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March 13, 2012

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street, 1st Floor
London, EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst:

Re: Revenue from Contracts with Customers

The Canadian Bankers Association¹ (“CBA”) would like to thank the International Accounting Standards Board (the “Board”) for its work with respect to the Exposure Draft, Revenue from Contracts with Customers (the “2011 ED”). The 2011 ED is a revised exposure from the 2010 Exposure Draft, Revenue from Contracts with Customers (the “2010 ED”). We further support the goal of attaining a single set of high quality global standards through convergence efforts with the Financial Accounting Standards Board (“FASB”).

Overall, we support the 2011 ED in its current form subject to the following concerns:

- The 2011 ED provides guidance on determining when control of a promised good or service has been transferred to a customer. This concept of control includes considerations on the present right to obtain substantially all of the potential cash flows from that asset (whether a good or service). Consistent with our commentary with respect to the 2010 ED, we believe that the basis for the transfer of control of a good or service should not focus on the potential cash flows but rather on the customer’s ability to derive benefits from the use of that good or service. In other words, while the benefits of a good or service would include potential cash flows, we believe it would extend to cover non-financial benefits as well. We further request that the Board reconsider amending this guidance.
- In the 2010 ED, we commented that the application guidance should be expanded to include more examples relevant to financial institutions. The 2011 ED does not, in our view, provide

¹ The Canadian Bankers Association works on behalf of 53 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 267,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

sufficient relevant examples in relation to financial institutions. We would like to see practical examples in relation to loan syndication fees, merger and acquisition advisory fees, and other financial service fees, particularly those earned in more complex capital market transactions that would be in scope of this guidance and how the guidance would apply in such scenarios. We further request that the Board reconsiders expanding the examples in the application guidance.

- We agree that the proposed interim disclosures should be a requirement, but only if the disclosures are material to the understanding of the income statement. We believe that for many entities, annual disclosures are sufficient for users of the financial statements, and only when there are significant changes at the interim reporting date in the volume of revenues earned or the nature and composition of the revenue resulting from changes in business activities, should the reporting entity be required to update annual disclosures. Furthermore, we believe that the annual disclosure requirements should be explicitly subject to the same materiality conditions covering the interim disclosure requirements. This is particularly true of certain financial institutions where revenue from contracts with customers may not be a significant element of the business. Required annual disclosures that are not material to the financial statements can overburden the users of the financial statements with voluminous details.

Our responses to the specific questions are noted in the attached Appendix.

If you have any questions concerning our comments or suggestions, we would be pleased to discuss them.

Sincerely,

A handwritten signature in black ink, appearing to be "J. Charles", written in a cursive style.

Attachment: Appendix

Appendix

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 proposal.

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 agree with the proposal.
- The separation of revenue, as defined as the gross proceeds that the customer has promised as consideration and the amount uncollectible because of the customer's credit risk provides valuable insight into the selling and collections efficiency (i.e. the rate of collected receivables per dollar of sales) of a reporting entity. Users of financial statements would be interested in:
 - the gross proceeds as agreed by the entity's customers as a measure of selling activities; and
 - the associated uncollectible amounts as a measure of the entity's collection activities and the quality of customers.

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?

- We agree with the proposal.

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 agree with the scope of the onerous test.
- In the area of onerous performance obligations, we also request that the Board provide additional

examples that are applicable to financial institutions.

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 agree that an entity should be required to provide each of these disclosures in its interim financial statements to the extent that these disclosures are material to understanding the interim financial statements relative to the annual financial statements as would be the case when there are significant changes to the nature or composition of an entity's revenues resulting from changes in its business operations during a period. Interim financial statement reporting occurs quarterly in Canada (versus semi-annually for most European filers) which would require significant incremental cost of providing these disclosures without a sufficient corresponding incremental benefit.
- Furthermore, we believe that the annual disclosure requirements, as proposed in the 2011 ED, should be explicitly subject to similar materiality conditions of the interim disclosures and therefore should only be required if relevant to understanding the annual financial statements. While we understand that there may be a general understanding that financial statement disclosures are only required to the extent that the information is material to understanding the financial statements, certain auditors and regulators may, as a matter of process, nonetheless require preparers to make these disclosures in order to be compliant with IFRS unless the standard explicitly states that the disclosures are only required if material.

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 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.
- A consistent approach between the seller and the customer ensures that there is symmetry in accounting.