

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

Stockholm 9th March 2012

ED/2011/6 Revenue from Contracts with Customers

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the exposure draft *ED/2011/6 Revenue from Contracts with Customers*.

FAR welcomes the IASB's decision to re-expose the proposals. FAR is on a general level pleased with the Board's work in redrafting the exposure draft (ED). Several of FAR's concerns expressed in the comment letter on ED 1 have been taken into consideration and will, in combination with other adjustments to paragraphs and concepts, make the final standard more usable. Generally, FAR finds the 5-step model attractive and believes it should be able to form a solid basis for revenue accounting in the future.

On a more detailed note, FAR especially appreciates the concepts and models to enable preparers to split contracts into components (performance obligations) and account for related costs in a structured way. These areas are not clear in the current standards IAS 18 and IAS 11. As such the ED will lead to an improvement of the preparers' ability to present clear principles and consistent revenue accounting.

However, FAR has concerns with some of the terminology, the extensive disclosure requirements and the suggested onerous test at performance obligation level in the ED. FAR strongly recommends the Board to reconsider these proposals in the final standard.

The terms "highly interrelated" and "integrating service", which are very important when an entity determines the number of performance obligations in a contract, are not clear to FAR. Since those terms are of high importance for the revenue accounting in the proposed standard FAR would like to see further clarification and guidance in this area.

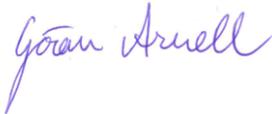
As FAR expressed in the comment letter on ED 1, FAR generally agrees with the proposed disclosure *objectives* set out in ED 2. However, FAR does not agree with the arguments provided by the Board that all rather detailed disclosure requirements should be forwarded into a final standard. Therefore, FAR believes that FAR's responses to question 10-12 in the comment letter sent to you on 22nd October 2010 are still valid. Further details regarding the concern raised are provided in conjunction to the response to question 5.

FAR strongly believes that a contract that is in total profitable should not lead to an accounting of onerous portions with expenses in one period and profits in another. FAR does not believe that this properly depicts the economics and business rationales of the

transactions and relations with customers in a contract. Consequently, FAR does not believe it is appropriate to account for onerous “contracts” at the performance obligation level.

Please see the attached appendix for FAR’s detailed response and comments to the questions raised in the ED.

FAR

A handwritten signature in blue ink that reads "Göran Arnell".

Göran Arnell
Chairman FAR’s Accounting Policy Group

A handwritten signature in blue ink that reads "Dan Brännström".

Dan Brännström
Secretary General

APPENDIX – Responses to the questions raised in the exposure draft

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?

Question 1 cannot be considered without the connection to paragraph 29 and the accounting for a bundle of goods as a single performance obligation since the distinction of separate performance obligations will have a significant impact on the pattern of revenue recognition over time.

FAR is of the opinion that the concepts of “highly interrelated” and “integrating service” have to be further clarified to avoid undesirable accounting consequences. For example, FAR believes that there are situations where an entity will be required to account for a bundle of goods and services as a single performance obligation since they are highly interrelated, thus preventing recognition of revenue reflecting the performance in each component (i.e. the transfer of control as is intended by the standard). In FAR’s opinion it would seem that in order for the standard to cope with some industries’ demands for a “percentage of completion” accounting the above concepts have been introduced. In the updated ED, this might lead to other industries having to account for a bundle as one single performance obligation, which may not be desirable. This would be the case even though the economics of the bundle, and the way the business is conducted and monitored through the eyes of management, is as single goods and services with distinct profit margins and different patterns of transfer of control. Also, it is most likely that separate performance obligations in one contract are significantly modified or customized (p. 29 (b)) without this giving rise to an interrelated and integrated “construction contract” (with reference intended to the current IAS 11) monitored as such. To further elaborate on the concept of “highly interrelated” FAR is concerned that there is no guidance about how to establish whether or not goods or services are “highly” interrelated, when is something “highly”? Guidance in this area is needed. FAR also struggles with the term “alternative use” in p. 36. Is the intention that goods that would be accounted for under IAS 2 are intended in this instance? If so, a direct reference to that standard could be inserted to clarify this matter.

FAR finds it hard to understand how to apply p. 35 (a) with the reference to p. 37 and the indicators listed in that paragraph. This is one of the instances where further guidance would be beneficial, especially since p. 37 is intended to be used for transfers of control that happen at *a point in time*. How should the indicators be used for transfers that happen *over time*?

FAR believes that some clarifications are needed regarding the future standard’s relation to other standards. For example, is it possible to satisfy an obligation over time when this relates to an asset accounted for under IAS 2 or IAS 38? In some industries, for example in the Pharma and Life Sciences industry, it is quite common to apply the current revenue standard IAS 18 when an intangible asset accounted for under IAS 38 is licensed to a counter party in order to determine the revenue recognition pattern (i.e. if it is sold as a good, revenue would be recorded in accordance to IAS 18:14, or if it is leased to another

party, the royalty paragraph in IAS 18 would be used or an application of IAS 17 would indirectly be applied).

Paragraph B 34 is supposed to clarify accounting relating to licenses, (as we understand the use of the application paragraphs in appendix B). However, B 34 only mentions transfer of control at *a point in time*, not *over time*. The scope paragraph in the ED implies that IAS 17 could be applied in such a case. However, it seems as if the current leasing project would scope out intangible assets. FAR would strongly recommend the Board to deal with the issue of leasing intangible assets in either the revenue or leasing project.

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?

FAR believes that presenting credit risk losses as a separate line item adjacent to the revenue line item generally will provide useful information about gross revenue and also clearly show the impact from credit losses. However, FAR cannot see from the ED Appendix D whether IAS 1 is supposed to be amended accordingly. By introducing such a requirement in the ED FAR would expect that IAS 1 should be amended as well. Also, FAR believes there is need for clarification on how this line item should be used after initial recognition for any revisions of estimated and final credit losses.

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?

It appears that the re-exposed draft has several rules put in that are not, as is the fundament of IFRSs (which FAR agrees with), principles based. FAR believes that the rule in p. 81, further elaborated by indicators in p. 82-84, is not principles based. The rule regarding a "cap" on recognition of royalty revenue in p.85 is far from the underlying principle in p. 3 and 4 of the draft. If the transaction price is measured in step 4 (c), in accordance with the principle in p. 3 of the standard, why should there be an extra rule to constrict the revenue recognised? This seems more like a prudence concept inserted to either avoid abuse when preparers apply the standard, or simply because of conservatism. FAR is concerned that this insertion of rules means that several other rules could be inserted into the standard in the future in order to achieve specific outcomes that are not derived from an underlying principle. FAR would therefore suggest that the rules in p. 81-85 are considered and

integrated into the principles of the step described in p. 4 (c), *Determination of the transaction price* (with details in p. 50-67 updated accordingly).

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?

FAR does not agree with the proposal of the ED that the onerous test should be performed at the performance obligation level, and should be limited to the obligations that the entity satisfies over a specific period of time.

Instead FAR thinks that the test should be made on a contract level (i.e. for the contract as a whole) and thus an onerous contract obligation should only be recognized as a liability if the whole contract or the undelivered performance obligations all together will result in a loss. FAR believes that testing individual performance obligations will not result in meaningful information, because the onerous test would often require the recognition of a loss at a contract inception for loss-making performance obligations even though the contract as a whole is expected to be profitable. Test at contract level would result in providing more useful performance information. FAR does not think that the arguments in paragraph BC 207- 210 of the Basis for Conclusions are convincing. FAR still has the same opinion as in the first ED Q9.

FAR also believes that the onerous test should cover all contracts in the standard, not only contracts that satisfy obligations over time and not only contracts that are satisfied over more than one year. The onerous test has to cover all contracts. Therefore, FAR believes that the standard Revenue from Contracts with Customers should not include paragraphs related to onerous contracts accounting, instead there should be a reference to IAS 37. This will lead to consistent rules for all onerous contracts.

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 recognized 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.

FAR does not believe that the proposed additional disclosures would benefit users. FAR is afraid that this would clutter interim reports. FAR concurs with the alternative view of Jan Engström and questions whether the benefits to users justify the cost to provide this information. FAR simply does not see the benefits from all of these disclosures. The reliability of information about orders will not be sufficient when the contracts are renegotiated as conditions change. The reconciliation of opening and closing balances is not very useful. FAR does however see some benefit from the requirements in paragraphs 114 and 115 (disaggregation of revenue).

FAR does not consider the list of specific disclosure requirements proposed for interim reports to be in accordance with the principles underlying IAS 34. FAR believes that the existing approach to disclosures in IAS 34 strikes the right balance between requiring information that is relevant to users and the costs to preparers. FAR is concerned that increasing the number of specific requirements would set a precedent that could lead to excessively detailed and unbalanced disclosure requirements for interim reporting.

As FAR expressed in the comment letter on ED 1, overall FAR agrees with the proposed disclosure *objectives* set out in ED 2. However, FAR is still not convinced by the arguments provided by the Board that all rather detailed disclosure requirements should be forwarded into a final standard. Therefore, FAR disagrees with the proposed disclosure requirements and believes FAR's response to question 10-12 in the comment letter sent to you on 22nd October 2010 is still valid. For convenience, FAR has copied the response below:

Overall, FAR agrees with the proposed disclosure objectives. However, FAR is not convinced that this principle-based approach has been consistently followed in the proposed disclosure requirements. For instance, there are significantly more disclosures than currently required which has a cost implication and it may also be questionable whether it actually provides more decision useful information for users of financial statements. Further outreach may be required, especially amongst preparers, to evaluate the impact for them. Practical challenges are expected for more complex businesses. The proposed disclosure requirements will be very onerous and difficult to provide, for instance paragraph 75.

FAR suggests that the focus should be on a disclosure framework that is effective and efficient, rather than just an increase in the level of details to be disclosed. The Boards need to clarify the level of granularity required and level of aggregation allowed in order to achieve a meaningful disclosure (e.g. defining certain types of contracts overall, per business line, reportable segment or others).

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?

FAR agrees with the proposed requirements. FAR recommends that the same control and measurement requirements for both revenue and gains or losses are used.