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April 2, 2012

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

Re: Exposure Draft – ED/2011/6 *Revenue from Contracts with Customers*

The Committee on Corporate Reporting of the Financial Executive International Canada ("FEI Canada") is writing to provide its response to the International Accounting Standards Board ("IASB") Exposure Draft ("ED") ED/2011/6 Revenue from Contracts with Customers.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of two national advocacy committees of FEI Canada, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

We are appreciative of the IASB's efforts to address some of the more significant concerns with the proposals in the original Exposure Draft ED/2010/6. We are supportive of some of the proposals in the revised exposure draft, and provide comments for consideration on other proposals below.

In response to the ED questions specifically:

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?

   We support the proposals regarding the recognition of revenue when performance obligations are satisfied over time. The committee believes this is an important revision to the proposals in the original exposure draft, particularly for industries with long-term construction or development contracts (i.e. information technology, building construction, rail, aerospace). We question whether "transfers control" is the appropriate terminology for performance that meets the criteria in paragraph 35(b)(ii) and 35(b)(iii), but are supportive that revenue should be recognized in these circumstances.

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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 are not supportive of presenting amounts related to customers' credit risk adjacent to the revenue line item.

i) We do not believe it would be commonplace for the significance of the uncollectible amounts to warrant presentation as a separate line item on the statement of income. We believe this requirement will result in unnecessary additional subtotals on the statement of income (i.e. "net revenue"), without providing useful information to users of the financial statements.

ii) We do not believe there is any advantage to presenting the amounts related to customers' credit risk differently than other operating expenses or cost of sales that are incurred for the purpose of generating revenue. We also believe that the effect of changes in estimates of the collectability of amounts in subsequent reporting periods are driven by changes in circumstances in those subsequent periods and are not appropriately presented as a "deduction" from the revenue for that period, but should instead be presented as an operating expense in the period the change in estimate occurs.

We note that the IFRS 7 requires a reconciliation of the allowance for uncollectible amounts and disclosure of any net gains and losses on loans and receivables. We believe this is more appropriate disclosure of these amounts than the proposed changes in presentation.

In addition, we believe the proposed presentation requirement unnecessarily increases the potential, or the perception of the potential, for manipulation of an entity's "top line".

3) Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations?

We do not agree with the proposed constraint in paragraph 81 on the amount of revenue that an entity would recognize for the satisfied performance obligations.

We do not believe that the amount of consideration an entity is reasonably assured to receive should be any different than the amount of consideration the entity expects to receive. Paragraph 50 requires the entity to consider the amount of consideration it expects to receive when determining the transaction price, which is then allocated to the performance obligations. If there is no substantive difference between the amount of consideration an entity expects to receive and the amount it is reasonably assured to receive for a performance obligation, then there is no need for the constraint, the revenue is already constrained by the amount of revenue expected to be received.

One of the criteria in paragraph 81 for reasonable assurance is that there is evidence that is predictive of the amount of consideration to which the entity will be entitled. If there is no evidence (experience or otherwise) that is predictive of consideration to be received, we suggest that this consideration should not

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have been included in the total consideration the entity expects to receive when determining the transaction price.

If the amount of consideration that is reasonably assured to be received is interpreted to be substantively different than the amount of consideration the entity expects to receive, we note that the revenue recognition pattern could be counter intuitive for contracts containing both fixed and variable consideration.

As an example, consider a performance obligation satisfied over time with a fixed consideration component ($100) and a variable consideration component ($50). The variable component is in the form of a bonus based on timely completion of the performance obligation. If the entity could not provide evidence that it is reasonably assured to receive the $50 variable consideration, revenue would be recognized on a percentage of completion basis until 66.7% of the performance obligation was complete. At that time, the entity would have recognized all the "reasonably assured" revenue but only 66.7% of the expected costs. The entity would be limited by the proposed constraint and unable to recognize revenue in excess of $100, until it had reasonable assurance the $50 would be received. The entity would continue to perform tasks related to satisfying the performance obligation and recognize costs associated with this work, but would no longer recognize revenue associated with that performance obligation, thus recording a loss in the period. The $50 of variable consideration would then only be recognized once reasonable assurance is obtained.

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 do not agree that a liability and a corresponding expense should be recognized for an individually onerous performance obligation. We do not believe it is appropriate to recognize a liability for an individually onerous performance obligation if all the expected future economic benefits of a contract exceed the expected costs of fulfilling all the remaining performance obligations. We believe that, in the ordinary course of business, entities often intentionally enter into contracts which contain individual performance obligations that will be satisfied at a loss, while the profit from satisfying other performance obligations are expected to more than compensate for performance obligations satisfied at a loss.

For these purposes, we believe the contract should be considered as a whole under the existing guidance in IAS 37. We believe it would be appropriate to recognize a liability for an onerous contract if the unavoidable costs of meeting all the remaining performance obligations exceed all of the remaining economic benefits that are expected to be received under the contract.

As an example, consider an entity that bundles two performance obligations A and B that are satisfied over time. A has a stand alone selling price of 100 and estimated costs of 80; B has a stand alone selling price of 200 and estimated costs of 100. The entity enters a contract to sell A and B together for a total transaction price of 225, of which 75 would be allocated to A, and 150 to B. Under the proposals, a liability and expense of 5 would be recognized immediately for performance obligation A, while the profit from performance obligation B would be recognized over time. We do not believe it is appropriate to recognize the expense of 5 when there is a future expected profit from the contract as a whole (combined expected profit from all unsatisfied performance obligations is 45). A similar scenario could occur when there is a

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change in expected costs for one performance obligation resulting in the recognition of an expense, but there remains an expected total profit for all unsatisfied performance obligations under the contract. For the purposes of recognizing an expense for onerous obligations, we believe it is more appropriate to consider the remaining economic benefits and costs of the contract as a whole.

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. Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports?

We do not agree that any of the proposed changes to IAS 34 achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. We note that the principles of IAS 34, which must be applied quarterly in many jurisdictions, require appropriate disclosure of significant changes in circumstances regarding revenue recognition from the previous annual financial statements. We believe that the requirement for these specific disclosures on an interim basis will result in significant and unnecessary effort for financial statement preparers, without providing significant benefit to financial statement users when there have not been changes in the circumstances related to revenue recognition (such as the disaggregation of revenue, remaining performance obligations or onerous performance obligations/contracts). We believe the existing requirements from the principles in IAS 34 are sufficient for interim disclosures related to revenue.

The proposed disclosure requirements in the exposure draft for annual reporting periods are significant. We suggest it would be beneficial to allow for a couple of annual reporting periods under the new requirements before considering significant changes to interim disclosure requirements. This would allow preparers to gain experience with the new disclosures, and also provide the opportunity to review the disclosures as used in practice, which in turn would provide better information to be able to consider the balance of the costs and benefits of requiring similar disclosures in interim reports.

We also ask the board to consider whether it would be more appropriate to complete its deliberations on the disclosure framework before making significant changes to disclosure requirements, particularly those for interim reporting periods.

6) 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?

We agree with the proposal that the control and measurement requirements related to revenue recognition apply to the transfer of non-financial assets that are not an output of the entity's ordinary activities. We welcome the introduction of consistent guidance for these types of transactions.

We would like to take this opportunity to communicate some significant concerns regarding the proposals in the exposure draft, particularly the effective date of the new standard and the proposed disclosure requirements.

Effective Date

We note that paragraph 334 in the Basis for Conclusions discusses the potential for an effective date a few months before the start of the earliest comparative period for entities required to present two comparative annual periods. The proposed changes in the exposure draft are expected to require significant changes to IT systems for

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some larger entities. We suggest that a minimum of one year will be required to ensure the appropriate changes can be made to these systems. Therefore, we suggest there should be a minimum of one year between the release of the new standard and the start of the earliest comparative period for entities required to present two comparative annual periods.

Disclosure requirements

In general, we are supportive of the board's objective regarding the proposed disclosure requirements to help users of financial statements understand the amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. However, we believe that some of the proposed disclosure requirements are unnecessary to fulfilling this objective and unnecessarily onerous. We are also concerned that for smaller entities, some of the proposals may require the disclosure of sensitive competitive information. We have provided some examples of our concerns below.

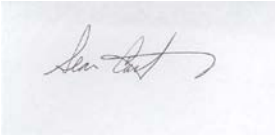
(a) Paragraph 117 includes requirements regarding reconciliations of contract assets and liabilities. We believe the concepts associated with contract assets and liabilities are technically useful for developing the principles of recognition and measurement, however we believe the information provided by this disclosure would be excessive and do not believe that the majority of financial statement users will find it understandable or useful as a predictor of future amounts and timing of revenue and cash flows. We believe the requirements associated with the recognition and measurement of revenue in the financial statements is sufficient.

(b) Paragraphs 122 and 123 include requirements to disclose information regarding onerous performance obligations. We believe this information is excessive and does not provide the users of financial statements with useful information beyond that provided by the recognition and measurement requirements for onerous performance obligations. Please also refer to our response to question 4 regarding the recognition of onerous performance obligations.

We are concerned with the cost associated with meeting the proposed disclosure requirements, but also that when applied in practice the disclosures may not meet the original objective of the requirements. We would ask the board to consider whether it would be more appropriate to complete its deliberations on the disclosure framework before including substantive changes to extent of disclosure requirements related to revenue recognition.

We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to the ED.

Yours very truly,



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