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THE
INTERNATIONAL ACCOUNTING
STANDARDS BOARD

30 Cannon Street
London, EC4M 6XH
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commentletters@iasb.org

Rome, June 17, 2009

Re: Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Madam/Sir,

OIC, the Italian Standard Setter, is pleased to express its comments in the aim to cooperate to the development of the subject project.

GENERAL COMMENTS

As an overall principle, we appreciate the willingness to establish a unique criterion for recognizing revenues generated by contracts entered with customers. In this context, we also share the extent of the scope proposed in the Discussion Paper, to exclude from its application both the financial and insurance contracts (for these latter, it must be noted that the performance obligation is always unique, especially when the service or investment components are related to the insurance coverage/risk; therefore the recognition of revenues in insurance contracts must refer to a unique performance obligation.)

Notwithstanding the above consensus, we feel the urge to express our strong perplexities as to the appropriateness of introducing now a pervasive change as the one proposed for the revenue recognition standard. The reasons behind our doubts may be summarized as follows:

1) First, within the concern for an appropriate hierarchy in the process of updating and/or improving the accounting standards, we believe it is necessary to complete the project relating to the Conceptual Framework before undertaking any major and significant change to other general standards, as it is the case of the revenue recognition. More specifically,

since the proposed model is based on the current general definitions provided by the present Framework, we have no doubt that the revision of this latter should be completed beforehand. We strongly recommend this approach since it would guarantee the highest quality of the Revenue Recognition Standard, should the basic Framework definitions be revised and changed. The respect of an appropriate revision hierarchy would also ensure the coherence of the new or amended standards to the general Framework provisions next to come.

2) We have also several significant perplexities as to the fundamental concepts on which the Discussion Paper is based:

   a. The proposed change is focused on the transfer to the client of the "control" on the assets or services, rather than being centred on the evolution of the contractual position of the parties. The transfer of the control is not necessarily the key indicator that the contractual rights and obligations have changed; this is true also from a legal standpoint. In fact, the control may be transferred without implying a contextual transfer of the related rights to the seller, nor — looking from the opposite viewpoint — a contextual assumption of the related obligations by the buyer.

   b. We have doubts in considering the proposed model as "contract based". The criteria to define the net position do not necessarily produce an accurate measurement of the contractual rights and obligations at the time of their initial recognition, nor in subsequent measurements. Initially, the obligations are measured at the value of the contractual rights. In subsequent periods, the performance obligations are measured based on a conventional scheme that does not consider the changes in the cost actually incurred by the seller to satisfy the contractual provisions. Since the essential element considered in the revenue measurement is the transfer of the control, the measurement of the net position becomes redundant.

   c. The proposed model concentrates on the transfer of the control, rather than on monitoring and measuring the net position. Given that, the reasons behind the proposal to abandon the present measurement model — based on the transfer of risks and rewards — are not clear. Hence, we do not share the criticisms to the IAS 11 and IAS 18. More specifically, we do not feel that the asserted incoherence between IAS 11 and 18 (paragraph 1.16 of the DP) as to the timing for recognizing revenues is a reason sufficient to justify the change. Based on IAS 11 and 18, it is a general presumption that in all circumstances — sale of merchandises, of services, of long term construction, and so on — revenues are earned because a contract has been entered into. Revenues from sale of inventories are earned when the sale takes place, provided that the actual effects produced by the contract are considered. In the cases of the sale of services and the long-term constructions, the related revenue is earned in relation to the entity's actual activity. Looking to these cases, it appears that the only difference between them is in the "production" activity: irrelevant in the first case but not in the second one.

   d. The asserted incoherence between IAS 11 and 18 does not appear to produce distortions in the users understanding, given that in the large majority of cases the recognition of revenue implies the existence of a contract. Moreover, the dispositions of IFRIC 13 and 15 largely contributed to reduce the uncertainties as to their correct application. However, should the fact that certain revenues are recognized at the time of consignment and other based on the progress of the production activities be considered an essential issue to be resolved, we do not believe that an extensive and conceptual change in the current standards would be necessary. In our opinion, such an "issue", could be solved by distinguishing

between those measured based on the progress of the underlying production activity and those measured at the time of consignment.

e. The supposed link connecting the transfer of the control to the performance activities is not clear. The reasons for preferring the notion of "transfer of control" to the "risk and rewards" are not evident. The DP indicates the coherence with the present definitions of the Framework for assets and liabilities. We do not share this position, since such general definitions might lead to recognize the effects of a sale of goods or services differently than that proposed in the DP. Hence, in our opinion, it would be preferable to focus on a model suitable to measure the profit and loss effects, and this reconsideration should be preceded by the revision of the Framework, as previously discussed.

f. Another matter that the DP takes as a reason for a revision of the IAS 18 (paragraph 1.12) is the problem of distinguishing between goods and services in those contract where these latter are a collateral to the first. We believe that the difficulty in measuring the value of the collateral would continue to exist and, maybe, even increase should the model based on the transfer of control be adopted. Hence, we are of the opinion that this issue should be resolved by means of an appropriate guidance, rather than the abandonment of the largely adopted concept of risk and rewards.

In terms of cost-benefit, we believe that the adoption of the proposed model could require the entities to incur significant costs from which, as already discussed, we do not foresee equivalent advantages to the users. We then take the opportunity to remind the necessity to accurately estimate the cost-benefit ratio, even by means of field tests, before introducing significant changes in the Standards.

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In the attached Appendix, we briefly reply to the DP's specific questions.
Should you need any further information, please do note hesitate to contact us.
We remain

Yours sincerely,

Angelo Casò
(Chairman)

ANSWERS TO SPECIFIC QUESTIONS

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

See general comments.

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?

In general terms, we do not believe that a model based on the transfer of control provide more useful or better information to the users. Hence, we do not believe that the proposed model could be usefully adopted for those contracts were the transfer of the control is not coincident with the execution of the performance activities contractually agreed.

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.

The proposed definition diverges from that of IAS 32, although the difference is not very large. Hence, we do not believe it is appropriate to introduce it.

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.

The term "promise" could be better substituted by "enforceable commitment". The expression "transfer an asset (such as good or a service)" could be changed in "perform an activity (such as the delivery of a good or the rendering of services)".

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 concur with the separate recognition of revenues in the case of multiple-arrangements. We believe it is appropriate to distinguish among the various revenue elements — and to recognize them at the time the relevant obligations are performed — only in those cases where the agreed upon consideration is related to separate activities of the entity.

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?

We disagree with the proposed treatment. We do not agree to recognize revenues in the case of sales where the contract explicitly gives the buyer the unconditioned right to return the goods and to be reimbursed of the relevant amount paid. A contract presenting such terms

should be treated as a "failed sale" (this is a case where the focus on risk and reward appears to better measure the transaction, rather than the transfer of control notion) except in the instance when the right of return is a routine guarantee required by law or practice (e.g. the usual right within a short period of time for a customer to return goods bought in a shop.) Assuming the adoption of the DP proposal, such a case would likely require to isolate two separate performance obligations, the second one consisting in the obligation to accept the return and refund the customer; then, the revenue should also be distinguished in two parts, one of which to attribute to the option granted to the customer. We believe that this is not useful information to the users. To put it simply: the transaction is either a failed sale, hence no revenue, or is a genuine sale, hence revenue is earned and the right of return (as in the case of statutory guarantees) is similar to a warranty liability which should be estimated using statistical information about all sales.

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?

In general terms, we concur in considering sales incentives as a performance obligation. However, we think that an accurate analysis of the agreement is necessary case by case, in order to ascertain that promised incentives be significant versus the transaction's terms. That is, we believe that it is necessary an objective evidence to demonstrate that the selling price has been reduced and that — then — a portion of the revenue is deferred to the completion of the obligations undertaken. Absent such an evidence, our preference would be to recognize revenues at the transaction price.

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.

No. See general comments.

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.

As a matter of principle, we agree to recognize revenues depending on the satisfaction of the performance obligation. However, we do not share the link between the performance obligation and the transfer of the control.

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?
(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?
(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.
(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.

a) Yes, unless there is clear evidence that the transaction price does not represent the transaction fair value.
b) Yes.
c) –
d) –

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.

a) We agree to charge pre-contract costs to profit and loss. The recognition of the revenue should correspond to the activity made to satisfy the performance obligation.
b) –

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?
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?

12 Yes. When the entity sells separately the goods and services offered in a multiple-arrangement allocating the transaction price based on the stand-alone prices offers the best rationale and simplicity.
13 No. We believe the possibility to allocate the transaction price based on alternative methods, such as the cost, should be permitted, also because of their simple applicability.