

13 March 2012

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
UNITED KINGDOM

Dear Mr Hoogervorst

### **Revenue from Contracts with Customers**

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on this Exposure Draft.

**The G100 supports the actions of the IASB to re-expose revenue proposals as refined in response to comments by constituents. However, we believe that the need to re-expose proposals would be reduced if the IASB were to undertake more extensive field testing of proposals in the development of an exposure draft.**

**The G100 remains concerned about the extent and detail of the proposed disclosures in annual financial statements and does not support the proposed disclosures for interim reports.**

**Q1** *Paras 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 G100 supports the clarification of the requirements where the transfer of control of a good or service occurs over time.**

**Q2** *Paras 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS9) 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?*

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**The G100 believes that uncollectable amounts arising from a customer's credit risk should not be included in the measurement of revenue because the impact of credit losses is a separate exercise from the generation of revenue and, as such, netting of the results of the two separate activities would not provide useful information to shareholders and other users. While the proposed changes address these concerns, in part, the presentation as a separate line item adjacent to revenue will also impact on the gross margin. It is suggested that explanation of what is meant by "adjacent to revenue" would be helpful in clarifying how the item should be presented.**

**The G100 considers that credit/risk losses should be addressed in accordance with the requirements of IFRS 9 "Financial Instruments" relating to the impairment of financial assets.**

**Q3** *Para 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. Para 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 G100 has the following concerns about the proposals:**

- **it is not clear whether the 'reasonably assured' test is more stringent than tests applied in the conceptual framework for the recognition of an asset. We consider that the grounds for the shift from a 'probable' test to 'reasonably assured', if retained, should be explained;**
- **the application of the indicators in paragraph 82 may be unreasonable for those entities which do not have the requisite experience with similar types of performance obligations. We consider that acceptable 'other evidence' would include experience in the industry where the entity does not have direct experience;**
- **the choice in respect of measuring variable consideration. The G100 believes that one method should be specified as the standard and believe that the amount recognized should be the most likely amount of cash flows to which the entity becomes entitled from the transaction; and**
- **the inclusion of a rule in paragraph 85 preventing the recognition of sales based royalties until the additional royalty is certain is inconsistent with current practices and the principle stated in paragraph 81. Entities should be able to apply the principles in paragraph 81 based on their experience and other evidence.**

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**Q4** *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 recognize 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 G100 is concerned that the requirements relating to onerous contracts applies selectively to contracts having duration in excess of one year. If the principle is robust it should apply to all contracts irrespective of their duration. While such an approach may reasonably be adopted on pragmatic grounds, failure to recognize the impact of onerous performance obligations on contracts with less than a one-year term may distort the presentation of results in interim periods.**

**Q5** *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 (paras 114 and 115).*
- *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (para 117).*
- *An analysis of the entity's remaining performance obligations (paras 119-121).*
- *Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paras 122 and 123).*
- *A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (para 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 of 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.*

**No. The G100 does not believe the detailed disclosures proposed for interim reports can be justified on a cost-benefit basis.**

**On the one hand the Board is specifying a disclosure objective/principle and argues (BC246) that it enables the preparer to 'assess' whether the overall quality and information value of its revenue disclosures are sufficient to meet users' needs ... "and avoid the need for detailed and prescriptive disclosure requirements..." while proposing such detailed disclosures in both annual and interim reports.**

**If the Board is to specify a disclosure objective/principle then, consistent with applying the principle, detailed disclosures should not be prescribed. Rather, the Board should provide guidance as to the nature and type of disclosures which, in its view, would be consistent with satisfying the disclosure principle.**

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**Q6** 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 derecognize the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognize 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 G100 agrees with these proposals.**

**OTHER COMMENTS:**

**The G100 does not believe that the extensive disclosures can be justified on a cost-benefit basis and strongly disagrees with the decision to retain them. As explained in our submission on the June 2010 ED the G100 believes that, rather than specifying detailed disclosures, the Standard should state a principle that entities can best apply to their separate circumstances and activities.**

Yours sincerely  
**Group of 100 Inc**



**Terry Bowen**  
President

22 October 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
UNITED KINGDOM

Dear Sir David

### **Revenue from Contracts with Customers**

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on this Exposure Draft.

The G100 supports efforts to simplify requirements and develop a single principle for the recognition and measurement of revenue and believes that the disclosure requirements in the proposed standard should also be assessed against a set of disclosure principles. However, the present project is not comprehensive as it addresses only contracts with customers excluding significant classes of contracts including those relating to leases, insurance and financial instruments and does not deal with a number of matters such as interest and dividends which are within the scope of IAS 18 'Revenue'.

As an overall view the G100, while agreeing with the objective of developing a single model for revenue recognition, does not believe that the proposals achieve the objective. The reliance on completion and delivery upon performance appears to be more based on the form of a transaction rather than its economic substance. The G100 believes that the recognition of revenue should reflect the performance of economic activities occurring under the contract as that activity occurs and the entity has claims against the customer. Decision-useful information for both users of financial statements and for management decision-making should reflect underlying economic activity.

#### **Recognition of revenue**

*Q1 Do you agree with the proposed price interdependence principle? If not, what principle would you recommend and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?*

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**Yes. The G100 supports the approach to combining and segmenting contracts and changes to those contracts for the recognition of revenue. However, there are concerns about the practicality of determining whether price interdependency exists in respect of components of a contract or between contracts. It is suggested that further explanation/guidance is needed to assist interpretation of 'price interdependence'.**

*Q2 The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Para 23 proposes a principle for determining when a good or service is distinct? Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?*

**Yes. The G100 supports the proposed approach. Given that the financial statements are those of the entity the G100 believes that they should be prepared from the perspective of the entity and as such should reflect the business model/practices the entity adopts in separating performance obligations rather than be based on the business practices of other entities.**

*Q3 Do you think that the proposed guidance in paras 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?*

**The G100 generally agrees that this approach is consistent with the Framework definition of an asset. The transfer of resources to another entity evidences the completion of the performance obligation and signals the recognition of revenue in many circumstances. However, the reliance on the control concept is likely to present difficulties in interpretation and application because the notion of control is used in different contexts in Accounting Standards and depends on the facts and circumstances in each case. For example, it is not clear from the Exposure Draft how the notion of control would be applied in practice in respect of long-term construction contracts and contracts for the provision of services where rights and obligations arise during the term of a contract before the physical transfer on completion.**

**The G100 believes that the recognition of revenue should reflect the entity's performance of economic activities occurring under a contract as that activity occurs and the entity has claims against the customer as provided for in the contract.**

#### **Measurement of revenue**

*Q4 Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in para 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?*

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**Yes. In a principles regime the treatment of measurement uncertainty should be consistent in all Standards. The G100 considers that revenue should only be recognized when it can be measured reliably. The reliance on a reasonable estimation process does not preclude the existence of reliable measurement. The criteria outlined in para 38 appear to be reasonable and should be met as part of the process of measuring revenue.**

Q5 *Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?*

**No. The G100 does not support this approach because the impact of credit losses is a separate exercise from the generation of revenue. We do not believe that the netting of the results of two separate activities provides useful information to shareholders and other users.**

Q6 *Paras 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?*

**Yes. While the G100 agrees with the conceptual basis of the proposed treatment we are concerned about the practicalities of applying the approach where the time value of money is not material to the transaction.**

Q7 *Para 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?*

**Yes. The G100 believes that a contract should be assessed as a whole when making decisions about whether it is impaired or onerous. We believe that the fact pattern of a contract should be the basis for the assessment of changes. For example, the initial basis of the contract may not always be appropriate and, at best, should be regarded as a starting point for a process of review, say, as a rebuttable presumption.**

#### **Contract costs**

Q8 *Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?*

**Yes. The G100 believes that contract origination costs should, as a principle, be treated consistently across all activities as well as insurance contracts and loan origination fees etc.**

Q9 *Para 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation. Do you agree with the costs specified? If not, what costs would you include or exclude and why?*

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**No. The G100 believes that whether a contract is impaired or onerous should be assessed in the contract as a whole and not in respect of each performance obligation under the contracts. The G100 agrees that the incremental and allocated costs should be capitalized as contract costs.**

*Q10 The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?*

**Whilst it is difficult to take objection to the proposed disclosures individually the detail and volume proposed is excessive and onerous. The G100 believes that the objective should be supported by specifying the disclosure principles to be applied by preparers.**

#### **Disclosure**

*Q11 Do you agree with that proposed disclosure requirement to disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

**No. The G100 agrees that if the disclosure is retained it should apply in aggregate to all contracts having an initial period in excess of one year.**

*Q12 Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?*

**The G100 considers that whilst the proposed disclosures may provide useful information the proposals would result in detailed disclosures. However, we believe that rather than specifying detailed disclosures the Standard should state a principle that entities can best apply to their separate circumstances and activities.**

#### **Effective date and transition**

*Q13 Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.*

**Yes, however the G100 believes that preparers be given at least two years after the issue of the Standard before it is effective. However, full retrospective application is likely to be onerous and costly for many entities, particularly those engaged in long-term construction contracts and as such an extended implementation period would be reasonable.**



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### **Application guidance**

*Q14 Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?*

**The guidance appears adequate. However, in a principles-based regime it is not clear why application guidance is seen to be necessary on as many key components as an integral part of the Standard. If the guidance is integral to the Standard and thus mandatory the guidance should be included in the relevant parts in the body of the Standard.**

*Q15 Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?*

**Yes. The G100, from a conceptual perspective agrees that a distinction should be drawn between warranties for latent defects and extended warranties which are more in the nature of insurance contracts. However, the G100 considers that there are likely to be difficulties in making such a distinction in practice and question whether too fine a distinction is being made in view of the significance of failed sales in practice.**

*Q16 Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?*

**No. The G100 agrees that revenue from granting a right, whether exclusive or non-exclusive, should be recognized over the term of the contract.**

### **Consequential amendments**

*Q17 The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?*

**Yes.**

Yours sincerely  
**Group of 100 Inc**

**Peter Lewis**  
President