9 March 2012

Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

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

We are pleased to respond to the IASB Exposure Draft (ED): A revision of ED/2010/6 Revenue from Contracts with Customers.

On the whole, we are supportive of the Board's efforts towards a single revenue recognition model to be applied to all transactions under which revenue is earned. However, we have significant concerns over the practical implementation issues that many organisations would face if the ED were to proceed in its current form. Indeed we are concerned that a number of the proposals would be virtually inoperable for organisations like telecommunications operators, who have millions of customers, often with multiple low-dollar-value, high-volume transactions and contracts. Our main concerns are set out below:

- In general, we believe that a number of the proposals are too prescriptive and rules based as opposed to providing guiding principles; and where guiding principles have been provided entities are required to exercise judgement more often than under the existing standards. A balance should be struck between providing enough guidance to apply conceptually based principles whilst avoiding being too prescriptive where transactions can be engineered to achieve certain accounting outcomes.

- As noted above, telecommunications operators like Telstra often have millions of customers, many with multiple low-dollar-value, high-volume recurring transactions and contracts. In addition, the goods and services offered are constantly evolving both technologically and from a marketing perspective, with prices constantly changing and customers continually upgrading and downgrading their telecommunication 'bundles'. As a result, and because of significant differences in individual customer contracts, organisations like Telstra would be required to account separately for millions of contracts. We remain concerned that the following elements of the proposed model will therefore be impracticable to apply, and indeed inoperable, given the sheer volume of transactions and contracts, even considering our ability to potentially aggregate similar contracts and taking into account any practical expedients, for example adopting a portfolio approach:
  - Retrospective application of the proposals;
  - Contract modifications;
  - Identifying separate performance obligations within each contract;
  - Allocating the transaction price, particularly in the case of bundled arrangements incorporating high-turnover homogenous goods whose prices change on a regular basis; and


- Disclosure requirements, particularly those relating to maturity analysis and tabular reconciliations.

For Telstra, as is the case for many telecommunications organisations, some of the information required by the proposed model is not tracked in current systems, and multiple billing systems outside of the accounting system hold the detailed individual contract information. Significant adjustments will need to be made outside of billing systems (and in the accounting systems) in order to appropriately allocate revenue in accordance with the ED creating a disconnect between the billing and accounting systems and increasing the risk of error. However, the accounting systems have not been designed with the capability to account separately for millions of individual contracts, nor are they (nor are our billing systems) set up to allocate the transaction price based on the standalone selling prices (as no such information is currently held by the systems) and recognise revenue for separate performance obligations.

- We do not conceptually support the presentation of impairment losses on short-term receivables as a separate amount adjacent to revenue. The proposals exclude credit risk from the calculation of the transaction price but require revenue to be presented net of impairment losses. Collectability is an impairment assessment issue i.e. an estimate of expected credit losses, either at origination or subsequent measurement, and should be presented as an impairment expense consistently with the impairment of long term receivables and any other financial assets within scope of IFRS 9 / IAS 39.

- We also do not support the proposals to perform an onerous test at the performance obligation level. This approach is commercially irrelevant in a constantly evolving market environment and emergence of new technologies does not reflect the underlying economics of the arrangement with customers and does not align with the way contracts are negotiated. It is likely to impact periodic results even if the contract overall is profitable. The proposal is inconsistent with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which looks at the contract as a whole to assess if an onerous provision should be recognised. IAS 37 should prevail.

- We believe the proposed requirements for contract modifications would be unable to be implemented as tracking all contracts and allocating the modifications at the individual contract level would be impracticable for telecommunications organisations given the sheer volume of contracts and the frequency of modifications. We do not agree with the proposal to account for a contract modification as part of the original contract where the remaining goods or services are not distinct and are part of a single performance obligation. Recognising the cumulative effect of a contract modification on a catch-up basis distorts reported revenue and will provide users with misleading information about entity’s annual performance. We believe the amount of revenue recognised each period should agree with the value contracted with the customer for each period of service.

- We believe the disclosure requirements are both very onerous and excessive, and for the reasons set out above will be impracticable to implement. The disclosure requirements would need to be significantly reduced to enable implementation and to ensure the information is in fact useful and understandable to users.

- We strongly disagree with the proposal to apply the changes retrospectively. The final standard should have prospective application only, as we believe the alternative would be impracticable and that prospective application will be more readily understandable to users (subject to the disclosures being significantly reduced).

Our comments to the specific questions outlined in the exposure draft and other matters we are concerned with are detailed below.

**Question 1:**

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?
We welcome the updated guidance on how to determine performance obligations are transferred over time. However, whilst it provides further clarification in relation to continuous transfer of goods or services, we believe that further explanation is required with regards to identifying the “asset” (tangible, intangible, inventory item, work-in-progress etc) and determining if this asset has an alternative use to the entity. Also, further clarification is required regarding when a customer controls the asset as it is being created or enhanced.

**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?

Whilst we agree that an entity should apply the relevant financial instruments standard to account for uncollectible amounts, we strongly disagree with the proposal to require the corresponding amount to be presented as a separate line item adjacent to the revenue line item.

We believe the impairment of financial assets should be presented separately from revenue as the credit risk assessment does not form part of the transaction price. Furthermore, the proposals require an inconsistent presentation of impairment losses for short term versus long term receivables, with impairment of short term receivables presented as separate line item adjacent to revenue whereas impairment of long term receivables presented with other financial assets within scope of IFRS 9 / IAS 39. It is also unclear how to present the impairment of long term receivables when they are eventually reclassified to short term.

We suggest the presentation of impairment losses for short term receivables be consistent with the presentation of the impairment of long term receivables and any other financial assets within scope of IFRS 9 / IAS 39. In our view, any other presentation format will not be in line with the revenue measurement principles set out in the proposals, will result in the inconsistent presentation of impairment of short and long term receivables related to the same contract and will be misleading to the users of financial statements.

Also these presentation requirements will be virtually inoperable for telecommunication operators who have millions of customers, often with multiple low-dollar-value and high-volume transactions, and would have to track the impairment of short term receivables separately from the impairment of long term receivables.

**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 recognise 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 agree with the principle of limiting the cumulative revenue recognised in relation to performance obligations with variable consideration to the amount that an entity is reasonably assured to be entitled to. However, we believe further guidance is required regarding when the consideration is considered variable and when the 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.Whilst the current list of indicators provide some guidance, further clarification is required specifically regarding the types of factors outside the entity’s influence. This is because such an assessment could be judgemental and the same indicators that have
been provided in the ED could be interpreted in different ways resulting in significantly varied revenue recognition outcomes.

Furthermore, paragraph 51 requires determining the transaction price assuming the contract will not be cancelled, renewed or modified. Given this paragraph, further guidance is needed on how to recognise revenue resulting from termination clauses included in customer contracts and when such revenue would be considered reasonably assured.

**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?

We strongly disagree with the proposals to perform an onerous test at the performance obligation level rather than at the contract level. This approach is commercially irrelevant in a constantly evolving market environment with the emergence of new technologies, does not reflect the underlying economics of the arrangement and does not align with the way contracts are negotiated. It is likely to impact on periodic results even if the contract overall enhances the entity’s profitability and it is inconsistent with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which looks at the contract as a whole to assess if an onerous provision should be recognised.

We acknowledge that limiting the scope of the onerous performance obligation test to only performance obligations satisfied over a period of time greater than one year will provide some practical relief in terms of application. However, it might result in different conclusions and profit impacts for nearly identical performance obligations (e.g. performance obligations satisfied over 11 months would not be tested whereas performance obligations satisfied over 13 months might require the recognition of an expense).

We believe the existing approach in IAS 37, i.e. looking at onerous obligations at the contract level best aligns with the way contracts are negotiated in a dynamic market place Telstra operates in and reflects the economics of the arrangement. As such we strongly recommend applying IAS 37 principles to revenue contracts with customers.

**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 fulfil 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.
We strongly disagree with the proposal to include the above information in any financial report, including interim reports. We do not believe that the proposed disclosures achieve an appropriate balance between the benefits to users of having this information and the costs to entities to prepare and audit this information. In our opinion the costs to the entity to prepare and audit this information significantly outweigh the benefits to the users. We also believe that both the presentation and disclosure requirements of the proposed standard are inappropriate and unlikely to provide information that is understandable or useful to users.

The Board has not presented any valid reasons as to why users would need this information.

Overall the disclosure requirements are onerous and excessive and will be impracticable to implement for many organisations. This will particularly be the case for organisations, like Telstra, with millions of customers, often with multiple low-dollar-value, high-volume recurring transactions and contracts, with the goods and services being offered constantly evolving both technologically and from a marketing perspective. Prices are constantly changing and customers are continually upgrading and downgrading their telecommunication 'bundles'. As a result, there are significant differences in individual customer contracts. Given the sheer volume of transactions and contracts, even considering our ability to potentially aggregate similar contracts, we remain concerned that the proposed disclosure requirements are inoperable.

Furthermore, we believe that the objective of the Boards' proposed disclosure requirements for interim financial reports is already being met by current disclosure requirements in IAS 34 Interim Financial Reporting, specifically:

- The nature and amount if items affecting assets, liabilities, equity, profit or loss, or cash flows that are unusual because of their nature, size, or incidence;
- The nature and amount of changes in estimates; and
- Selected segment information related to revenue.

We believe that the proposed disclosures are not consistent with the general principles of IAS 34 and the examples provided in paragraph 17 of IAS 34 are different in their nature or occurrence when compared with the proposals.

**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?

We agree that the entity should apply the proposed control and measurement requirements to account for these transactions to ensure a consistent approach.

We do however believe further clarification is required regarding how the model would apply to revenue transactions associated with lessor accounting. In particular, in the case of sales type leases where a manufacturer/dealer relationship can be demonstrated, the current lease accounting standard permits upfront recognition of revenue from sale of equipment leased by the lessor. The proposals in this ED do not state explicitly that these classes of assets may also be de-recognised in a sale and leaseback transaction even though the transfer of control does not occur.

If the intention is to develop a single revenue recognition standard, then these situations should also be considered and guidance provided on.
Other matters

Contract modifications

This proposal would be unable to be implemented.

We believe the proposed requirements for dealing with contract modifications add an unnecessary layer of complexity to the overall revenue recognition model. We do not agree with the proposal to account for a contract modification as part of the original contract where the remaining goods or services are not distinct and are part of a single performance obligation. Recognising the cumulative effect of a contract modification on a catch-up basis in the year of the modification distorts revenue in that year and will provide users with misleading information about the organisation's performance for the year. Additionally, many service providers provide existing or long term customers with preferential rates, and tracking these contracts and allocating the modifications at the individual contract level would be impracticable for telecommunications organisations given the sheer volume of contracts and the frequency of modifications. Moreover, amending the standalone prices of remaining performance obligations is inconsistent with the principle proposed in paragraph 71 (i.e. allocation of transaction price based on standalone prices at contract inception).

We believe the amount of revenue recognised each period should agree with the value contracted with the customer for each period of service. This is because for example, where customers upgrade existing services by signing a new contract this in substance represents a change in previously promised goods or services and not the addition of incremental goods or services to the original contract.

If the proposals for contract modifications were to go ahead in their current form, we believe that further guidance is required regarding contract modifications that involve variable consideration and how to treat contract modifications resulting in changes to one of many goods or services promised under the same contract (e.g. customer upgrades to a new handset but continues to receive the same mobile services).

Disclosure requirements

We strongly disagree with the proposed disclosure requirements which we find extremely onerous and excessive and which in our view will be impracticable to implement for many organisations. This will practically be the case for organisations, like Telstra, with millions of customers, often multiple low-dollar-value, high-volume recurring transactions and contracts, with goods and services being offered constantly evolving both technologically and from a marketing perspective. Prices are constantly changing and customers are continually upgrading and downgrading their telecommunication 'bundles'. As a result, there are significant differences in individual customer contracts. Given the sheer volume of transactions and contracts, even considering our ability to potentially aggregate similar contracts, we remain very concerned that the proposed disclosure requirements are inoperable and the costs to the entity heavily outweigh the benefits to the users of the financial statements.

We believe that both the presentation and disclosure requirements of the proposed standard are inappropriate and inoperable for organisations with high-volume low-dollar-value transactions. We are also concerned that the volume of information that would be disclosed as a result of complying with these proposals would be overwhelming and therefore less likely to be understandable and useful to the users. Further, we believe that the requirement to provide general qualitative information as required by paragraph 118 in the ED will appropriately address the Boards' objectives without repeating existing disclosure requirements for revenue contained in current accounting standards.

We believe appropriate disclosures are/will be covered by the following:

- IAS 1 Presentation of Financial Statements

This standard requires an entity to disclose accounting policies, significant judgements and estimates (paragraphs 122 and 125). As such, these disclosure requirements already require details about the different types of goods and services an entity sells and the relevant revenue recognition criteria. Further, information about significant judgements and estimates is required for revenue transactions if considerable assumptions are made when estimating revenue.
We also believe that current disclosures required by existing standards such as IFRS 7 Financial Instrument Disclosures and IAS 17 Leases for liquidity risk maturity analysis and future minimum lease payments respectively are sufficient, combined with the current/non-current distinction presentation requirements of IAS 1 Presentation of Financial Statements. Requiring a separate maturity analysis of performance obligations is excessive and will be virtually inoperable for the reasons outline above.

The proposed standard requires separate presentation of contract assets, receivables and contract liabilities (paragraph 104). These items will be presented on the face of the Statement of Financial Position and/or in the notes to the financial statements. We believe that such presentation together with narrative information (accounting policy regarding recognition, measurement and presentation of those items) provides sufficient detail to the users of the financial statements. Requirements to present tabular reconciliation of contract balances (paragraph 117) are inoperable for entities with a high-volume of low-dollar-value contracts. The new requirements also require the presentation of aggregate contract assets and liabilities on a net basis. In our opinion such presentation is inconsistent with the requirements of proposed paragraph 104 and it will have no additional value to the users of the financial statements.

- IFRS 8 Operating Segments

We suggest including additional guidance for the disclosures required under paragraph 22(b) of IFRS 8 regarding the types of products and services from which each reportable segment derives its revenues. We believe that segment disclosures best reflect how management reviews an entity’s performance (including revenue) and the requirement to disclose another disaggregation of revenue, as required by the ED, would not provide useful information to the users of the financial statements. It would be inconsistent with AASB 8 if that information is not used by management. Comprehensive narrative information together with segment revenue disclosures should provide sufficient details about nature, amount, timing and uncertainty of revenue as required by paragraph 114 of the proposed standard.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

As noted in our response to question 4 above we strongly disagree with the premise of recognising an onerous liability at the performance obligation level. Irrespective of the accounting unit, we believe the current disclosure requirements in paragraphs 84-85 of IAS 37 require sufficient detail regarding onerous contract provisions and therefore the proposed disclosure requirements are excessive. Specifically requiring extensive disclosures about the reasons for contracts becoming onerous, combined with requirements to reconcile movements in these liabilities will be overly burdensome for preparers, particularly given that in many cases the balances will not be significant and as such they should be aggregated for disclosure with a general description of the nature of the balance.

- IFRS 7 Financial Instruments: Disclosures

Paragraph 20(f) of IFRS 7 requires the presentation of impairment losses for each class of financial asset. As discussed above under question 2, we believe that all impairment losses, including those related to short term receivables should be presented as an expense and on a consistent basis with other financial assets within scope of IFRS 9 / IAS 39. Reducing revenue by amounts related to credit risk and collectability of receivables will, in our view, be misleading to the users of the financial statements and inconsistent with the proposed principle of determining the transaction price.

- Assets recognised from the costs to obtain or fulfill a contract with customer

The proposed standard requires a reconciliation of opening and closing balances of assets recognised from the costs to obtain or fulfill a contract with customer by main category of asset (e.g. costs to obtain contracts, pre-contract costs and set-up costs). We believe that such requirements are excessive and inoperable and categorising assets into categories might be very judgmental and inconsistent between entities as contracts vary and are entity specific. As such this reconciliation could be misleading for the users of the financial statements. Instead, we recommend including a narrative description of types of costs being capitalised as part of accounting policy disclosures and separate presentation of an aggregate asset in the notes to the financial statements.
Retrospective application

This standard by its very nature removes trend information and makes revenue reporting more volatile from year to year.

We strongly disagree with the proposal to apply the changes retrospectively. We believe there will be varying impacts across different industries and the changes may create misleading results. For example, entities with long term contracts where revenue may have previously been recognised progressively over the contract period may instead be required to defer recognition until completion of the contract. It is our understanding that retrospective application would require an adjustment to retained profits to decrease revenue previously recognised, with revenue being recognised again once the contract has been completed. We believe this would result in misleading information to users. This can also have implications on compliance with corporate regulation regarding profits already distributed.

The final standard should have prospective application only, as we believe the alternative would be impracticable and that prospective application will be more readily understandable to users (subject to the disclosures being significantly reduced).

We also believe the changes would cause significant discrepancies between accounting and taxation numbers if we are to apply these changes retrospectively. In many jurisdictions, including in Australia, there is a high correlation between telecommunications billings and collections and revenue recognised. This will change significantly under the proposed model creating immense challenges in retrospectively accounting for the tax effects. Given the very high-volume of customers, often with multiple low-dollar-value contracts, we believe that retrospective application of the proposals would be inoperable.

We also believe the disclosure requirements would be extremely difficult to apply retrospectively to comparatives, particularly for reconciliations of contract assets and liabilities, in addition to onerous performance obligations. Further guidance is needed to show how the changes could be applied in practice. This is the case irrespective of practical expedients provided in proposed paragraph C3 of Appendix C as those exemptions are not considered to provide workable solutions, especially in light of the requirements of paragraph C4(b) to provide a qualitative assessment of the estimated effect of applying each of those expedients.

The proposed standard should have prospective application only, as we believe the alternative would be impracticable and that prospective application will be more readily understandable to users (subject to the disclosures being significantly reduced).

Licensing and rights to use

We disagree with the premise that all promises to grant licences give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights. We believe that in some cases performance obligations would be satisfied over time and this should be reflected in the revenue recognition pattern (e.g. where the licence is granted to be used over a period of time).

We thank you for the opportunity to comment on these changes. Please contact me on +61 3 8649 7923 if you need any further explanation on the comments made in this letter.

Yours sincerely

David Anderson
Chief Accountant