



Leslie Seidman, Chairman  
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Submitted via electronic mail to [director@fasb.org](mailto:director@fasb.org)

March 12, 2012

**Re: Exposure Draft: Revenue from Contracts with Customers (File Reference No. 2011-230)**

Dear Ms. Seidman,

ABB Asea Brown Boveri Ltd, Zurich, Switzerland ("ABB" or "ABB Group") appreciates the opportunity to provide its views on the Revised Proposed Accounting Standards Update, Revenue from Contracts with Customers (the "Revised ASU") and the respective proposed amendments to the FASB Accounting Standards Codification<sup>®</sup>. ABB is a leading global company in power and automation technologies that enable utility and industry customers to improve their performance while lowering environmental impact. ABB works with customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency, reliability and productivity for customers who generate, convert, transmit, distribute and consume energy. The ABB Group of companies operates in around 100 countries and employs about 135,000 people.

We support the overall goals of the Boards' joint revenue recognition project: the convergence of U.S. GAAP and IFRS, the simplification of existing GAAP, and the comparability of revenue recognition across companies and geographical boundaries. We commend the FASB and IASB Board members and staff for the extensive outreach performed and the Boards' consideration of many of the concerns expressed in previous comment letters. We believe the Boards have made significant progress on this project.

In addition to our feedback on the questions posed by the Boards in the Revised ASU, we would like to draw the Boards' attention to a few other comments at the end of our letter.

Please feel free to contact Clemens Sager, Head of Group Accounting Policy (phone +41 43 317 68 12 or email [clemens.sager@ch.abb.com](mailto:clemens.sager@ch.abb.com)) for any questions you might have.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Michel Demaré', is written over a horizontal line. The signature is fluid and cursive.

Michel Demaré  
CFO, ABB Group

A handwritten signature in blue ink, appearing to read 'Christian Bogers', is written over a horizontal line. The signature is fluid and cursive.

Christian Bogers  
Chief Accountant, ABB Group

## 1. Responses to board questions

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 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?

We generally agree with the proposed criteria to determine when a performance obligation is satisfied over time as described in par 35 and 36.

For pure service and repair contracts, we do not have major concerns regarding these criteria. However, we would like to comment on the criteria for products currently considered construction-type contracts and software sales of highly customized software.

However, we would welcome more clarification of par 35 (a), par 35 (b)(iii) and par 36 as explained in further detail below.

### Comments regarding par 35 (a):

#### *Transfer of control due to high customization*

The basis of conclusion (BC 91) refers to SOP 81-1 which emphasizes the high customization of a product as a criterion for percentage of completion ("POC") accounting. BC 91 also refers to control over work-in-progress being given by the customer's right to determine the specifications of the product. Par 35 (a) of the Revised ASU on the other side refers to control as described in par 31-34 which put emphasis on the physical possession of an asset in the indicators in par 32 (a)-(f).

Therefore to our understanding the criteria of a transfer of control are generally not fulfilled for in-house production of highly customized goods although these meet the criteria in SOP 81-1 since we usually legally own and physically control the asset until the actual transfer of control by delivery or installation on the customer's site takes place.

We suggest adding to par 32 point "(g) the ability of the customer to direct the specifications of a highly customized product" or amending par 35 (a) as follows:

"The entity's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced. An entity shall apply the proposed guidance on control in paragraphs 31–33 and paragraph 37 to determine whether the customer controls an asset as it is created or enhanced. *Such control can also be demonstrated by the customer's ability to direct the specifications of a highly customized product.*"

### Comments regarding par 35 (b)(iii):

#### *Compensation for profit margin*

Par 35(b)(iii) refers to payment that approximates the selling price of goods or services transferred to date for example recovery of the entity's cost plus a reasonable profit margin. We recommend eliminating the requirement of compensation above and beyond contract cost incurred. We believe

such a requirement would not be necessary as contracts are already required to have commercial substance. In case there was a high risk of a cancellation, the contract might not have any commercial substance and would not qualify as a contract for revenue recognition. Instead we recommend to add to par 35(b)(iii) the requirement that "*termination of the contract by the customer is highly unlikely based on the experience and current facts and circumstances with this or similar customers*".

If the profit margin criterion should be retained we suggest clarifying in the Revised ASU what a reasonable profit margin would entail and how cost overruns would be considered. A reasonable profit margin should only include compensation for cost of capital not covered by advance or progress payment provided by the customer. Cost overruns should not increase the compensation beyond the proportional sales price compared to the work performed to date.

Question 2: Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) 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 generally agree with this proposal. However, we expect significant educational effort of readers of financial statements as they are used to understand revenues reported as revenues the entity expects to collect.

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 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. 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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the concepts stated in the Revised ASU.

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 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?

*Level of testing for onerous performance obligations test*

We suggest testing for onerous performance obligations to be performed on a contract level unless management monitors profitability at a lower level. This would be in line with presenting to financial statement readers information about the entity in the same approach management reviews this information. Generally prices are negotiated with customers on a contract level and management often monitors the profitability on a contract level.

*Scope of onerous performance obligations*

We recommend requiring all contracts to be reviewed for loss orders irrespective of length or if these are satisfied over time or at a point in time to avoid inconsistencies. Alternatively constituents should be given the option to recognize loss orders for all contracts as most ERP systems already provide such information for all performance obligations and it would imply more effort to separate loss orders that can or cannot be recognized.

We believe that it is important to ensure that the following situations are addressed consistently under U. S. GAAP and IFRS as there might be differences in the current U.S. GAAP and IFRS inventory guidance:

The entity contracts for a transaction price of USD 80 to deliver goods that have production costs of USD 60 to be transferred at a point in time is signed on October 1, 2011. Costs of materials are USD 30 and labor costs are USD 40. A margin of USD 10 is expected

Due to changes in the market, the material costs increased to USD 40 and the labor costs to USD 60 as of January 1, 2012. Currently no inventory is on hand and the entity has not entered into any firm purchase commitments. Therefore there is no inventory to impair. Does the entity recognize a provision for the loss of USD 20 for the interim period ending March 31, 2012?

In April the entity enters into a firm purchase commitment for materials specifically allocated to the onerous contract but only in the amount of USD 10; no change estimated total revenues and total costs. Should the entity record a provision for the interim period ending June 30, 2012? If so, in which amount?

In July the entity takes delivery of the goods ordered in April in the amount of USD 10. No other purchase commitments were entered into and no labor costs were incurred. Which amounts should the entity record as inventory impairments or provisions for the interim period ended September 30, 2012?

What should the entity record, if it has raw materials on hand but these are not specifically allocated to a contract and could be used in a variety of products. Should the entity record an impairment of inventory or a provision?

We would welcome a uniform treatment of onerous performance obligations under U.S. GAAP and IFRS. This would result in a consistent treatment of loss orders provisions under both GAAPs and

therefore meets the expectations from financial statement readers that the new revenue recognition guidance is fully converged under both GAAPs.

*Measurement*

We generally agree with the measurement concept on how to measure the loss.

Question 5: The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity's remaining performance obligations (paragraphs 119–121)
4. 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)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill 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 statements? 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 statements.

Item 1:

We agree that entities should be required to provide such information on an annual and interim basis. Such 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.

Item 2:

We expect significant administrative costs to provide the information requested in par 117 on an annual basis or even more frequently which will outweigh potential benefits to financial statement readers. These costs result from the following factors:

- Very high number of contracts that are satisfied over time.
- Effects from foreign currency translation into the functional currency of each subsidiary and then again into the presentation currency of the parent creating a cumulative translation adjustment in equity.
- Effects from hedging and hedge accounting.
- Consolidation efforts required on intragroup revenues and net contract assets.
- Complex coordination required within multinational entities.

We believe that sufficient information can be obtained from the statement of comprehensive income and the cash flow statement.

Instead we are of the opinion that an entity could provide a qualitative description of when it expects to convert its contract assets from performance obligations realized as revenues over time to

receivables and later collection of those receivables. We believe this disclosure is more meaningful because it shows the companies expectation for the future instead of only presenting past results. Moreover, it also better reflects how management monitors the business.

If this disclosure requirement was to be retained, we ask the Boards to provide detailed guidance of what should be included in contract assets and liabilities and what is excluded. For example how would trade receivables be presented or work-in-progress for performance obligations satisfied at a point in time or uninstalled materials for performance obligations satisfied over time.

Item 3:

We suggest that entities should be required to provide such information on an annual basis only. Such 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.

We suggest applying this disclosure requirement to all contracts irrespective of time as most ERP systems are providing this data already and it would be more efforts to separate out the contract greater than twelve months.

If the time limitation is retained, we recommend the Boards to specify how the one-year-duration is calculated. Is this duration from contract signature to the delivery of the last performance obligation?

Item 4:

We generally agree that entities should be required to disclose the total amount and nature of onerous performance obligations on an annual basis and interim basis. However, we do not agree with the disclosure of the timing of satisfying such onerous performance obligations as required in par 122 c.

However, we believe that the tabular format of a reconciliation as requested in par 123 should only be provided on an annual basis only.

Such 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.

Item 5:

We disagree with this disclosure requirement in general as it would require tracking capitalized costs under par 91 – 94 separately from costs capitalized under Topic 330. These costs are very similar in nature to inventory and it would not add value to the financial statement readers to see these costs separately while requiring significant efforts from entities. We believe that it would be misleading to the reader if the costs disclosed differ from total inventory.

Question 6: For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance 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 guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We agree with applying this also to other areas where non-financial assets are transferred and welcome the resulting convergence of U.S. GAAP and IFRS also in other areas.

## 2. Other comments

In addition to the answers to the questions above we would like to bring the following items to the attention of the Boards for consideration:

### 2.1. General

#### 2.1.1. Combination of contracts

We generally agree with the criteria for combining contracts. However, we would like to point out that the proposed two-step process might prevent some contracts from being combined although the criteria of par 17(a)-(c) are fulfilled because they were not entered into at or near the same time. This might be of particular importance for large contracts over many years where a contract modification is made through a new contract instead of an amendment to the original contract. These contracts should be combined because the new contract often depends on the original contract in price or the two contracts constitute one performance obligation.

We suggest qualifying the criterion of “entered into at or near the same time” as an indicator only for combination of contracts.

#### 2.1.2. Contract modifications

##### *Reallocation of transaction price*

We generally agree with the treatment of contract modifications. In particular we welcome the alleviations for software contracts to allow such modifications without severe impacts on revenue recognition. We believe this is a good reflection of the economics underlying such transactions.

However, we recommend eliminating the reallocation requirement of the transaction price for contract modifications as described in par 22 (a) if the goods are distinct. As contract modifications are quite common in construction type industries, frequent reallocations of the transaction price would result in unreasonably high administrative costs and effort that would not be outweighed by the benefits to the user of the financial statements. It also needs to be noted that contract modifications which are negotiated at arms' length could also be set up as separate contracts which would not have to be combined.

The reallocation requirement would be particularly tedious to implement for software contracts as standalone value is not available for all products offered. For example, while there is standalone value information for post-contract customer support services (“PCS”), standalone value information for software itself is commonly not available and may vary significantly between customers. Therefore contract modifications to include additional software cannot be tested for being a separate contract under par 21 (b) and would always fall into par 22 (a) even if the goods are distinct.

##### *Unpriced change orders and contract costs*

Par 18-22 (contract modifications) and 91-93 (contract costs) are silent on the accounting for costs related to contract modifications for change orders approved in scope but not yet in price (a common situation in construction arrangements). To avoid misleading gross margin fluctuations, we suggest including additional guidance within par 19 to address the following situations:

If the customer approval of the unpriced change order is highly probable then revenues should be adjusted and related contract costs expensed as incurred. If it is probable that at least the additional contract costs related to a contract modification will be recovered but there are still certain risks that the price might change, then the total estimated revenue value of the contract should not be adjusted and the related costs would be deferred as work-in-progress (i.e. excluded from the cost of contract performance, and project margin is not affected) until the customer approval is received or becomes highly probable. If the recovery of contract modification costs is not probable, all related contract costs are to be expensed as incurred.

Guidance on accounting for costs related to contract modifications for change orders approved in scope but not yet in price will facilitate consistency and comparability of financial statements across entities.

### 2.1.3. Variable consideration

Par 55 specifies two options on how to estimate the transaction price depending on the circumstances in the contract. We agree with the Boards' response to constituents' concerns and both methods offered. Par 56, however, seems to require one method to be applied consistently throughout one contract. We suggest allowing a combination of both methods to be applied for one contract with multiple types of variable considerations but consistently for each type throughout the contract. For example: A contract is a master purchasing agreement and contains a quantity discounts as well as a bonus payment if the delivery dates are met on time. The level of total sales is still uncertain throughout the year and the bonus payment is an all-or-nothing-clause. We would appreciate if it would be possible to use the expected value for the quantity discounts and the most likely for the bonus payment.

We suggest the following amendment to par 56 "When estimating the transaction price, an entity shall apply one method consistently throughout the contract *for each type of variable consideration.*"

### 2.1.4. Time value of money

#### *Scope*

We generally agree with the reflection of time value of money in the proposed revenue recognition standard. There is helpful guidance in the basis of conclusion (BC 147) for determining if certain delays in payment are considered to have a financing component or not (for example with respect to completing a contract or a certain milestone). We recommend moving this discussion from the basis of conclusion into the main section of the standard in par 59 and adding items providing security for one party to an agreement as not containing a financing component for example security deposits and retainages on contracts.

#### *Definition of the term "significant"*

The basis of conclusion (BC 146) includes a helpful discussion on how to determine significant in particular if it has to be seen on a contract basis or a portfolio of contracts. We suggest moving this guidance to the main section of the standard.

We strongly support the practical expedient in par 60.

#### *Example on discounting in relation to continuous transfer of control*

We would appreciate if the Boards could add an example on discounting in relation to a large project recognized under continuous transfer with advance payments and deferred payment terms for other components. In particular, the example should illustrate how to determine what period to consider for evaluating the time period i.e. on a daily basis for each time revenue is recognized to the payment date or from invoicing of the customer to payment date. How would this be treated if payments relate partially to revenues already recognized and partially to revenues to be recognized in the future?

#### *Discounting of advance payments*

We disagree with the consideration of time value of money for advance payments. These are often requested for other reasons than receiving a financing from the customer. For instance:

- It is risk management best practice to ask customers for advance payments when their credit standing is not sufficient or when a company does business with them for the first time.
- In the case of long-term, high cost projects that do not qualify for continuous transfer, such advance payments reflect industry standard practice. These amounts are needed to contract material and labor costs.
- Certain advance payments are also common in an industry to show the customers commitment to the contract without implying any financing component.

We recommend to state in par 59 that deposits or progress payments on construction contracts, advance payments for acquisition of resources and raw materials and advances to cover poor or uncertain credit standing of the customer do not have a financing component.

Furthermore, we feel that presenting more revenues than the entity will receive as cash-inflows might be misleading to the readers of the financial statements while creating significant additional effort for the entity to prepare and audit this information.

#### 2.1.5. Allocating transaction price to separate performance obligations

In IG 80 the Revised ASU provides guidance on how to treat renewal options in maintenance contracts in connection with allocating the transaction price to the customer's option for additional goods and services. The proposed calculation model will be difficult to implement in practice and requires significant costs and administrative efforts.

The actual renewals rarely match the expected renewals. So there would have to be a continuous reallocation process and revised estimate meaning that the entity would always have to account for the difference between the revenue allocated to past years' service, future years' outstanding revenues and payments received. The benefits gained would probably not cover the additional costs to provide such information. We suggest removing this requirement and limiting the allocation only to the years a customer has actually contracted for to avoid the high uncertainty in estimating how many renewals the customer will demand.

### 2.1.6. Incremental costs of obtaining a contract

In par 94-97 the revised ASU requires capitalization of incremental costs of obtaining a contract. In most industries there is such a limited scope of incremental costs that we recommend deleting this requirement as it poses significant effort to evaluate if the amounts are incremental.

However, if the Boards decide to retain this requirement, we recommend a clarification of how to measure the one-year threshold of the practical expedient. Does this cover the time period from signing the contract to delivery or does it refer to the production time of the contract? How should this be treated in case of a continuous transfer?

### 2.1.7. Amortization and impairment

Par 102 prescribes an order of impairment depending on which accounting guidance was followed to recognize assets. It will be difficult and costly to track these costs separately to identify the correct order of impairment. Several cost capitalized as assets under the guidance of inventory would be very similar to the costs prescribed in par 92. It would require a high level of effort to always differentiate which accounting guidance was applied when the costs are so similar and often require a high level of judgment. This would also lead to inconsistencies between companies.

We suggest not specifying an order and impairing all work-in-progress together.

### 2.1.8. Warranty

IG 10 to IG 15 set out the criteria to determine whether a warranty obligation is considered a separate performance obligation or not. Especially for more customized and larger products the duration of the warranty period is not an option in the contract like it is, for example, for car purchases. Instead, the warranty period is determined individually per contract based on the product or industry practices which often can be longer than required by local law. In some countries there might not even be a minimum warranty period.

We suggest the following amendments to the list of indicators in IG 13:

*“(d) Whether the length of the warranty period exceeds the expected useful life of the components covered – The customer would receive an addition service if the warranty period exceeds the useful life the asset. For example the warranty period of an engine of a car could be longer than the warranty period for the breaks which have to be replaced more frequently due to normal wear and tear.*

*“(e) Common practice in the industry – Only warranties beyond generally offered warranty terms in an industry or customer segment might provide the customer with an additional benefit.”*

### 2.1.9. Principle vs. agent considerations

We generally agree with the indicators set out in IG 18. Nevertheless, we would like to ask the Boards to provide guidance on risks other than credit risk and inventory risks. For example, in a contract there might be a clear split of all responsibilities and risks, however, the parties agree to joint and several liability on lawsuits posed by the customer.

We would appreciate if joint and several liability would not require all entities involved to present the full contract revenues in their statement of comprehensive income as this would overstate the revenues an entity is entitled to.

#### 2.1.10. Transition requirements

We suggest allowing the same transition requirements as previously used in ASU 2009-13 for multiple element arrangements in 605-25-65-1 a and b. This would allow entities to choose between prospective vs. retroactive application and early adoption. This alleviates entities from unduly high costs of transitioning to the new guidance if only retrospective application would be possible.

If only retrospective application should be permitted, we suggest presentation of comparative data to be limited to one year only including income statement and disclosures.

We would also like to bring to the Boards' attention the SEC requirement for a five-year comparison table for selected financial information including revenues. We find it impractical to apply the new guidance retrospectively for five years as many contracts cover multiple periods and some new information needed might not be available. In case of required retrospective application, we suggest presentation of comparative data to be limited to one year only.

## 2.2. Continuous transfer / POC

### 2.2.1. Zero margin for external procurement

We generally agree with and support the guidance on input methods to estimate the transfer of goods or services over time. However, we disagree with allocating a zero profit margin to goods purchased externally with no significant involvement by the seller in design and manufacturing of the goods in par 46 and the related example in IG 65 for the following reasons:

- *Misrepresentation of the contract's economics:* Customers often order turn-key solutions which involve several subsuppliers. The decision on what to outsource and what to produce in-house is with the seller. The value provided to the customer includes more than only the costs of the externally purchased parts but also the overall project management, subsupplier selection and management, procurement processes, related risks of the resold parts and integration of these parts in the overall project. This should also be considered when allocating gross margins to individual components of a single performance obligation. The margins for own work performed might be overstated if a zero margin is allocated to procurement of goods from another entity.
- *Profit margin fluctuations:* Use of different profit margins might produce financial statements that are not truly showing contract progress of the entity. Externally purchased parts may represent significant costs of a contract which in one period show as a zero margin, which should not be zero as stated above, and in the next period a very high margin because own work was performed. This may result in significant fluctuations not reflecting the overall profitability of the contract.
- *Front loading risk of revenues and margin:* Please consider the following example:
  - The entity has signed with a customer a turn-key solution for an off-shore wind park qualifying for continuous transfer of ownership over five years. The entity provides mostly design, engineering and project management services. Many high-cost items are procured externally from highly specialized subsuppliers. The total costs are 80 of

- which 20 are own costs and 60 are costs for parts from subsuppliers. These items are installed starting in year three. Total revenues are 100.
- For the cost-to-cost calculation the entity would consider for its own services 20 in costs, 40 in revenues (100 total revenues – 60 of external costs at zero margin) and 100% margin on own work performed.
  - In the first two years the entity incurs 10 in engineering services each year. Due to the cost-to-cost calculation the entity would recognize 20 in revenues at a gross margin of 100% in each year.
  - In years three, four and five the entity has almost no costs for its own services but has installs each year 20 of the externally procured goods, however, at zero margin. So it reports 20 in revenues and 20 in costs each year.
- *Inconsistency within continuous transfer concept:* The Boards do accept that the overall profit margin is not allocated differently to the various components of the items produced by the seller himself that might have different margins if sold separately. Using zero margins for work performed by subsuppliers would not be consistent to this approach.
  - *Inconsistency to transfer at point in time concept:* It is also inconsistent with the transfer of control at a point in time as par 46 only applies to performance obligations satisfied over time. A contract might include the delivery of various products at different times, all being considered individual performance obligations. In some contracts, these products are also purchased from third parties and transferred to the customer without significant modifications.
  - *Costs:* It would involve significant costs to set up ERP systems and administrative effort to track the separate margins.

We suggest that the Boards remove this requirement and allow for a uniform profit margin on the entire performance obligation.

If this concept is retained, the Boards should clarify that close supervision of services performed by a subcontractor or highly customized materials provided by a subcontractor would not qualify for zero profit margin accounting under par 46(b).

### 2.2.2. Measuring contract progress: external procurement costs

We would appreciate a clarification in the standard if the concept of continuous control transfer can also be applied to external procurement contracts where the subsupplier should also follow the continuous control transfer concept to his revenue recognition under U.S. GAAP or IFRS. Clarification on this point is needed as it may have significant impact on the progress of the contract, comparability across entities and consolidation of subsidiaries' standalone financial statements within large groups.

We believe that if the subsupplier can assume a continuous transfer of control, it would only be meaningful that the entity also receives control continuously. The progress of this transfer could be measured by inspections and verifiable status reports. Often the customer of the entity receives control continuously as well. If not transferred continuously especially on large projects, it would create sudden increases in revenue recognition although the entity and the customer received control continuously.

With reference to Example 8 (IG 65), it may be appropriate for the entity to recognize revenues for the externally procured specialized equipment before installation if all of the following applies:

- The entity's contract with the customer qualifies for continuous transfer.
- The subsupplier also follows the continuous control transfer concept to his revenue recognition.
- The entity closely monitors the subsupplier's construction progress.
- The entity can reliably estimate the subsupplier's construction progress.
- The entity reasonably expects the subsupplier to successfully complete and deliver the contract.
- The externally procured equipment is significant to the cost of the overall contract.

We believe that such a clarification would be consistent with the control concept of the revenue recognition guidance and better reflects the economics of the contract. In addition, it may also alleviate consolidation efforts in large groups as it would eliminate differences between consolidated and standalone financial statements.

We suggest adding the criteria mentioned above as variation (b) to Example 8.

## 2.3. Transfer at a point in time / product sales

### 2.3.1. Identifying separate performance obligations – remaining inconsequential performance obligations

We suggest adding a practical expedient to par 37 clarifying that at the end of a performance obligation revenues can be fully recognized if there are only insignificant items outstanding such as installation or documentation of instructions that are not affecting the transfer of control. A provision should be recognized for any such outstanding minor costs. This would be supported by the guidance from the SEC on the concept of inconsequential or perfunctory performance obligations (SAB, Topic 13, A.3.c).

### 2.3.2. Satisfaction of performance obligations – bill and hold arrangements

In IG 51 the Revised ASU details out possible reasons for a bill and hold arrangement. In IG 53 (a) one of the criteria for a customer to have obtained control of a product is that the reason for the bill-and-hold arrangement must be substantive. We would appreciate a clarification on what would qualify as a substantive reason.

If the list in IG 51 should be an exclusive list of substantive reasons, we suggest adding the following:

*"A customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production and transportation schedules. It should not lead to an extension of payment terms."*

## 2.4. Software

### 2.4.1. Identify separate performance obligations (par 23-30)

*Potential separation of PCS into multiple performance obligations*

From the proposed guidance it might seem that what U.S. GAAP currently defines as post contract customer support ("PCS") and treats as one element, may in the future be considered as several separate performance obligations that are not all delivered in the same pattern and therefore would have to be separated as they do not fulfill par 30. Our concern relates in particular to major "if-and-when-available" upgrades such as new version releases which may be required to be treated as separate performance obligations from the standard support services, hot-line usage and bug-fixes.

It would be difficult to assign a value to the separate performance obligations as these are options for future upgrades and therefore not sold separately. The price of the upgrade by itself without the PCS might not be representative because many customers decide not to install major upgrades if the current system is meeting all their needs. An upgrade would require significant additional costs for data migration, employee training, process changes etc.

Moreover, the timing of such releases is often not fixed. A major "if-and-when-available" software upgrade may not happen during the initially planned period which would result in full revenue recognition for the software performance obligation within a PCS arrangement only at the end of the PCS term.

In addition, the timing of revenue recognition for a software upgrade may be exposed to manipulation risk as the release of the software update is under the control of the vendor. For example, instead of releasing the upgrade on June 30 it is released on July 1, shifting revenues into another quarter. Similarly, the vendor could separate a major upgrade into smaller steps to smooth out revenue recognition. Although the customer would still have the same upgrade available to him at the end of the PCS term, revenue recognition may follow different patterns as it is under the control of the vendor.

Therefore we recommend replacing par 26 (d) with a definition of PCS as currently defined in U.S. GAAP Topic 985-605-20.

#### *Residual value of additional product options*

We would appreciate a comprehensive example on how to apply the guidance for the customer's option for additional software products in IG 20-24 and IG 63 when no standalone selling price is available and the residual method must be applied.

#### 2.4.2. Step 4 Allocate the transaction price (Para 70 - 80, IG 20-14)

##### *Definition of "broad range"*

We welcome the alleviation to no longer require VSOE. However, we would appreciate a clarification from the Boards of what constitutes a "broad range" in par 73(c).

##### *Residual value*

We would appreciate a clarification from the Boards how the residual method is to be applied if there are two performance obligations with highly variable prices in a contract. An example would be a license, PCS and a specific upgrade for which no standalone selling price exists. Current U.S. GAAP requires deferring all revenues until the delivery of the last item with no VSOE/standalone selling price.