropriately addressing the information needs of investors without overburdening them with disclosure overload. If entities are compelled to prepare and disclose information that they do not use for management reporting this information is likely to be irrelevant. Moreover, unnecessary costs are incurred. This further increases the mismatch between costs and benefits.

Yours sincerely,

Daimler AG

Robert Köthner
Vice President
Chief Accounting Officer

Gregor Hickel
Senior Manager
Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

No, we do not agree. We highly appreciate the Boards’ decision to change the accounting for the consideration of customer credit risk for revenue recognition issues compared to the original ED and welcome the decision to address customer risk outside the measurement of revenue. In our opinion revenue recognised should comprise the amount agreed with the customer and which the customer is willing to pay in exchange of goods and services. This would be the correct measure of the performance obligation fulfilled by the company on completing the sales transaction. While we do agree with the requirement to apply IAS 39 or IFRS 9 for the recognition and measurement of the allowance amounts, we do not agree with presenting the allowance amounts in profit or loss as a separate line item adjacent to the revenue line item as contra revenue.

Additionally the newly proposed line item adjacent to the revenue line item does not provide decision-useful information for the users of financial statements. We think that investors are not receiving useful information by overloading the statement of comprehensive income with yet more lines in presentation, especially when these lines are of limited significance to the financial results of a company. In addition, information on the allowance for bad debt is readily available to investors, if needed, from a Company’s IFRS 7 footnotes.
Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We welcome the proposal to limit variable consideration recognised as revenue to the amount that is reasonably assured. The alternative of recognizing revenue at fair value with no assurance of realization would lead to a less meaningful revenue number.
Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

No, we do not support the recognition of any liabilities at performance obligation level, when the overall contract is profitable. Additionally, we are of the opinion that guidance for onerous contracts should be part of IAS 37 due to the fact that this accounting issue is not limited to questions of revenue but has a broader scope. Thus the limitation of onerous contracts to performance obligation with a minimum term of more than one year would be dispensed of.

Moreover, the definition of an onerous contract raises the question of how to allocate discounts to separate performance obligations. In the revised exposure draft the Board has added guidance for the allocation of discounts. As a rule, discounts for contracts with more than one single performance obligation have to be allocated on a relative stand-alone selling-price basis. The allocation of a discount entirely to one performance obligation is only possible if certain conditions are met; if an entity regularly sells each good or service in the contract on a stand-alone basis and the observable selling prices from those stand-alone sales provide evidence of the performance obligation[s] to which the entire discount in the contract belongs. We understand that this wording limits the application of this approach to very select cases.

We are concerned that the mechanical allocation of discounts on the basis of stand-alone selling price may lead to outcomes that do not faithfully reflect the economics of the transaction. This would be especially true in multiple element arrangements where the entity provides a discount on the high margin component(s). Allocating the discount pro rata to all components in such a contract may result in the entity reporting a loss on other lower margin components, thus triggering onerous contract accounting and disclosures. We do not think that such a result would faithfully represent the economics of the transaction, as there is no intention by a seller to provide a discount on a lower margin component. To illustrate our point we include the following example:

Company A enters into a sale and service contract with Customer B, whereby A promises to deliver a product at inception of the contract and to provide services for a period of two years afterwards. Although the stand-alone selling price for the product is CU 50,000 and the stand-alone selling price for the service is CU 2,000, the customer pays only CU 50,000 because instead of reducing the price of the product, the seller promises a service “for free”. This means that the service component is meant to be the discount for the sales component of the contract. In this case the full amount of the discount inherent in the combined contract should be allocated to the sale, because this best represents the economic substance of the transaction.

Instead, we suggest that the discount be allocated to the main component(s) of the sale transaction. In this respect the management approach could provide a valuable and robust indicator for the allocation of discounts.

Although the stand-alone selling price model might be ideal from a theoretical point of view, we also have to take into account the challenges created by the application itself. Therefore
we strongly recommend not to restrict the allocation of discounts to certain methods but to allow an entity to take into account specific circumstances.

With respect to measurement of a provision for an onerous performance obligation the new proposals do not provide any guidance for the question of whether a provision recognised for an onerous performance obligation should be discounted or not. Currently IAS 37 requires the measurement of the liability at the present value of the present obligation if the effect of the time value of money is material.

According to paragraph 87 the amount of the transaction price allocated to a performance obligation should be compared to the lowest cost of settling a performance obligation. In our view, the allocated transaction price does not represent the right comparable figure. Instead the lowest cost of settling a performance obligation or contract should be compared with the expected benefits to be received under a contract as currently required for the onerous test by paragraph 68 of IAS 37. Otherwise some expected benefits under an arrangement with a customer would not be included in the test as they are conditional on the customer’s decisions. Nevertheless, those expected benefits are included in the business calculation. Therefore, the proposed wording of paragraph 87 may disconnect the internal management perspective from external presentation.

Furthermore, we believe it is not consistent to apply the onerous test to a 13-month contract whereas an 11-month contract is not tested. Hence, economically rather insignificant differences may cause a dissimilar accounting treatment.
Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity’s remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

No, we do not agree that an entity should be required to provide each of those disclosures in its interim financial reports. The proposed disclosure requirements are substantially more extensive and detailed than the existing requirements. The inclusion of the detailed qualitative disclosure requirements will increase the size of disclosures. Therefore there should be a careful selection of disclosures that provide the most significant information. From our point of view, the disaggregation of revenue could be important enough to be part of interim financial reporting.

The reason for our rejection of additional new interim disclosures is based on the fact that financial statements for interim periods and financial statements for annual periods reporting have different objectives. Therefore according to the principles in IAS 34 disclosures are different for interim and annual reporting periods. The newly proposed interim disclosures will lead to a further erosion of these principles.

In our opinion IAS 34 currently keeps a sensible balance between the need to provide decision-useful information in interim periods and the costs to preparers. The increase of additional specific disclosure requirements could also negatively affect the timeliness of interim financial reporting.

Moreover, we are also very concerned about the introduction of an extended array of additional disclosure requirements for annual reporting. This especially applies but is not limited to the tabular reconciliations. The implementation of disclosures that are not based on internally reported items creates significant costs for preparers of financial statements. This is even more burdensome because the users of financial statements do not receive more decision-useful information if management itself does not consider these issues to be of great importance.
Therefore, we urge the boards to significantly decrease the proposed disclosure requirements – not only for the annual reporting as mentioned previously, but also for interim financial reports.
Question 6

For the transfer of a non-financial asset that is not an output of an entity’s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity’s ordinary activities? If not, what alternative do you recommend and why?

Yes, we basically agree with the idea that the proposals for the recognition of revenue from contracts with customers should also be applied to the transfer of non-financial assets that are not an output of an entity’s ordinary activities. However, we think the whole issue needs to be evaluated more thoroughly before implementing any guidance. Additionally, it should be assured that the wording in the amendments to other IFRSs will follow the wording used in the final IFRS on revenue recognition.
Further open issues

Inconsistencies between the accounting guidance for rights of return and rights of refund

The revised ED proposes different accounting guidance for sales with a right of return and sales subject to customer acceptance on the one hand and agreements to repurchase an asset at the customer’s request (put option) on the other hand. Although the distinction might be feasible from a theoretical point of view, there will be substantial difficulties in practice. In our opinion, this will result in different accounting for transactions with similar economic substance. Therefore we strongly recommend performing a closer examination of the operationality of the proposed guidance.

Moreover, with respect to the accounting guidance proposed in B3 we are concerned that neither the refund liability nor the asset for the right to recover products from customers fulfil the definitions of assets and liabilities as laid down in the Framework.

Transition

In principle, we agree with the retrospective application proposed in the Re-ED. However, more practical expedients will be necessary to reduce the very high costs of first time application, especially disclosure requirements for periods presented before the date of initial application should be further reduced.

Since the new standard will still have pervasive effects on the financial statements we believe that the effective date should be postponed so as to have at least a one year preparation period between the issue of the final standard and the beginning of the first year of comparative figures to be presented. We therefore think that the effective date should be three years from the publication of the standard.