PRE - 003/12

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Email: commentletters@ifrs.org

Subject: Exposure Draft (ED/2011/6) on Revenue from Contracts with Customers

Dear Sir/Madam,

The ABRASCA - Brazilian Association of Publicly Held Companies - welcomes the opportunity to comment on the Exposure Draft named Revenue from Contracts with Customers.

We are an association which represents all the listed companies in Brazil engaged, in this matter, in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

This response summarizes the views of the public companies members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter.

If you have any questions about our comments, please contact the following email: alexandre@abrasca.org.br .

Yours sincerely,

Antonio D.C. Castro

President

ABRASCA – Associação Brasileira das Companhias Abertas

Recognition of revenue

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?

Comments on Question 1

We agree with the proposal and suggest maintaining the two paragraphs 35 and 36, as in the case of real estate developers it reflects the essence of the business, especially, the items 35 (a) and (b).

We believe therefore that the assumptions used to transfer control of products and services meet fully the essence of that business, as described on the following example:

EXAMPLE - SALE OF AN APARTMENT UNIT

To better illustrate the understanding described above, we prepared an example of a typical sale of an apartment unit, similarly to **Example** of the Exposure Draft, currently in public hearing:

"The entity develops and performs the launching of a vertical building project. with sales of the units before the beginning of the construction, i.e., off-plan. The entity (real estate developer) at this point, is still the owner of a piece of land and of a construction project, which will be developed in such land. The units (apartments) are sold to clients by means of a purchase and sale agreement, which is irreversible and irretrievable. As from the moment of sale and signature of the agreement, the unit is no longer available to the real estate developer, and the related risks and benefits are transferred to the purchaser. The installments paid by the clients to the real estate developer, whether with their own resources or through bank financing arrangements, during the period of launching and construction of the project, are used by the real estate developer directly for costing of the construction. The purchase and sale agreement guarantees the purchaser control over the apartment, since, as mentioned above, the property could be sold (disposed of) by the purchaser after the agreement has been signed, in the applicable market. The unit does not need to be physically ready. The legal guarantee is the agreement, and the purchaser has control thereover as soon as the agreement is signed. During the construction period, the purchaser may modify the project of his unit (for example, floor, color etc.), provided the common project (building structure) is not changed and the deadline is not impacted. In such example, the purchaser obtains control as from the execution of the purchase and sale agreement, therefore before the unit is physically ready. Consequently, in this example, the client obtains control over the unit upon execution of the agreement, becoming the owner of an undivided interest in the land and future constructions therein. as the construction work takes place. Thus, the obligation of the real estate

developer is completed as it constructs the sold unit. The client also obtains control over the unit, irrespective of its completion."

The above example clearly illustrates the ability of the purcheser to gain control and reap the benefits of well over the construction of the asset.

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?

Comments on Question 2

Although we agreed with the first proposal for treatment of the customer's credit risk contained in the ED issued in 2010, we believe that the current model is also an appropriate alternative, once the concept proposed in the revised ED is not conflicting with the previous one, which classified the provision for credit risk, since both suggest that the value should not be classified in the expenses group, but in the net sales revenue group.

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?

Comments on Question 3

We agree that there should be a limitation for variable consideration recognition in case of a satisfied performance obligation, in view of past experience, duly adjusted by the situations observable and applicable to the contract under analysis. We suggest that the Boards consider including specific guidance so that the receivables from variable consideration are timely revised as to their realization. **COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS**

Although we agree with the concept set out in paragraph 85, we do not understand the reason why the Boards emphasized the specific treatment to be given to the intellectual property licenses. In light of the concepts set forth in paragraphs 81 to 84, it seems to be clear the treatment that should be given in these cases and, therefore, we suggest that the Boards consider removing paragraph 85 from the final pronouncement, since it may be incorrectly inferred that it applies only to this type of transaction.

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?

Comments on Question 4

While the model proposed in the ED on revenue recognition is based on allocation of selling price to each performance obligation, the criterion to recognize an onerous liability at the level of each obligation may be inappropriate in certain circumstances. For example, if an entity strategically sets the price for a given obligation below the transaction price, but can strategically recover this loss in other obligations of the same contract, it does not seem reasonable to recognize an onerous liability for such contract, provided that the obligations may be combined.

Also, we believe that the one-year deadline set to satisfy a performance obligation might not be appropriate in all circumstances. If there is, for example, an onerous liability in a contract executed in November to be effective for 11 months, we believe it would be relevant to recognize a liability of this transaction in the financial statement for the fiscal year ended December.

Accordingly, we suggest that the Boards set no minimum limit so that the financial statements preparer can consider the period for assessment of the onerous liabilities which are significant for their needs of financial information preparation (monthly, bi-monthly, quarterly, semi-annually or, at maximum at each fiscal year end).

COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS

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 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 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.

Comments on Question 5

We agree with the proposal that a financial statement user has as many pieces of relevant information as possible available for the analysis of the nature, amount, term and uncertainty as regards revenue and cash flows from contracts with customers, however we believe that the cost benefit to obtain such information should also be taken into consideration.

We believe that the proposal set out in IAS 34 – Interim Financial Reporting and ASC 270 lies in that the objective interim information supplements the information disclosed at year end and reports on new and significant contracts won and on significant changes in judgment on contracts, e.g. variation of estimates, involving the amounts of variable revenues or performance obligations not satisfied. Accordingly, one rather feels that the disclosures required by paragraphs 117, 128, 119-121 and 122-123 would be out of the interim financial statement concept, given the complexity and related costs.

Similarly, interim information about publicly-help companies in Brazil should be filed no later than 45 days as from the quarter end date, which might impair the disclosure of such complex information.

As regards the requirement set out in paragraph 114 on disaggregation of revenue, there is apparently an overlapping between IFRS 8 and ASC 280 as segments are concerned. We suggest that the Boards analyze and reconcile the disclosures required in the pronouncements on segments and revenue to avoid disclosures in duplicate. **COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS**

Accordingly, we understand that paragraphs 109-130 of the ED trend to be treated by the parties who apply them as a standard list of obligatory disclosures, which may lead entities to no longer evaluate how significant the disclosure is. For example, a retail chain may not have onerous contracts. Meeting the IFRS core purpose of requiring disclosures based on principles, discussing the idea of summarizing the disclosures included in the financial statements, the Boards might consider including a clear mention that the entities should evaluate the disclosures significant for their real economic scenario.

While this question concerns the required disclosure of interim financial statements, we point out that the disclosure rules set forth in the ED, even if applied to the annual financial statements, are apparently excessive, since in most of cases the costs to obtain all required information are high, with only a few benefits to the information users. We believe that the Boards should require the applying parties to use the relevance and faithful representation principles to guide their appropriate disclosure. Finally, we emphasize that in Brazil the annual financial statements of the publicly-held entities and of unlisted corporations should be published in wide circulation newspapers, which is a high cost for the entities.

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 derecognize the asset, and (b) the proposed measurement requirements 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 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?

Comments on Question 6

We agree that the revenue recognition model should also be applied to the sale of non-financial assets (with the related considerations about contractual definition, invoiced price, transfer of control), but we understand that the specific standards relating to fixed assets, for instance, should be addressed by specific pronouncements which should be revised to include the concepts set forth in this ED. **COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS**

OTHER MATTERS

We have taken the liberty of requesting the Boards to analyze and comment also other aspects not included in the questions asked in the ED circulated by you:

1) Definition of revenue included in Glossary A:

Revenue is defined in the ED as that "arising in the course of an entity's ordinary activities."

In its turn, income is defined as "increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants."

Revenue is defined in IAS 18 as "the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants."

Although the definition of revenue in the ED is in line with the conceptual structure, one rather feels that revenue is the net, and not gross, increase in the entity's economic benefits, as defined in IAS 18. We suggest that the Boards revise this terminology for semantic purposes, maintaining the definition of the IAS 18 mentioned above.

2) Paragraph 10:

Paragraph 10 excludes from the ED scope the contracts not entered with a customer, e.g. an collaborator or partner. We suggest that the Boards define, in these latter cases, what is the revenue recognition criterion to be adopted, or clearly define that, if the transaction conditions are similar to those of an arm's length transaction, the pronouncement itself would be applicable.

3) Paragraph 35 (b) (iii):

It is mentioned that "the entity has a right to payment for performance". In some jurisdictions, including Brazil, the term "payment" is interpreted as an obligation to pay, thus better understood as "receipt" in this specific situation. We suggest that the Boards revise this terminology so that as many jurisdictions as possible clearly understand the matter. **COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS**

4) Paragraph 60:

The paragraph mentions that "as a practical expedient, an entity need not adjust the promised amount of consideration to reflect the time value of money if the entity expects at contract inception that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less." We suggest that the Boards consider revising this practical expedient of setting one year for requiring the adjustment of time value of money, similar to IAS 37-Provisions, Contingent Liabilities and Contingent Assets, which does not set a time to recognize a liability, or IAS 11 itself, as onerous contracts are concerned. In some jurisdictions with high inflation indexes and eventual high interest rates, this period may not be significant from the economic viewpoint. Although the effect of time value of money may not significantly affect the entity's equity, there are often significant effects on captions or units of account such as financial results and revenues in the income statement and accordingly certain key performance indicators (e.g.: operating income) currently used by preparers, analysts and investors.

5) Paragraph 63:

The paragraph mentions that, if the entity is not in a position to reasonably estimate the fair value of non-monetary considerations, the entity should indirectly estimate the consideration by reference to the individual sale price of the products or services used in exchange. We suggest that the Boards better define the expression "reasonably estimated" to avoid inconsistencies in the application of this concept or eliminate the term "reasonably" from the final pronouncement, since the estimate concept is already clear for those applying the standard.

6) Paragraph 94

Some applicants may challenge the capitalization of incremental costs to obtain a contract, on the grounds that such costs should be immediately expensed, since they do not comply with the concepts of IAS 38 – Intangible assets, or similarly to the procedures adopted for costs of transaction under IFRS 3 – Business Combinations. If the Boards decide to keep the proposal included in the ED, we suggest giving more examples of situations in which incremental costs can be capitalized. The example given in the ED on commissions on sales may lead to believe that only incremental costs linked to obtained contracts can be capitalized, however not maintaining the costs being incurred to obtain a contract. Of course, we understand that costs incurred or being incurred with contracts not obtained or whose likelihood of favorable outcome is low must be immediately expensed. **COMMENTS TO THE EXPOSURE DRAFT - REVENUE FROM CONTRACTS WITH CUSTOMERS**

7) Reference to the title of ED – Revenue from Contracts with Customers

Although it is intuitive why the Boards titled the pronouncement "Revenue from Contracts with Customers", we suggest that the Board clearly include in the final pronouncement the reason for having renamed the pronouncement "Revenue from Contracts with Customers", instead of keeping the IAS 18 title "Revenue" or the first EDs title "Revenue recognition".

We consider relevant to be explored by the Boards in a final document or by any other appropriate means the reasons for this change in the title of the revised ED: it is not clear which is the message behind the change in the name of the first ED, "Revenue Recognition", to "Revenue from Contracts with Customers"; it is certainly not a trivial modification and we believe that the Boards wanted to convey a message to stakeholders, but we fail to understand which it is and would greatly appreciate it is clarified by the Boards for the sake of sound implementation of the future standard.