March 13, 2012

Hans Hoogervorst
Chair, International Accounting Standards Board
30 Cannon Street
First Floor
London, EC4M 6XH
United Kingdom

Dear Hans Hoogervorst:

Exposure Draft: Revenue from Contracts with Customers

Thank you for the opportunity to comment on the exposure draft (ED) titled “Revenue from Contracts with Customers.” The views expressed in this letter reflect the views of the government of the Province of British Columbia.

The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. The Province will be impacted by the proposed revisions contained in the exposure draft because several of our entities adopted IFRS standards in 2011. In addition, IPSASB and PSAB guidance may be impacted by IASB guidance in the future.

Principles-Based Accounting

In its response to the 2010 exposure draft, the Province raised a concern about principles-based accounting, which has not been addressed in the re-exposure draft. The Province therefore repeats its concern here: The Province disagrees with the amount of importance that the exposure draft attaches to the proposed implementation guidance. The implementation guidance should not be an integral component of the (draft) IFRS. The introductory statement to the implementation guidance should explicitly say that it is non-authoritative and is intended for illustrative purposes only. The present preamble to the implementation guidance states that “This appendix is an integral part of the (draft) IFRS.” This may have the unintended affect of causing some financial statement preparers to adopt the illustrative guidance as a set of rules. This may undermine the principles-based approach to revenue recognition. The illustrative guidance should only be suggested ways to apply the principles contained in the main body of the guidance. They should not be rules which replace the use of professional judgement.
Conceptual Framework and Internal Consistency

The Province, in its response to the 2010 exposure draft, raised a concern about consistency with the conceptual framework. This concern has not been addressed in the re-exposure draft. The Province therefore reiterates its concern here: The Province disagrees with how the Boards have established a duplicate set of criteria to help financial statement preparers decide whether or not to capitalize contract costs (see paragraph 91 of ED). This aspect of the exposure draft proposal opens the door to the risk of having internal inconsistent standards. All decisions, whether or not to capitalize an item, should be referenced back to the Conceptual Framework’s definition of an asset (see paragraphs 4.8 to 4.14 of chapter 4 of the IFRS Conceptual Framework). This would reduce the risk of internal inconsistencies, avoid conflicts of application between different preparers, and make it easier to update the standards as they continue to evolve.

Disclosures are Too Detailed

The Province, in its response to the 2010 exposure draft, raised a concern about disclosures being too detailed. This concern has not been addressed in the re-exposure draft; the Province therefore reiterates its concern here: The Province disagrees with the last sentence in paragraph 110 of the exposure draft which warns against the aggregation of items that have different characteristics. Sometimes, it is necessary to aggregate individually insignificant items that have different characteristics so as not to overwhelm financial statement users with insignificant details. The Province requests that IASB consider rewriting the last sentence of paragraph 110 to say, “An entity shall aggregate disclosures so that useful information is not obscured by the inclusion of a large amount of insignificant detail.”

Responses to specific questions posed in the exposure draft are attached. Should IASB have any comments or questions, please contact me at 250-387-6692 or by e-mail: Stuart.Newton@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250-356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Government of British Columbia,
Sincerely,

Stuart Newton
Comptroller General

cc: Peter Milburn, Deputy Minister
    Ministry of Finance

    Sabine Feulgen, Deputy Secretary to the Treasury Board
    Ministry of Finance

.../3
Jim Hopkins, Assistant Deputy Minister
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General
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 recognizes 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?

The Province agrees with the proposals for determining when an entity satisfies a performance obligation and recognizes revenue.

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?

The Province supports the proposals in paragraph 68 and 69 for application of IFRS 9 with respect to the assessment of credit risk related to accounts receivable because the financial asset impairment provisions in IFRS 9 continue to reflect the incurred loss method of credit loss recognition. The IFRS projects’ page currently indicates a re-exposure of IFRS 9 financial asset impairment provisions later in 2012, indicating that the credit loss measurement methodology has not been finalized. The Province believes that IASB should retain the incurred credit loss method of impairment measurement and not adopt the expected credit loss method as proposed in the financial asset impairment exposure drafts.

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 recognizes 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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?
The Province agrees with the proposal, however, the inclusion of the word "reasonably" in section 81 indicates a principles-based approach and conflicts with the rules-based approach also contained in section 81 and which describes "reasonably assured" as:

a) the entity has experience with similar types of performance obligations.

b) the entity's experience is predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.

The a) and b) clauses represent rules: The Province believes that the IASB should not mix principles-based and rules-based methodologies within a single section of an accounting standard.

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 96 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?

The Province agrees with the proposals for recognition of a liability and corresponding expense using the onerous test.

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.

The Province agrees that an entity should disclose: disaggregated revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flow are affected; the remaining performance obligations; onerous performance obligations; tabular reconciliations for the aggregate balance of contract assets and liabilities for the current reporting period; and tabular reconciliations for assets recognized to obtain a contract with a customer.

The Province disagrees with the last sentence in paragraph 110 of the exposure draft which warns against the aggregation of items that have different characteristics. Sometimes, it is necessary to aggregate individually insignificant items that have different characteristics so as not to overwhelm financial statement users with insignificant details. The last sentence of paragraph 110 should be rewritten to say, “An entity shall aggregate disclosures so that useful information is not obscured by the inclusion of a large amount of insignificant detail.”

The proposed exposure draft may unintentionally be requiring financial preparers to obscure useful information by disclosing an excessive amount of detail in financial reports. The detailed disclosure requirements of paragraphs 113 to 128 of the exposure draft are much more prominently displayed than the content of paragraph 110 which cautions against excessive disclosures.

**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?

The Province agrees with the proposed approach that an entity apply: (a) the proposed requirements on control to determine when to derecognize the asset; and (b) the proposed measurement requirements to determine the amount of gain or loss to recognize upon derecognition of the asset.