Internationaler
Controller Verein

Internationaler Controller Verein eV Postfach 1168 D-82116 Gauting

Leutstettener Straße 2
D-82131 Gauting/München

Tel. +49 (0)89 89 31 34 - 20
Fax +49 (0)89 89 31 34 - 31
www.controllerverein.com
verein@controllerverein.de

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

By email to commentletters@iasb.org

Gauting, 19 June 2009

Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers"

Dear Sirs,

The International Controller Association (Internationaler Controller Verein/ICA) welcomes the opportunity to comment on the IASB Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers". Having more than 6,000 members, the ICA is among the largest non-profit associations of controllers in Europe with professionals in all major industrial and service companies, academic institutions, consulting and related businesses. Any achievements regarding a reliable and solid financial reporting environment under IFRS is strongly appreciated to provide the controllers' community with an adequate basis for their professional activities.

The ICA believes that a new revenue recognition principle has a serious business impact on the operation of every company which affects also controller duties. Our responses to the specific questions set out in the discussion paper are contained in the attached appendix to this letter. In our view our concerns regarding selected questions of the discussion paper should strongly be considered.

We are looking forward in participating round table discussions to the development of an exposure draft on revenue recognition principles.

Should you have any inquiries on the issues presented in the appendix do not hesitate to contact us at icv@krimpmann.com.

Yours sincerely,

Siegfried Gänßlen	Andreas Krimpmann, CPA
President ICA	Head of IFRS Working Group

Appendix

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APPENDIX

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?

In general, we agree to a single well defined method for revenue recognition. However, under defined circumstances the POC method should be available as an alternative principle. See also question 9.

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?

We believe that framework agreements having enforceable obligations in the supplier business might be a subject for the mentioned types of contracts. Customer promises to supplier that the supplier delivers a fixed percentage of supply parts for the final product, i.e. the tire manufacturer delivers 60% of tires to the new Mercedes E-class. This is a contractual obligation. However, at the time of signing the contract, neither the car manufacturer nor the supplier know, how many tires have to be delivered under the contract. For that reason there is a valuation issue that cannot be solved from our point of view.

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 agree with the board's definition of a contract. Nevertheless, there should only be one definition of a contract (IAS32.13) to avoid misinterpretation or various interpretations on one subject.

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.

No comment.

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.

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?

In general, we believe that a refund on returned goods is a performance obligation.

Question 7 - Do you think that sales incentives (eg 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 sales incentives give rise to performance obligations.

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.

Transfer of asset means transfer of control. As control has different meanings within the IFRS, it might be difficult to link revenue recognition to transfer of control only. This is because transfer of control might be easily misinterpreted. Transfer of control may include transfer of risks and rewards. In some situations, when control is transferred, risks may be kept with the company which should be considered. The old concept of risk and rewards as defined in IAS 18 might help to clarify such transfers. It may help to judge transfer of assets considering the underlying economic intention. We expect more guidance on control, in particular as control has different meanings within the IFRS.

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.

Due to the transfer of assets as a basis for revenue recognition, the proposed principle may not provide a solid basis for long term construction contracts. We believe that recognizing revenue when performance obligations are satisfied is not suitable for long-term construction contracts.

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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?

We agree that performance obligations should be measured initially at the transactions price. Nevertheless we expect a definition of a transaction price to avoid misinterpretations.

(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?

We agree. We believe that a cost trigger is an appropriate tool as it is in line with current standards and practices.

(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.

Please refer to the answer given in question 2 regarding framework agreements.

(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.

In a well defined concept, as to be achieved by the board, another measurement approach should not be required. Therefore, we believe that a transaction price as the measurement criteria is more than sufficient with the exception to POC.

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.

No comment.

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?

In selected industries, stand-alone selling prices are not available. Therefore, an allocation of performance obligations is not appropriate. Typical examples are services sold with software. Different methods of allocation of transaction prices should be allowed as long as detailed explanations of used allocation methods are disclosed in the notes.

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?

Please refer to our answer given in question 12.