Siemens AG, CF R, Wittelsbacherplatz 2, 80333 Muenchen

International Accounting Standards Board Mr Hans Hoogervorst 30 Cannon Steet London, EC4M 6XH United Kingdom

Name Dr. Jochen Schmitz Department

CF R

+49 (89) 636-36460 Telephone +49 (89) 636-58005 Fax

jochen.schmitz@siemens.com F-mail

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### Siemens AG's response to the IASB revised Exposure Draft "Revenue from Contracts with **Customers**"

Dear Mr Hoogervorst,

Siemens appreciates the opportunity to respond to the proposals set out in the revised Exposure Draft "Revenue from Contracts with Customers" issued by the IASB on November 14, 2011 (the Re-ED). As the recognition of revenue (together with the realisation of allocated costs) provides the most relevant information about an entity's performance, it is the key area in external but also management reporting as well as controlling. Therefore it is of utmost importance that the accounting principles in a final standard provide relevant information to users of financial statements.

We appreciate the significant changes included in the Re-ED compared to the original Exposure Draft in order to adequately reflect the characteristics of customer-specific construction contracts. We believe that the Re-ED presents a significant improvement compared to the proposed guidance in the Exposure Draft. In particular, the introduction of the "performance obligation satisfied over time" concept and the concept to bundle goods or services to a single performance obligation, to the extent applicable, will allow companies to present decision-useful information about customer-specific construction contracts.

However, we encourage the Board to reconsider in particular the following issues in its redeliberations:

- We do not concur with the intended scope and the mechanics of the onerous test. Hence, we recommend revisiting the following proposals: (1) implementation of the onerous test on the level of performance obligations, (2) the approach of determining whether a transaction is beneficial for an entity and (3) the limitation of the onerous test to performance obligations satisfied over a period of time greater than one year.
- We think the creation of a separate line item adjacent to revenue to reflect credit risk associated with receivables does not provide additional information that is useful for users of financial statements. Sufficient information about customer credit risks is included in the disclosures according to IFRS 7 and IFRS 9. We recommend maintaining the current presentation and disclosure requirements.
- In our view, the proposed disclosure requirements are excessive and do not appropriately balance the costs for preparers and benefits for users. Further, we think that not all of those requirements

Siemens AG Corporate Finance Management: Joe Kaeser Wittelsbacherplatz 2 80333 Muenchen

Tel.: +49 (89) 636 00 Fax: +49 (89) 636 34242

Siemens Aktiengesellschaft: Chairman of the Supervisory Board: Gerhard Cromme; Managing Board: Peter Loescher, Chairman, President and Chief Executive Officer; Roland Busch, Brigitte Ederer, Klaus Helmrich, Joe Kaeser, Barbara Kux, Hermann Requardt, Siegfried Russwurm, Peter Y. Solmssen, Michael Suess Registered offices: Berlin and Munich, Germany; Commercial registries: Berlin Charlottenburg, HRB 12300, Munich, HRB 6684 WEEE-Reg.-No. DE 23691322

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contribute to the objective to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Therefore, we urge the Board to significantly reduce the proposed disclosure requirements.

In addition, we think that clarification particularly on the following issues would help constituents in applying any new guidance and thereby, foster a consistent application:

- We urge the Board to provide more guidance accompanying the definition of variable consideration.
   In particular, the proposed guidance could be misinterpreted in case of loss leader contracts, notably contracts where only the customer has enforceable rights but not the entity.
- In principle, we agree with the retrospective application proposed in the Re-ED but more practical expedients will be necessary to reduce the effort of **transition**.

Since the new standard may have pervasive effects on the financial statements we believe that the **effective date** should be set so as to allow for at least a one year preparation period between the issuance of the final standard and the beginning of the first year of comparative figures to be presented. We therefore think that the effective date should be three years from the publication of the standard.

In the first part of our comment letter we provide remarks on our key concerns not covered by the specific questions in the Re-ED. These remarks need to be read in connection with our responses to the specific questions raised in the Re-ED, outlined in the second part of our letter.

Should you have any questions or wish to discuss any of the issues in more detail please do not hesitate to contact Nikolaus Starbatty (nikolaus.starbatty@siemens.com, phone: +49 89 636 36371).

Sincerely yours,

Siemens Aktiengesellschaft

sgd. ppa. Dr. Jochen Schmitz Corporate Vice President and Controller sgd. ppa. Dr. Elisabeth Schmalfuß Head of Accounting and Controlling Policies

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#### Part 1 - Additional remarks from Siemens

#### Loss leader contracts

We generally agree with the proposal to include variable consideration into the transaction price according to paragraphs 50 and 52.

Nevertheless we recommend giving more guidance accompanying the definition of variable consideration. In particular, the proposed guidance could be misinterpreted and therefore result in inconsistent application. This applies to contracts where it is business practice not to enforce penalties relating to breaches of contract by the customer and contracts where certain parts cannot be enforced. We direct the Board's attention to contracts where only the customer has enforceable rights but not the entity, illustrated in the following example.

#### – Example:

The following example includes elements within the scope of the new revenue recognition standard and elements within the scope of the new leasing standard. We emphasise that since the two standards are highly interrelated a close coordination between the projects is inevitable in order to avoid inconsistencies when applying the potential new standards.

In the healthcare industry business models are common where the customer receives the right to use a diagnostic instrument for a specified period of time (leasing). The instrument can only be used with specific reagents that only the producer of the instrument can provide for. The instrument will be delivered to the customer free of charge, including maintenance service. The related contract determines a minimum amount of reagents that the customer shall procure from the entity over the contract term for a fixed price. The minimum reagent sales in the contract are sometimes not legally enforceable. In addition, the contract may include a penalty clause if the customer's purchases do not cover for the minimum amount, but according to business practice the penalty payment will not be enforced.

In our view, a contract for the reagent sale exists (before the customer has actually purchased reagents) according to paragraphs 12 to 15 and BC35, since at least the customer has enforceable rights to purchase reagents. Leasing, maintenance and each reagent sale create different performance obligations according to paragraph 28 a) because the entity regularly sells these items separately. Reading paragraph BC129, we must conclude that from the entity's perspective the future sales of reagents are the result of the customer exercising its options to purchase reagents and therefore it seems that the boards' intention was not to include such sales into the transaction price.

Not including the expected sales into the transaction price would lead to a transaction price of nil at contract inception. This could result in a day one loss for the maintenance service according to paragraphs 86 and 87. Additionally, each reagent sale results in a change in transaction price because only actual sales of reagents affect the transaction price. According to paragraphs 77 et seq. the allocation of the transaction price shall be done on the same basis as at contract inception. Since the transaction price at contract inception was nil the fair value allocation at this time would have allocated the transaction price only to the performance obligations leasing and service. Therefore it will be difficult to apply the guidance of paragraph 78 in this case.

In our view, applying the proposed guidance to the example does not reflect the economics of the underlying contract. This is because the expected sales of reagents form an integral part in calculating the business case for the whole arrangement. Stated differently, would the entity not expect the customer to purchase enough reagents would it not enter into the contract with the customer. Since the legal contract and the business objective in such loss leader arrangements may differ, it is consistent with the objectives of the Re-ED to include the expected sales of reagents as variable consideration in the transaction price even if they are not enforceable by the seller or will not be enforced according to business practice.

We therefore urge the Board to clarify that expected sales are included into the transaction price at contract inception.

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### Measuring progress towards complete satisfaction of a performance obligation

For performance obligations satisfied over time revenue should be recognised in a way that "depict[s] the transfer of control of goods or services to the customer – that is, to depict an entity's performance" (paragraph 38). We agree with this principle, but we would like to highlight that in some situations the perspective of an entity and that of the customer regarding the transfer of goods and services may differ.

The following example illustrates this problem. We intentionally use a simple example that includes performance obligations satisfied at a point in time, although we are aware that paragraph 38 relates to performance obligations satisfied over time.

Consider a coffee machine that can only be used in combination with specified capsules. Coffee machine and capsules are only produced by one entity and both represent in our view separate performance obligations as they are regularly sold separately. The objective of a customer when buying the machine and the capsules is to obtain coffee. Hence, in the customer's view, a transfer of goods and services may only occur when he makes a coffee. Instead, the entity's perspective may be that it transfers goods and services each time when the entity sells a coffee machine and every time a customer buys capsules.

Therefore, we would appreciate a clarification by the Board on this issue. In situations where the customer's perspective would diverge from the entity's perspective with regard to the transfer of goods and services for measuring progress towards complete satisfaction of a performance obligation, we recommend that an entity's perspective should prevail, considering in particular that an entity will hardly be able to determine the actual customer's perspective in each transaction.

#### Deliveries from third party suppliers

### Paragraph 46 states:

"When applying an input method to a separate performance obligation that includes goods that the customer obtains control of significantly before receiving services related to those goods, the best depiction of the entity's performance may be for the entity to recognise revenue for the transferred goods in an amount equal to the costs of those goods if both of the following conditions are present at contract inception:

- (a) the cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation; and
- (b) the entity procures the goods from another entity and is not significantly involved in designing and manufacturing the goods."

While acknowledging the boards' intention to prevent an overstatement of revenue and margin (see paragraph BC122), we believe this paragraph is not consistent with the proposed approach of the Re-ED. In our view, it is not reasonable to account differently for goods and services within a single performance obligation. This disconnects external reporting from internal management, controlling and reporting perspective which attributes a single composite margin to the related performance obligation. Additionally, paragraph 46 seems to be applicable only in exceptional cases. Hence, we consider it incompatible with a principle-based approach to include such a specific regulation within the Re-ED.

Therefore, in order to prevent disconnecting external from internal reporting and in order to avoid the inclusion of rules-based regulation, we consider paragraph 46 as dispensable. Alternatively, if the Board intends to retain the guidance on this exceptional case, we recommend transferring the paragraph to the Basis for Conclusion.

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### Recognition of contract liabilities

According to paragraph 105, an entity recognises a contract liability if either the customer pays or an amount of consideration is due before the entity performs. In our view, a contract liability should not be recognised when the amount of consideration is due but only when the customer actually has paid. This would be consistent with the current approach in IFRSs. We do not see decision-useful information that results from the proposed approach. Furthermore, a change will trigger modifications to the IT systems of preparers and thereby result in significant costs.

However, if the paragraph remains unchanged we appreciate further guidance on the point in time at which a consideration is "due". It should be clarified whether a contract liability is recognised when an entity has an unconditional right to payment (correspondingly to a receivable) or, alternatively, when the payment target elapses.

#### **Disclosures**

In fact, information on revenue is of high relevance for the users of financial statements. However, we believe that the proposed disclosure requirements are excessive and do not appropriately balance the costs for preparers and benefits for users. While acknowledging the boards' objective to help users of financial statements understanding the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, in our view, the proposed disclosure requirements partly do not contribute to this objective, as outlined in detail in the following:

#### Disaggregation of revenue

We agree with the boards' view that the basis for meaningfully disaggregating revenue will not be uniform. Hence, we welcome the boards' intention to introduce a flexible approach on disaggregation of revenue that allows appropriately responding to the information requirements of the users of financial statements. However, we do not believe disaggregating revenue is meaningful when it only includes revenue in the scope of the Re-ED, thereby ignoring revenue from lease and insurance contracts as well as from contractual rights or obligations within the scope of IFRS 9 *Financial Instruments* to which the Re-ED does not apply to (paragraphs 9(a) to 9(c)). Instead we are concerned that such a disaggregation may even confuse users as it cannot be reconciled to the amount presented as revenue in the statement of income. In our opinion, any final standard should allow disaggregating revenue based on operating segments because this results in decision useful information to users of financial statements. Additionally, such disclosure avoids any conflict with information required by IFRS 8 *Operating segments*.

#### Reconciliation of contract balances

According to paragraph BC254, to achieve the boards' overall objective on disclosure requirements - to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers (paragraph 109) - users need to understand the relationship between the revenue recognised in a reporting period and changes in the balances of the entity's contract assets and contract liabilities. Additionally, paragraph BC258 outlines that users suggested that such reconciliations would be especially useful for industries or entities with long-term contracts.

We disagree with this view. Typically, we assume, users want to understand the relationship between revenue and the movements of contract balances primarily in order to be able to predict the future performance of an entity, especially the nature, amount, timing and uncertainty of future revenue and cash flows. However, contract assets and liabilities depend, beside the transfer of goods and services, on the agreed payments terms. Payment terms in construction contracts or other long-term contracts are regularly not standardised but the result of individual negotiations between an entity and its customer. In

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our experience no general pattern exists whether the payments from a contract occur before or after the related revenue is recognised. Hence, the development of contract assets and liabilities in the past is not predictive for their development in future periods.

The proposed reconciliations provide detailed historical and current information. However, users are typically interested in historical and current information about an entity insofar they are able to predict an entity's future performance by analysing the information provided. Given the limited relevance of the proposed reconciliations in assessing an entity's future performance the significant costs imposed on preparers for these reconciliations outweigh by far any potential benefits on behalf of the users.

### Remaining performance obligations

We support the boards' decision to remove the requirement to disclose in pre-defined time bands the expected timing of satisfying the remaining performance obligations. The proposed option to provide quantitative as well as qualitative information allows the necessary flexibility to adapt to the information requirements of the users of financial statements.

However, the rationale for limiting the disclosure requirement to performance obligations from contracts with an original expected duration of more than one year is not clear to us. We do not regard this limitation as a practical expedient as intended by the boards. In contrast, this limitation will probably result in additional costs and practicability issues. This is because companies typically focus on the remaining term of an outstanding contract but not on the original duration. Hence, this information is currently not available and needs to be collected additionally.

Instead we recommend including disclosure requirements on the well established figure reflecting order backlog. This figure is a good basis for estimating future cash flows and is generally accepted by the financial market. We acknowledge the boards' concern regarding the disclosure of information on the order backlog expressed in paragraph BC264 stating that this may include orders on contracts that are not in the scope of the Re-ED. However, in our view this issue could be addressed by defining order backlog as all remaining performance obligations at the end of a reporting period.

Finally, one could take the view that disclosing forward-looking information in the notes is not within the scope of financial statements. Financial statements, including notes, should represent faithful information about an entity's performance. Forward-looking disclosures may lack verifiability as defined in the Framework, hence, a faithful representation may not be ensured if they are required to be disclosed. In general, forward-looking information is presented within a management commentary.

### Onerous performance obligations

In our view, the disclosure requirements should only require an entity to provide qualitative information on onerous performance obligations to the extent that they are significant to the entity. We do not see that the benefit of a detailed reconciliation to users justifies the associated cost for the preparers.

### Conclusion

In times when constituents ask standard setters to reduce disclosure requirements we are not convinced that creating additional disclosures for revenue recognition is adequate. Therefore, we urge the Board to significantly decrease the proposed disclosure requirements. We recommend developing a comprehensive disclosure framework that will ensure the provision of relevant and adequate information in financial statements.

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#### **Transition**

In principle, we agree with the retrospective application proposed in the Re-ED. Siemens has a large number of ongoing contracts including a high portion of long-term construction and service contracts with highly individualised conditions. Contract durations are up to 10 years, sometimes even up to 40 years (e.g. long-term maintenance contracts). A prospective application would therefore lead to applying two different accounting models for more than 10 years.

We take the view that more practical expedients will be necessary to reduce the very high costs of first time application. Siemens and other entities filing Form 20-F must present comparative figures for a minimum of two prior reporting periods. Therefore, disclosure requirements for periods presented before the date of initial application should be further reduced. In particular, reconciling the opening to the closing balance of contract assets and liabilities might not provide comparable information considering the existing practical expedients (e.g. not to restate contracts completed before the date of initial application that begin and end within the same annual reporting period). However, eliminating the existing practical expedients would in our view not be an option taking the high costs of implementation into account.

In general, we disagree with the proposal laid out in paragraph 69 to present the measurement of receivables that do not have a significant financing component in a separate line item adjacent to the revenue line item (see Question 2). Currently there is no separation of receivables that have a significant financing component. If the separate presentation were included in the final standard a practical expedient to include the measurement of receivables that have a significant financing component in the separate line item for receivables, existing at the time of initial application of the new standard, would help to reduce the effort of transition.

#### **Effective Date**

Since the new standard may have pervasive effects on the financial statements we believe that the effective date should be postponed so as to have at least a one year preparation period between the issuance of the final standard and the beginning of the first year of comparative figures to be presented. We therefore think that the effective date should be three years from the publication of the standard.

There is a high interdependency between the new revenue recognition standard and the new leasing standard. This requires a close coordination in developing the related standards in order to avoid inconsistencies when applying the standards. Therefore we strongly recommend aligning the effective dates of both standards.

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#### Part 2 - Questions raised in the Re-ED

**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?

We welcome the introduction of specific criteria for determining when a performance obligation is satisfied over time. In our view, the criteria in paragraph 35 are sensible and will result in a reasonable depiction of the performance of an entity. Paragraph 35 (a) provides an intuitive and easily applicable criterion especially with regard to the construction of assets on the customer's property. Additionally, the criteria in paragraph 35 (b) will ensure that the pattern of transfer of goods and services in situations in which the asset is not controlled by the customer as defined by paragraph 35 (a) is reflected appropriately when no alternative use for the asset exists. Furthermore, we appreciate that paragraph 36 clarifies that contractual and practical limitations shall be considered when assessing whether an asset has an alternative use to an entity.

**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?

We welcome the boards' decision to address a customer's credit risk outside the revenue line item. However, we do not concur with the proposal to present allowances for any expected impairment loss in a separate line item adjacent to revenue due to the following reasons:

- Entities outside the financial services business, typically, do not address a customer's credit risk by
  adjusting the transaction price. Instead, they consider credit risk in the payment terms they offer to a
  customer (e.g. advance payments, collateral and guarantees). Thus, in our opinion a separate line
  item adjacent to the revenue line does not reflect how an entity considers a customer's credit risk.
- We believe there could be a potential conflict with the impairment model that is discussed for the
  purposes of IFRS 9 with regard to the classification of subsequent changes to the initial assessment.
  According to this model subsequent impairment or reversal of impairment of all financial instruments
  measured at amortised cost would be recognised together as a separate line item in the statement of
  comprehensive income, while according to the Re-ED subsequent changes for receivables would be
  recognised in the line item adjacent to revenue.
- According to paragraph 69, only for receivables that do not have a significant financing component
  the difference between measurement of the receivable in accordance with IFRS 9 and the
  corresponding amount of revenue recognised shall be presented as a separate line item adjacent to
  the revenue line item. Such a differentiation of impairment on receivables would not be in line with
  the internal management perspective on customer's credit risk.
- Finally, such a separate line item adjacent to revenue creates ambiguity. Users may refer to different measures when they use the term "revenue". Some may refer to "gross revenue" when they use the term "revenue", others may refer to "revenue net of valuation allowances".

Information about customer credit risks is included in the disclosures according to IFRS 7 and IFRS 9. Thus, we think the creation of a separate line item does not provide additional information that is useful for users of financial statements. We recommend keeping the current accounting and presentation to reflect customer's credit risk.

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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?

We appreciate the intention of the Re-ED to constrain the amount of revenue recognised arising from variable consideration in order to avoid an overstatement or premature recognition of revenue. Based on our current assessment of the Re-ED we consider the criteria in paragraph 81 as well as the indicators of whether an entity's experience is predictive in paragraph 82 as appropriate.

Additionally, we welcome that, according to paragraph 83, the presence of one of the indicators in paragraph 82 does not necessarily mean that an entity's experience is not predictive but a transaction has to be considered in its entirety. In our view this will avoid a 'tick the box'-approach when applying these indicators.

**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?

We disagree with the proposed scope of the onerous test. In our view, onerous tests on performance obligation level are conceptually not sound. Instead the onerous test should be performed on contract level. Further, we believe the transaction price allocated to a performance obligation is not appropriate for determining whether a transaction is beneficial for an entity. In addition, limiting the applicability of the onerous test to performance obligations satisfied over a period of time greater than one year seems to be conceptually questionable.

### Level of the onerous test

We believe that it is counter-intuitive to recognise loss provisions for separate performance obligations in an entity's financial statements when a contract with a customer is still profit-generating in total. This might result in recognising loss provisions for parts of a contract (i.e. on the level of the single performance obligation) even if the whole contract is not onerous. We think this does not provide relevant information to users of financial statements. In addition, such loss provisions are not consistent with the Framework as a liability would be recognised even if an outflow of resources embodying economic benefits is not expected. This does not lead to a true and fair presentation of an entity's financial statements as such losses are fictitious.

In addition, we point out that the onerous test, in our view, is not appropriately implemented in the Re-ED. When applying the onerous test an entity compares the transaction price allocated to a performance obligation with the lowest cost of settling the performance obligation, i.e. the lower of the costs that relate directly to satisfying the performance obligation and the amount an entity would pay to exit the performance obligation. However, because of contractual limitations an entity typically cannot exit from a single performance obligation but only from the whole contract. That means the costs to exit a performance obligation equal the costs to exit the whole contract. Comparing these costs to the costs that relate directly to satisfying a performance obligation would be inappropriate. Additionally, the respective contract may also include profitable performance obligations from which an entity would also

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have to exit. If the contract as a whole is profitable it is unlikely that an entity would cancel the contract only to exit from a single onerous performance obligation. Even assuming that an entity would actually exit a profitable contract it is not clear to us whether the loss of profit in case of a termination of the contract is included in the costs to exit a performance obligation. These inconsistencies could be remedied by carrying out the onerous test on the contract level.

### Transaction price vs Expected benefits

According to paragraph 87 the amount of the transaction price allocated to a performance obligation should be compared to the lowest cost of settling a performance obligation. In our view, the allocated transaction price does not represent the right comparable figure. Instead the *lowest cost of settling a performance obligation or contract* should be compared with the *expected benefits to be received under a contract* as currently required in an onerous test according to paragraph 68 of IAS 37 *Provisions, contingent liabilities and contingent assets.* Otherwise, some expected benefits under an arrangement with a customer are not included in the test as they are conditional on the customer's decisions (see explanations on Loss leader contracts). Nevertheless, those expected benefits are included in the business calculation. Therefore, the proposed wording of paragraph 87 may disconnect the internal management perspective from external presentation.

#### Applicability of the onerous test

Paragraph 86 limits the onerous test to performance obligations satisfied over a period of time that is greater than one year. However, it is unclear to us whether, or how, an onerous test applies to performance obligations satisfied (a) at a point in time or (b) over a period of time that is less than one year.

According to paragraph D21 of the Re-ED, IAS 37 should not be applicable to rights and obligations arising from contracts with customers within the scope of the Re-ED. In contrast, paragraph BC210 includes a reference to paragraph 31 of IAS 2 *Inventories*, thereby requiring the recognition of any loss from contracts to transfer goods to a customer at a point in time, even if the entity has not yet acquired those goods that would be recognised as inventory.

Given the reference in paragraph 31 of IAS 2 to IAS 37 for dealing with such provisions it is not clear to us which regulation prevails. Therefore, if the current concept is also part of the final standard, it should be clarified whether the exclusion of contracts in the scope of the Re-ED from IAS 37 in paragraph D21 or the cross-reference to IAS 37 via paragraph BC210 prevails.

Furthermore, we believe it is not consistent to apply the onerous test to a 13-month contract but not to an 11-month contract. Hence, economically rather insignificant differences may cause a dissimilar accounting treatment. This is especially true in cases where a project initially is expected to be completed within 11 months but due to delays is extended beyond one year. We believe this is conceptually unsound as, in particular, delayed contracts tend to become onerous. The proposed concept is even less convincing considering that performance obligations satisfied at a point in time may be subject to onerous tests according to IAS 37, as discussed in the previous paragraphs.

### Conclusion

We recommend retaining the existing approach in IAS 37 for onerous tests, because it

- a) results in information that is more relevant and decision-useful for the users of financial statements than the proposed onerous test in the Re-ED,
- b) results in a uniform approach that is applied to all forms of contracts and does not differentiate arbitrarily between performance obligations satisfied over a period of time greater than one year and other performance obligations, and
- c) is well established and generally accepted.

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**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 recognised 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.

We disagree with the majority of the proposed disclosure requirements for interim financial statements. While we agree that the provision of a disaggregation of revenue may be appropriate, if it is not limited to revenue in the scope of the Re-ED (see explanations on Disclosures), we regard the remaining proposed disclosures as not adequate for an interim financial report. In our view, the disclosure of such detailed information is not consistent with paragraph 15 of IAS 34 *Interim financial reporting* which only requires "an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period".

In our view, the significant costs of preparing this information will by far exceed the benefits to users of interim financial reports. Furthermore, the users' demand for further accelerating the time between the end of the interim period and the publication of the interim financial report conflicts to additional disclosure requirements.

Therefore, we urge the Board to significantly decrease the proposed disclosure requirements – not only for the annual reporting as mentioned previously, but also for interim financial reports. We concur with the alternative view of Mr Jan Engström in paragraph AV3 that such disclosures are inappropriate in interim financial reports without undertaking a holistic review of IAS 34. We recommend including such a holistic review of IAS 34 in an overall project to develop a comprehensive framework on disclosures.

**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?

In general, we agree with the position to apply the proposal also to non-financial assets that are not an output of an entity's ordinary activities. We do not expect any major changes due to the proposed amendments compared to our current accounting practice for the sale of such assets.

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