INTRODUCTION AND SUMMARY

1. The Confederation of British Industry (CBI) is pleased to respond to the Boards’ Revised Exposure Draft: Revenue from Contracts with Customers.

2. We are please to note that the Boards have made considerable efforts to respond to the concerns raised by many participants in November 2010 on the original proposals. Our responses to the individual questions posed are set out below.

3. However, we do continue to have concerns about the proposals that are not directly connected with the Boards’ questions on the revised exposure draft, as follows:

   • We do not believe that the proposals reflect the performance of an entity as seen through the eyes of management. In particular, the emphasis placed on assessments at the performance obligation level does not reflect the way business is operated in many cases.

   • The quantitative disclosure requirements are excessive. The Boards have not struck the right balance between information presenting a comprehensive summary of an entity’s performance and position and the need for communication that is concise and digestible for the users of financial statements. We can see no value in presenting the balance reconciliation information in paragraphs 117 and 128. Additionally, we believe that paragraphs 114 and 115 will result in the same information being disaggregated in several ways, rather than in the primary ways used by management.

   • To the extent that the assessment at the performance obligation level is retained, we disagree with the approach of allocating revenue and discounts based on the relative standalone selling prices. We believe it would be more appropriate to allocate based on the relative gross margins of the deliverables, particularly where high and low margin
products are combined. Otherwise, a provision may be made for one or more performance obligations within a contract that is expected to be profitable overall.

- We are concerned about the implications of paragraph 8(f) of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires disclosure of the effect of a new standard to each financial line item presented in the year of adoption. This would require entities to run both old and new systems in the year of adoption, resulting in significant cost with little benefit. We therefore urge the Board to provide an exemption from these requirements.
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 agree with the proposals as they are an improvement which address concerns raised in respect of the original exposure draft by many respondents (and which we alluded to in our response). Indeed, the proposals appear to allow revenue recognition for certain activities earlier (and more reflective of the underlying business activity) than under the current guidance. However we believe that more work is needed on the detail with further clarification required to ensure the correct analysis and decisions are taken, resulting in appropriate revenue recognition.

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?

We do not see the value in changing current practice in respect of the collectability of promised consideration. Currently, practice would regard such impairments as bad or doubtful debts, included as a cost rather than a reduction in revenue. This current approach also responds to the practical difficulties of distinguishing between, say, customers’ credit risk and more general disagreements on consideration entitlement.

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?

In general, we agree with the proposals. We presume the intention is that contingent consideration (for example, contingent fee arrangements) is included within the scope of variable consideration. This should be made more clear since there may be a consequential earlier recognition of such revenue (under paragraph 55 (a)). Whilst we agree with the exception in paragraph 85, we believe it should not be restricted to sales but should be extended to activities (for example production of goods or participation in a number of markets).

We have concerns with the wording “experience is predictive” as we do not think it is always easy to predict experience. More suitable language would be “believed to be predictive”.

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 do not agree with the proposals. We do not understand the conceptual difference between those performance obligations of less than a year and those of greater than a year. Our reading of the proposed guidance suggests that a contract consisting solely of performance obligations of less than one year would never be subject to onerous contract testing, which cannot either be the intention or, indeed, sensible. More fundamentally, we do not agree with onerous testing at a performance obligation level and continue to believe it should be undertaken at a contract level. In an example of a contract combining a high margin product with a low margin one, the proposed approach, after reflecting the requirements on discounts, would result in an onerous provision at an early stage of the contract followed by enhanced profitability later on.

**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 have considerable concerns about the levels of disclosures generally proposed by the revised ED, and the rationale for these proposals. In respect of the proposed requirements for interim periods, it seems that relief is only offered from narrative disclosures, whilst retaining the entirety of quantitative information. This surely runs counter to the recognition in IAS 34 that interim financial statements will contain less information than annual financial statements.

**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 with the proposals.