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

Dear Sir/Madam,

We are pleased to submit our comments on the Exposure Draft ED/2010/6 Revenue from contracts with customers.

Overall comments

Overall, we do not believe that there is an issue with having two revenue recognition standards as construction accounting is a specialised field. We disagree with the artificial approach proposed in the ED around the treatment of construction contracts. We believe that the existing construction accounting standard is well understood, implemented and supports good business practices and disciplines. We do not believe that there has been any real indication that the standard is failing and requires revisions other than a technical desire to combine two standards into one.

Our key concerns are having to split a contract into its performance obligations and allocating a transaction price to each performance obligation. This is not how management view or account for construction contracts currently and requires a significant amount of artificial decision making with opportunity for manipulation. There are extensive costs involved in implementing this ED as more accountants will be required and management and accounting systems will have to be changed to comply with an accounting standard. We feel that the cost vs benefit approach has not been considered in developing this ED.

We have concerns over the transaction price recognition criteria in respect of "reliable estimation". The reliable estimation must be based on previous contracts performed or somehow obtaining information from competitors about how they accounted for contracts if the entity has no experience. This is not a practical test for revenue recognition.

We do not agree with taking into account credit risk in determining the transaction price. We believe the current approach of taking up specific provisions in the course of dealing with the customer based on their payment history is a well understood principle and should remain.

The disclosure requirements suggested are extremely onerous and will require us to disclose commercially sensitive information that could negatively impact the business. We believe a management approach to disclosure would be more appropriate.

We have been through the 31 examples and agreed with some of them. However, we found on the whole that the examples were impractical. Whilst some were quite complex, companies will want to account for these transactions in as simple a manner as possible. We feel that the examples do not represent how transactions will occur in practice and that they significantly overcomplicate the accounting for revenue.

Response to questions for respondents

We have included as follows our responses to the specific questions that are relevant to our business.

Question 1

We agree with the principle of price interdependence to help an entity determine how to segment a contract.

Question 2

We do not agree with the principle of separating performance obligations for construction accounting. For construction contract there are often different facets to a contract, particularly a long term project, but the project is viewed and priced as a whole. Determining which aspects have distinct profit margins creates an artificial process and we believe could result in manipulation into recognising profit when this is not linked to an external arrangement with the customer.

Question 3

The guidance for recognising revenue is when a performance obligation is satisfied and when control passes to the customer. We do not believe the suggested solutions to determining control passing are helpful for long term construction contracts.

The methods suggested would create an enormous amount of work for the average construction company to derive an artificial method to recognise revenue. We have significant concerns over the volatility that would occur from recognising revenue in this manner, with significant opportunities for manipulation.

Our key concern is that the proposed approach is not how management view or account for construction contracts currently so they will be having to change key reporting and management systems to comply with an accounting standard.

Question 4

We agree that the transaction price should take into account discounts, rebates, refunds, credits, incentives, performance bonuses/penalties, contingencies and price concessions. However, we do not agree that the transaction price should be allocated to individual performance obligations. If this has not been detailed in the contract then this implies that the contract is viewed as a whole and again brings in an artificial decision making process.

We also do not agree with paragraph 38 for the criteria of recognising revenue for satisfying a performance obligation if the transaction price can be reliably estimated. The criteria for reliable estimation is that the entity must have experience with similar types of contracts or access to the experience of other entities if it has no experience of its own and the entity's experience is relevant to the contract.

As there is no legal requirement for businesses to share information and indeed under competition laws this is generally discouraged, how can this be considered a practical solution to determine revenue recognition? It defies logic that in order to be able to recognise revenue a company may be dependent on the cooperation of other firms. It also may have a broader impact of companies being reluctant to take on new projects as they may not be able to recognise revenue due to these criteria – how can this be a good outcome for the business community as a whole?

Question 5

We do not agree that the transaction price should take into account credit risk. This is not current practice and would be difficult to implement. A number of companies do not have active credit ratings so we would be forced to make internal assessments at the initiation of a project rather than once we have established a payment history with them. We believe that the principle of establishing a doubtful/bad debt provision is a sound accounting practice and does not require any change. We also do not understand why any change in the recognition would be recorded as income or expense rather than revenue. This does not make any sense to us.

Question 6

We understand the principle of accounting for the time value of money and why this has been suggested. However, we feel it adds an unnecessary complication in what is already a very complex ED. We believe that accounting for the time value of money should only be accounted for when it has been explicitly agreed that there is a financing component within the relevant agreement.

Question 7

The allocation of a transaction price to separate performance obligations may result in a significant amount of volatility in the income statement based on artificial decisions that have been made by the accountants. We believe this could result in misleading a reader of financial statements as the true overall margin of a contract

will not be apparent. There will be additional note disclosures, but these are so onerous they will be difficult to link to the actual income statement performance. The overriding concern with this approach is that these individual profit margins are derived and are not how the business actually view the contracts.

Question 8

We think that costs of obtaining a contract should have the option of being capitalised as is currently allowed under the standard. Often the costs of obtaining a contract benefit the contract as a whole so these do merit capitalising.

Question 9

See response to question 8.

Question 10/11/12

Overall we believe that the disclosure requirements are extremely onerous and will require us to disclose commercially sensitive information that could negatively impact the business. The information that is proposed to be disclosed is more onerous than the information we currently give senior management and the Board. We suspect that the disclosure requirements are so onerous that many companies will simply not be able to comply with them. We believe that a management approach should be adopted, whereby we provide information based on what is provided to senior management.

If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely,

John

John Hames
Group Controller
Fletcher Building Limited
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