



## Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	28 June 2011
<b>From:</b>	<b>Nikole Gyles and Kala Kandiah</b>	<b>Agenda Item:</b>	13.1
<b>Subject:</b>	<b>Revenue recognition – project update</b>	<b>File:</b>	

### Action

Receive an update on the recent tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on *Revenue from Contracts with Customers* and consider if there are any issues that need to be raised with the IASB on those tentative decisions.

### Staff recommendations

- (a) Staff recommend that in relation to the AASB's June 2011 decision, the AASB confirms the out of session Board member agreement not to write to the IASB expressing concerns about the apparent inconsistency between the tentative decision that an entity recognises an asset for incremental costs that are expected to be recovered and are not in the scope of another Standard, and the IASB's tentative decisions on similar matters in other projects.
- (b) Staff do not consider that there are any issues that need to be raised with the IASB in relation to the tentative decisions made at the June 2011 IASB/FASB meeting.

### Question to Board members:

Do you agree with staff's recommendations?

### Background

In June 2010, the AASB issued ED 198 *Revenue from Contracts with Customers*, which incorporates the IASB's ED/2010/6 *Revenue from Contracts with Customers*. The comment period for the IASB's ED 2010/6 closed on 22 October 2010 (the comment period for AASB ED 198

closed on 24 September 2010). The IASB and FASB began redeliberating their proposals in January 2011.

The AASB wrote to the IASB in May 2011 on some of the tentative decisions made in the *Revenue Recognition* project (link to [Letter to IASB - Revenue Recognition](#)). At the June AASB meeting staff provided an update on the project incorporating tentative decisions made by the IASB up to June 2011.

This memo provides a report on the outcome of the IASB's June 2011 meeting. At the time of writing this memo, the IASB do not have any meetings scheduled, at which revenue recognition is expected to be discussed, prior to the AASB July 2011 meeting. Staff will provide a verbal update of further IASB developments should any arise prior to the July 2011 AASB meeting.

At the June 2011 IASB meeting it was indicated, in light of the tentative decision to re-expose revised proposals, that the expected target date for an IFRS is September 2012.

## **The AASB's June 2011 decision to write to the IASB**

As a result of the update provided by AASB staff at the June 2011 AASB meeting, the AASB decided to write to the IASB expressing concerns about the apparent inconsistency between the tentative decision that an entity recognises an asset for incremental costs that are expected to be recovered and are not in the scope of another Standard, and the IASB's tentative decisions on similar matters in other projects.

Subsequent to the June 2011 AASB meeting, Board members agreed out-of-session not to write to the IASB. This agreement was as a result of discussion at the June 2011 IASB/FASB meeting relating to cross cutting considerations on 'acquisition costs', in particular comparing the Revenue Recognition project and the Insurance Contracts project (June IASB/FASB meeting agenda papers 3E and 3F). The IASB (and FASB) "...tentatively decided that the acquisition costs to be included in the initial measurement of a portfolio of insurance contract should be all the direct costs that the insurer will incur in acquiring the contracts in the portfolio, and should exclude indirect costs..." (IASB daily staff Update – 14 June 2011).

In addition, the agreement was influenced by the IASB/FASB tentative decision to re-expose the revised proposals for revenue recognition (refer below).

## Tentative decisions made by IASB/FASB on the *Revenue Recognition* project – June 2011

At the joint IASB and FASB meetings held on 13-15 June 2011, the Boards made the significant tentative decision to re-expose the revenue recognition proposals. The Boards also discussed the effect of the proposed model on telecoms (and other) companies and transition requirements.

Refer to the below table for our overview of items discussed and tentative decisions made.

Issue	Overview of IASB/FASB discussions	Do the tentative decisions broadly align with AASB views?
<i>Re-exposure of proposals</i>	<ul style="list-style-type: none"> <li>• The boards agreed to re-expose their revised proposals.</li> <li>• Although there was no formal due process requirement to re-expose the proposals it was appropriate to go beyond established due process given the importance of the revenue number to all companies and the need to take all possible steps to avoid unintended consequences.</li> <li>• The boards intend to re-expose their work in the third quarter of 2011 for a comment period of 120 days.</li> </ul>	<p>Yes.</p> <p>At the April 2011 AASB meeting the AASB discussed the possible need for re-exposure on at least some of the IASB topics, perhaps in the form of a fatal flaw exposure of the final standards before AASB approval.</p> <p>AASB staff consider that the IASB tentative decision to re-expose the revised revenue recognition proposals addresses the potential concerns the AASB had in relation to sufficient due process in Australia.</p>
<i>Effect of the proposed model on telecoms (and other) companies</i>	<p>The proposed model should not be revised to address some of the concerns raised by constituents in the telecommunications industry (and other industries with similar concerns).</p> <p>Specific concerns raised by the telecommunications industry related to allocating the total transaction price between handsets and network services based on stand-alone selling price.</p>	<p>n/a</p> <p>The AASB did not comment specifically on the effect of the proposed model on telecommunications entities.</p> <p>Staff agree, in principle, with the IASB's tentative decision on the basis that the proposed model should be, to the extent possible, industry neutral.</p>
<i>Transition requirements</i>	<p>An entity should apply the revenue standard on a retrospective basis either through:</p> <p>(a) adopting a full retrospective application, or</p> <p>(b) adopting a retrospective application subject to the following reliefs to reduce the burden to preparers of transitioning to the new requirements:</p> <ul style="list-style-type: none"> <li>• not require restatement of contracts that begin and end within the same prior accounting period to be restated</li> <li>• allow the use of hindsight in estimating variable consideration</li> <li>• not require the onerous test to be performed in comparative periods but only at the effective date unless an onerous contract liability was recognised previously</li> <li>• in the first year of application not require disclosure for prior periods of the maturity analyses of remaining performance obligations.</li> </ul>	<p>In part.</p> <p>The AASB agreed with retrospective application (as proposed by the ED), but had concerns regarding the practicalities and cost of doing this for long-term contracts.</p> <p>The AASB suggested that the IASB has consistent transitional requirements for the leases and revenue recognition projects.</p> <p>AASB staff note that the IASB has not yet discussed the transitional requirements for the leases project.</p> <p>Subject to the concern noted below and any future tentative decisions made in the lease project, AASB staff agree with the tentative decisions made by the IASB.</p>

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<b>Issue</b>	<b>Overview of IASB/FASB discussions</b>	<b>Do the tentative decisions broadly align with AASB views?</b>
	If an entity adopts a retrospective application subject to any of the above reliefs, it would be required to: (a) state which reliefs have been employed by the entity (b) to the extent possible, disclose a qualitative assessment of the likely effect of applying those reliefs.	AASB staff are of the view that the qualitative assessment of the likely effect of applying the transitional relief should be subject to an impracticability override to ensure that the purpose of the relief is achieved.