

International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

UK

Cc: EFRAG

Oslo, March 13, 2012

Dear Sir/Madam

## **Exposure Draft, ED/2011/6 Revenue from Contracts with Customers**

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the exposure draft Revenue from Contracts with Customers.

We welcome the revised proposal on revenue recognition. This is the second exposure draft on this topic and we acknowledge that several significant changes from the previous exposure draft have been introduced. The new criteria to determine when revenue should be recognised over time would in our view capture a far broader range of goods and services than earlier versions.

The detailed questions that the Board has asked for responses to do not include some of the significant changes from previous versions or some of the practical expedients proposed. In our view it follows from due process to give respondents an explicit possibility to respond to such changes, especially since revenue recognition is such an important topic. We have included our comments to such proposals under "other issues" after the detailed questions put forward by the IASB.

We notice that the current proposal is to a greater extent based upon the principle of "truing up" revenue due to changes occurring in measurement of the consideration received than previous proposals. Paragraph 54 in the exposure draft is visualising this concept "*An entity shall update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period.*" In our view it would in most circumstances not be meaningful and give arbitrary outcomes to present such changes as revenue, hence we believe the Board as a minimum should clarify why this is a preferred solution. As it now stands we are not able to see why the current approach in IAS 18 would not give more decision useful information. At the inception date of the contract the entity should measure the estimated fair value of the consideration to be received. This estimate would then in our view represent the best measure of the entity's revenue and changes in variable amounts after the



contract inception date should in most circumstances be presented as gain or loss and not as revenue.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal

Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

**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 agree with the proposal in paragraph 35 and 36 and believe that this would lead to more decision useful information than under the previous exposure draft. Although we favour the solution chosen currently we would ask the Board to consider whether further clarification of paragraph 35 b) (ii) and (iii) is warranted.

**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 are not in favour of a presentation which would require an entity to present a separate line item adjacent to the revenue line representing uncollectible amounts due to a customer's credit risk since we do not believe such a presentation would give rise to increased decision useful information for primary investors. We have not seen any convincing arguments brought forward in the exposure draft which advocates such a solution

We also do not agree that this standard should regulate the presentation of uncollectible amounts. We believe a principle based approach would imply that all presentation issues are dealt with in one standard and currently that is IAS 1.

**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 have some concerns with the approach chosen in paragraph 81 and paragraph 82 although we can see the merit for introducing such a threshold. We believe the underlying concept should be to measure the consideration to be received at fair value. We believe this also should apply in circumstances where the amount of consideration will be impacted by factors outside the entity's influence.



#### **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 believe that IAS 37 should regulate whether a contract is considered to be onerous or not, hence we do not support to have specific requirements related to such assessments in the revenue recognition standard itself. In addition to this we disagree with the approach chosen in the exposure draft since we believe that the assessment of whether performance obligations are onerous or not should be performed at contract level and not for each performance obligation separately. We do not believe that day 1 losses in situations where the entity is making profit on the contract to which the onerous performance obligation belongs give decision useful information.

We also have some problems to see the conceptual basis for introducing a one year threshold in order to perform an onerous test. Why should a contract lasting 359 days not be tested while a contract of 370 days should ?

We therefore recommend that the Board revokes this approach and uses the principles laid down in IAS 37 to deal with 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 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 do not believe that adding the specific requirements listed in the ED to IAS 34 would represent a principle based approach to determine the necessary disclosures in interim financial statements. If



the Board are concerned that the disclosure requirements in IAS 34 need to be improved we would prefer a separate project to address this.

The current version of IAS 34 includes a paragraph which we believe should be given greater weight in addressing disclosure requirements for interim financials; paragraph 15. This paragraph would in our view cover events and transactions, including revenue recognition issues of importance, which 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. By constantly introducing specific disclosure requirements related to new standards which are issued we believe IASB run the risk of making interim reporting a more burdensome process than necessary, and also less decision useful for primary users due to the amount of information that would be required.

Also, we ask the Board to clarify the requirements in paragraph 119 of the exposure draft. We are not able to see the conceptual merit for introducing a one year threshold for such disclosures. Either the Board believes such disclosures are important for significant contracts or such disclosures should not be mandatory.

#### **Question 6:**

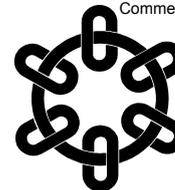
*For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements 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?*

We agree that that the proposals in the exposure draft should be applied to the transfer of non-financial assets that are not an output of an entity's ordinary activities.

#### **Other issues**

In addition to the specific questions answered above we would like to comment on the following issues;

7. With regards to the time value of money the current exposure draft includes a practical expedient which would allow entities not to discount the promised amount of consideration if the period of payment does not extend beyond a year. In our view it would be better not to include a quantitative threshold but instead clarify that discounting is not necessary if the effect would be insignificant.
8. The exposure draft includes specific guidance with regards to capitalisation and amortisation of certain contract costs given that certain criteria are met. This represents a significant change from the previous exposure draft which proposed that all contract costs should be expensed as incurred (unless it was in the scope of another IFRS). Although we do not have any strong views



as to whether such costs should be eligible for capitalisation or not we do not believe that requirements and criteria with regards to capitalisation of contract costs should be included in this standard. Whether such costs would qualify as an asset or not should be dealt with in IAS 38.

9. We would also like to draw the Board's attention to the extensive use of the word "reasonably" throughout the exposure draft. We are not convinced that it is clear to constituents or others reading the standard what the content of "reasonably" is at all times. The exposure draft currently includes reasonably estimate, reasonably assured, reasonably expects, reasonably measure, reasonably available and reasonably possible.
10. We question whether paragraph 9 e) and paragraph 10 are both necessary, hence we would ask the Board to consider whether these paragraphs should be amended in order to avoid repetition.