9 February 2012

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
Email: standard@aasb.gov.au

Dear Kevin

ED 222 Revenue from Contracts with Customers

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the AASB's Exposure Draft Revenue from Contracts with Customers.

The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies consider the amended ED to be an improvement on the original ED. Some concerns remain however, such as the volume of disclosures required, as explained in our attached submission to the IASB, which also includes our responses to the specific IASB questions for comment.

Our response to matters on which specific comment is requested is included in the attached Appendix.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely

Alex Malley
Chief Executive Officer
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
Institute of Public Accountants

Appendix 1: Comments in response to issues noted for consideration

The AASB would particularly value comments on the following:
1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and
(b) public sector entities – including any implications for GAAP/GFS harmonisation;

Similar to our comments in our letter dated 5 October 2010, many not-for-profit and public sector entities may not be subject to the requirements outlined in this exposure draft as their revenue is not earned from contracts as defined in the ED, which requires the party who receives the payment (ie revenue) to transfer goods or services to the party who made the payment (ie the customer). The AASB will therefore be required to undertake an Australian specific project in order to address this.

2. whether, overall, the proposals would result in financial statements that would be useful to users;

Whilst the ED is an improvement to the original version, there are still some issues (as outlined in our IASB letter) that we would like the boards to address, in particular in relation to the volume of disclosures required, before we would consider that it would result in useful financial statements.

3. whether the proposals are in the best interests of the Australian economy; and

Adoption of new or revised IFRS is in the best interests of the Australian economy.

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

If the issues referred to in question 2 above are not addressed by the boards before issuing the final standard, the costs would be enormous and would far outweigh any benefits. These costs specifically relate to the burden on preparers to gather the information for the proposed extensive disclosures.

9 February 2012

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

Submission via IFRS Foundation website

Dear Hans

Comments on Exposure Draft ED/2011/6 Revenue from Contracts with Customers

Thank you for the opportunity to comment on the IASB Exposure Draft ED/2011/6 Revenue from Contracts with Customers. CPA Australia, the Institute of Chartered Accountants (the Institute) and the Institute of Public Accountants (the Joint Accounting Bodies) have considered this ED and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies consider the amended ED to be an improvement on the original ED, as it addresses some of the issues raised by respondents. There are other issues however that remain from the original ED, such as the volume of disclosures required, as well as some new issues that have arisen, which are explained in the attached Appendix. Our response to matters on which specific comment is requested is also included in the attached Appendix.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely

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Appendix : Our comments in response to the 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 are pleased to see the addition of separate criteria for determining whether control is transferred over time, as we commented that this was lacking in our submission dated 5 October 2010 to the original ED.

Whilst we agree with the proposal in paragraphs 35 and 36, we are concerned that complying with the 'alternative use' criterion may be subject to misinterpretation and therefore result in the premature recognition of revenue. Some of the commentary in paragraphs BC 92-BC94 and BC96-103 should be included as application guidance because they are useful in explaining the intended application of the three criteria in paragraph 35(b).

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?

Whilst we agree that an entity should apply the relevant financial instruments standard to account for uncollectible amounts, we strongly disagree with the proposal to require the corresponding amount to be presented adjacent to the revenue line item. This presentation issue is better dealt with as part of the current impairment of financial assets project, as it is more closely related to that project rather than the revenue recognition project. It would also allow related issues to be more appropriately dealt with, such as the unit of account to which collectability applies. Dealing with this presentation issue in the financial instruments impairment project will also ensure consistency of guidance regarding similar transactions.

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 do not agree with the proposed constraint of 'reasonably assured' because of its similarity to audit terminology. The use of this term may be misinterpreted to mean that some audit work needs to be involved in determining the appropriate amount. Further, we understand the term 'reasonably assured' is common under current US GAAP, while not a term familiar in accounting language in IFRS jurisdictions.

We disagree with the boards' reasons noted in paragraph BC201 for needing to choose another term to replace 'reasonably estimated' because variable consideration by its very nature is required to be estimated, therefore we consider the term 'reasonably estimated' to be appropriate. Other alternative terms could be 'reasonably certain' or 'reasonably probable'.

We also have concerns with the proposals in paragraphs 53-57 in relation to variable consideration, as in some instances it may be near impossible to practically implement. For example, in the telecommunications industry, millions of customer contracts may exist. Therefore difficulties will exist in estimating the variable consideration using the expected value method or the most likely amount method due to the diverse range of contracts and unpredictability of customer usage. The most appropriate amount to recognise in this situation would be the original fixed contract price with no revenue recognised for variable consideration. It is not entirely clear whether this outcome was the intention of the proposals and we therefore ask for greater clarity in relation to the variable consideration requirements in paragraphs 53-57 to assist companies in this situation to be able to implement the proposals.

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 do not agree that the onerous test should be applied at the performance obligation level because identifying each performance obligation within a contract that may be onerous is commercially irrelevant and is not aligned with the economics of how contracts are negotiated. Further, we do not agree with the boards' comments in BC 206 -207 that the unit of account should remain at the performance obligation level, as it not only disregards the feedback received from respondents, but the reasons provided are not compelling. The proposed approach is also inconsistent with IAS 37 *Provisions, Contingent Liabilities and Contingent* Assets, which applies at the contract level and not to items within a contract. The boards' decision to modify the scope instead (ie the proposal to apply the onerous test to contracts expected to be satisfied over a period greater the one year) not only introduces a bright line rule, but also does not reflect the commercial reality of long term contracts. This is inconsistent with the requirements in IAS 37 and can result in inconsistent outcomes for onerous contracts that differ in duration.
We strongly suggest that the boards reconsider their position on this issue and take into account the overwhelming feedback received from respondents on this issue that the test be performed at the contract level and remove the proposed restriction of the onerous test to contracts greater than one year.

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 agree with the proposal that an entity be required to provide these disclosures in its interim financial reports because the costs to prepare and audit that information would far outweigh any benefit to users.

Appendix : Our comments in response to the ED

Further, we note that paragraph BC273 states that these proposed disclosures are consistent with the general principles of IAS 34 *Interim Financial Reporting* and that the alternative approach to require disclosure if information changes significantly was rejected due to the judgement required in identifying what represents a significant change. The rejection of the notion of requiring disclosure wehre there are significant changes in circumstances is also inconsistent with the general approach to principles-based accounting standards.

We do not agree that these proposed disclosures are based on the general principles of IAS 34, but rather they appear to be a checklist of required disclosures. We also do not understand the reasons for the boards rejecting the alternative approach given that it is common in IFRSs for judgements to be made about whether or not something is significant. We agree with the Alternative View of Jan Engstrom that any amendments made to IAS 34 be based on a separate project on interim financial reporting.

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 with this proposal.

Other comments

Volume of disclosures
We are concerned with the excessive volume of disclosures proposed in the ED and do not agree with the boards' reasons noted in the basis for conclusions (for example paragraphs BC248, BC256 and BC259) for retaining the disclosures as they do not adequately consider the cost-benefit nor the practicality of preparers providing this information. Although the board has added paragraph 110 to highlight that immaterial information is not required to be disclosed, it is likely that in most cases the information will be material given that the subject is revenue, a material item for the majority of entities.

Paragraph BC268 indicates that disclosures relating to onerous performance obligations are consistent with those contained in IAS 37. While this may be the case the quantum of disclosure is more, it is more excessive and burdensome in the ED because the unit of account is the performance obligation and not the contract, as in IAS 37.

We ask that the boards reconsider its position on the volume of disclosures and take into account the overwhelming feedback received from preparers on this issue. This consideration could be done in conjunction with other work being done by standard setters globally on a conceptual framework for financial statements disclosure.

Contract costs
Whilst we agree with the amended proposals in relation to contract costs, we have a couple of concerns. Firstly, that further guidance is required in relation to whether the timing of when the costs are incurred affects whether or not the costs can be capitalised.

Appendix : Our comments in response to the ED

Secondly, similar to our comments in our letter dated 5 October 2010, we believe it is inappropriate to include requirements for asset recognition in a standard on revenue recognition. We also do not agree with the inclusion of an amortisation and impairment requirement in this proposed standard. These requirements should be included in more appropriate standards, such as IAS 38 *Intangible Assets* and IAS 36 *Impairment of Assets.*

Pooling of contracts
Similar to our comments in our letter dated 5 October 2010, it is important that the final standard include guidance that explains that the requirements can be applied to a pool of contracts rather than just individual contracts.

Effective date
We note the standard is not expected to be effective earlier than for annual reporting periods beginning on or after 1st January 2015. The subject matter of the proposed standard is likely to impact most entities reporting in accordance with IFRS. A number of these entities will have to amend their systems, policies and procedures to capture essential information for the reporting of revenue well in advance of the effective date. We recommend that the IASB give consideration to deferring the effective date if the standard is unable to be finalised in the short-to-medium term. Preparers and advisers will need time to ensure their comparative figures are compliant with the new standards.

Revenue other than from contracts with customers
The current standard IAS 18 includes provisions for revenue arising from interest, royalties and dividends. We recommend similar provisions are included in the final revenue standard.