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International Accounting Standards Board  
30 Cannon Street  
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19 June 2009

**Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers**

Dear Sirs,

In response to your invitation to comment, and as a preparer of accounts under International Financial Reporting Standards, I am pleased to attach our comments on the above mentioned Discussion Paper (DP). In the interests of contributing to the discussion at the earliest opportunity, we have included an appendix with comments on questions relating to the time value of money which, whilst not included in the DP, have been subsequently debated publicly by the Board in its March 2009 meeting.

Yours Faithfully,

James Halliwell  
Group Financial Controller

## **General Comments**

We agree that the issue of a single standard that is consistent with the definitions set out in the Framework is desirable. We are also aware of the challenges that this brings forward in terms of finding a balance between setting a universal principle and the practical application of that principle to all the kinds of transactions that currently happen in the economic environment. We believe that if a single principle for revenue recognition is adopted, this principle should include a substantial set of guidance in order to facilitate a consistent application within at least the same industry.

### **Question 1**

*Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?*

We agree with the Board's proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability. We believe it is consistent with the definition of assets, liabilities and income (revenues) provided by the Framework. Having said that, we believe that further consideration should be given to when exactly the change in the net position happens, given that according to the Discussion Paper this triggers revenue recognition, in particular to the concept of "control". We will explain further our view in answering the other questions.

### **Question 2**

*Are there any types of contracts for which the boards' proposed principle would not provide decision – useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?*

Although not material to Syngenta, we believe that the current formulation of the revenue recognition standard as intended in this Discussion Paper would not provide useful information to a potential investor in the case of construction contracts. The DP implies that in the case of construction contracts, the revenue would be recognized when the performance obligation is satisfied which is when the goods are delivered. From a potential investor point of view, this would mean a complete lack of visibility on the marginality of the construction contract during the execution of the contract, given that the revenue and the related profit would be accounted for on completion only. In case of contracts in which the asset under construction is not transferred on a continuous basis, this reporting would not provide useful information to a potential investor. Instead of changing the principles outlined in the DP, we believe that a broader interpretation of such principles, in particular when control is exchanged in case of contracts that require continuous activities to be carried out by a party, would allow current practice to be considered as in compliance with the revised proposal. We would otherwise be in favour of allowing for an exception to the general principles for these specific situations, or alternatively to value the inventory at cost plus a pro rata margin.

### **Question 3**

*Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.*

We believe that the definition of contract provided in the DP is consistent with the one detailed in IAS 32. We do not see any difference in substance, although the wording is slightly different.

**Question 4**

*Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.*

We believe that the proposed definition of a performance obligation is conceptually sound and can be used as a basis to help entities in identifying the deliverables of a contract. However, we believe that more guidance and examples should be included in the final version of the standard in order to facilitate a consistent application in practice.

**Question 5**

*Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?*

We agree that an entity should separate the performance obligation in a contract on the basis of when the entity transfers the promised asset to the customer. We think it is an acceptable criterion to use in particular for multi-element transactions. We believe it helps to provide an objective representation of a transaction. However, we have some concerns with regards to the definition of control as intended in this Discussion Paper. These concerns are described in our answer to question 8.

**Question 6**

*Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?*

Irrespective of whether a failed sale model or a performance obligation model is applied, we believe that a company should make its best estimate of the expected returned goods and defer a proportional part of the original transaction consideration. The deferred revenue should be adjusted as returns occur and expected future returns reduce, or recognized as revenue when the return right expires.

We would agree that the failed sale model can be applied, since in our view it depicts in a fair and true way the economic reality. In the case of a statutory return right, where the goods transferred or the service provided do not meet the contractual terms, we believe there is no separate performance obligation, but simply a failed sale.

We note that there are arguments for and against applying the performance obligation model where the entity has granted an additional right of return. The argument in favour is that a customer would in principle pay additional consideration if this right is granted compared to a contract without this right, and the entity is obligated in the way stated in question 6. The argument against is that the DP defines a performance obligation as a promise in a contract with a customer to transfer an asset such as good or service to that customer, whereas in this case the entity is adjusting the consideration. The issue is not that an additional performance obligation remains outstanding, but that the customer is allowed to reduce the extent of a performance obligation already fulfilled by the entity. We are also not clear from the DP what impact applying the performance obligation model to the right of return will have in practical accounting terms: for example, the DP does not outline how the obligation for expected returns would be measured and whether variances between estimated and actual returns would be presented as an adjustment to revenue or to expenses. This makes it difficult to comment on the application of that model.

**Question 7**

*Do you think that sales incentives (e.g. discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?*

We believe that more guidance should be provided in order to help preparers, in case of sales incentives, to distinguish between what is effectively an additional performance obligation and what is a marketing related activity. Marketing related activities should be expensed when incurred. It is clear to us that cash incentives are part of the overall consideration and not a separate performance obligation. We agree that the existence of several performance obligations in a contract should lead to a deferral of revenue recognition for unfulfilled obligations. However, in the specific example provided in the Discussion Paper we are inclined to support the view expressed in paragraph 3.22, the main driver being the additional consideration a customer would be obliged to pay in order to enjoy the discount. At the same time we also recognize there is ground for considering the discount provided, which is linked to the future purchase of a product, as a separate performance obligation, but we see practical issues. For example, it may be difficult to track when discounts or points have lapsed, or if there is no time limit for redemption, it may be difficult to estimate the likely take-up rate. As far as granting customer loyalty points is concerned, they neither create a fixed promise of the entity in the current contract with the customer nor do they represent a substantial additional option and should, therefore, not give rise to a performance obligation. However, we acknowledge that a part of the revenue should be deferred, and a provision should be recognized for the stand ready obligation to provide the entity's goods or services or those of a third party when certain conditions have been met.

**Question 8**

*Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.*

We agree that an entity transfers an asset to a customer when the customer controls the promised good or when the customer receives the promised service. We agree it is in compliance with what is outlined in the Framework. However, we would be in favour of a broader definition of control which may not necessarily coincide with the physical retention of an asset. In cases where goods are in transit and the responsibility for the goods has transferred to the customer in terms of risk in case of any damages incurred to the goods during the shipment, we don't understand why an entity should keep the assets in its books, when all the economic benefits and potential liabilities have already been transferred.

We believe that in this case the concept of risk and reward set out in the current IAS 18 is still valid and depicts in a faithful way the essence of the transaction and it is still in compliance with the definition of control set out in the Discussion Paper.

In addition to this, we would draw attention to practical issues in terms of information flows which suppliers of goods who export their products globally, such as Syngenta, will face in attempting to recognize revenue based on when the customer gets physical control of the goods. In many cases it is not possible to get timely confirmation of receipt and related documentation from the customer. Because of this, for its sales accounting period end cut-off, the supplier would need to estimate the date on which the customer will receive the goods. These estimates may be inaccurate and difficult to verify for audit purposes because the lead time between dispatch and delivery to the customer can vary significantly due to delays in deep sea shipment, port unloading, customs clearance and inland transportation within emerging markets. Whilst current practice already involves similar estimation, this is limited to the relatively small proportion of sales where risks and rewards pass to the customer on delivery or on customs clearance in the country of destination. For the much larger number of export sales where risks and rewards pass on dispatch or on loading in the country of origin, estimation is normally not needed. Aligning revenue recognition timing with physical control by the customer would require the date of delivery to be estimated for all such export sales regardless of the terms and conditions of their shipment. This would significantly increase the extent of the estimation required at a period end. Further consideration should be given also to construction contracts, for the reason expressed in answering question 2. We believe that the accounting, on the basis described by the Discussion Paper, would not provide useful information for a potential investor.

**Question 9**

*The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.*

We believe the contracts for which that proposal would not provide decision-useful information are construction contracts, unless the marginality of these kinds of contracts can be reported on another line, like, for example, inventory.

**Question 10**

*In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.*

*(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?*

*(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?*

*(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.*

*(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.*

We agree that the contract assets should be measured at the original transaction price, therefore the performance obligations should be measured using the same criteria. We agree with the reasons expressed in the Discussion Paper against the use of an exit price approach (pattern of revenue recognition, complexity and risk of error).

We agree that if the cost of satisfying a performance obligation exceeds its carrying amount, it should be deemed onerous and remeasured. We favour the cost approach as outlined in the Discussion Paper, we understand that both the cost and price approaches may have their merits, but the cost approach is definitely the more practical to apply, specifically we share the views expressed in par. 5.78 and 5.79 of the Discussion Paper.

We understand that some IASB members had some concerns with regards to specific kinds of contracts, in terms of whether the allocated transaction price can provide useful information. We believe that if the aim of the Discussion Paper is to set out a single revenue recognition principle, a unique measurement approach should be outlined and eventually integrated with additional disclosure. Specifically for the example listed in paragraph 5.90 we do not envisage significant challenges to the measurement of the revenues, which should be what an entity receives in consideration for the asset or service transferred.

Given the current projects the IASB is working on (financial instruments, insurance contracts and leasing contracts) we would be in favour of scoping out performance obligations related to those projects from a final revenue recognition standard.

**Question 11**

*The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.*

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?*
  
- (b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.*

We agree that the proposal included in the Discussion Paper to allocate the transaction price to the performance obligation is consistent with the principles set out in the Paper. Therefore it logically applies that all the revenue is attributed to the fulfillment of the performance obligation and accounted for against the costs incurred in performing the performance obligation. At inception both (asset and liability) are equal and offset each other. However, we question whether expenses incidental to securing the contract can be considered as part of the performance obligation or not. In fact we understand the concerns raised by others that even if the original transaction price supposedly includes the recovery of these ancillary expenses, none of that price will be recognized immediately to match those costs. The costs incidental to securing the contract would benefit the supplier (e.g. costs incurred to make the sale) and not the customer and therefore do not represent performance obligations of the supplier to the customer. Therefore, no portion of the transaction price would be allocated to these costs.

**Question 12**

*Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?*

We agree with the proposal outlined in the Discussion Paper. This information should be readily available and the method should be relatively simple to apply.

**Question 13**

*Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?*

We agree with the Discussion Paper that, if an entity does not sell a good or a service separately, it should estimate the stand alone selling price of that good or service for the purpose of allocating the transaction price. We believe that unbundling goods and services sold together would provide useful information to a financial statement user. In doing so there may be some situations where estimates should be made, constraining the use of those estimates may go against the aim of unbundling the goods and services sold and providing a fair and true view of the underlying transaction.

## **Appendix 1**

We take also the opportunity to comment and answer the questions asked in the March 2009 IASB meeting "Information for observers" with regards to the effects of the time value of money.

### **Question 1**

*Do you agree that, in concept, the carrying amount of an entity's net contract position should reflect the time value of money?*

We agree that the carrying amount of an entity's net contract position should reflect the time value of money. Although in the majority of the contracts the effect is not significant, we would support reflecting it if the amount is material to the entity.

### **Question 2**

*Do you agree with specifying the circumstances in which an entity should reflect the time value of money? If so, do you agree that it should be when payment is due approximately one year or more before or after performance?*

We do not support providing a strict rule on when the time value of money should be reflected. We understand that establishing a threshold of 12 months could simplify the accounting treatment, but we believe that materiality, a concept already mentioned in IAS 39 in the same context, and the normal business conditions and customary terms should drive the decision of reflecting the financing component separately.

### **Question 3**

*Do you agree that the discount rate should be the rate at which the entity and its customer would have entered into a financing transaction?*

We agree that the discount rate should be the rate at which the entity and its customer would have entered into a financing transaction.

### **Question 4**

*Do you agree with reflecting the finance effect as a component of revenue (either on the face of the statement of comprehensive income or in the notes)?*

We disagree with reflecting the finance effect as a component of revenue. If this component has been identified as having a financing nature and as such it is proposed to reflect it separately, it should be presented within interest income.