



22 October 2010

International Accounting Standards Board
1st Floor 30 Cannon Street
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(By email to commentletters@ifrs.org)

Dear Sirs

RESPONSE TO EXPOSURE DRAFT ON REVENUE FROM CONTRACTS WITH CUSTOMERS

The Accounting Standards Council (ASC) appreciates the opportunity to comment on the Exposure Draft on Revenue from Contracts with Customers (the ED) issued jointly by the International Accounting Standards Board (the IASB) and the Financial Accounting Standards Board (collectively the Boards) in June 2010.

We support the Boards' efforts to improve the existing guidance in IFRSs and US GAAP by developing a fully-converged, single, contract-based revenue recognition model that could be applied across industries. However, we believe that there are some key aspects of the ED that require further refinement by the Boards. Our broad views are as follows:

Robustness of the proposed control-based revenue recognition model and decision-usefulness of the resultant financial information

Whilst we do not dispute the advantages offered by the control-based model and are broadly supportive of the Boards' efforts to develop a single revenue recognition model that is based on control, we think that the control notion proposed in the ED is too narrow and not rigorous enough to cater to all types of contracts with customers. We are therefore concerned that the proposed model would result in revenue recognition which does not faithfully represent the economic substance of the underlying transaction in the following circumstances, thereby undermining the decision-usefulness of financial statements:

- The proposed model, which presumes the transfer of control from one single party to another single party, is too narrow/simplistic to address the issues that arise from a single seller/multiple buyers situation or when simple passage of control is not obvious. In particular, we believe that the proposed model would not be appropriate in collective control situations which are prevalent in Singapore and other countries in the Asia-Oceania region (e.g. multi-unit high rise real estate development).

- For long-term or service contracts where the asset is transferred to the customer at the end of the contract, instead of on a continuous basis, the proposed model could result in inappropriate revenue recognition at a single point of time at the end of the contract because of the difficulties in applying the concept of continuous transfer of control. The assessment of whether control transfers on a continuous basis or at a point in time is one of the most critical judgements to be made in applying the proposed control notion. However, we believe that entities would face considerable practical difficulties in arriving at a clear conclusion of when control is transferred as the guidance and indicators of control proposed in the ED are not robust enough.

Consequently, we strongly urge the Boards to re-consider the proposed conditions/indicators for revenue recognition and to augment the proposed model with indicators of the concept of continuous transfer of control in the final standard to ensure that they are rooted in broad and robust principles that can be applied to all types of contracts with customers.

In the light of our concerns above and the pervasiveness of the control notion in IFRSs/the IASB's current projects, the ASC intends to research the control notion further and to propose alternative principles that can be considered with a view towards submission to the IASB within the next few months. We believe that other countries within the Asian-Oceanian Standard-Setters Group hold similar views and would be interested to participate in the research.

Our comments on the specific questions to the ED are as follows:

Question 1

Paragraphs 12 – 19 propose a principle (price interdependence) to help an entity determine whether:

- (a) to combine two or more contracts and account for them as a single contract;**
- (b) to segment a single contract and account for it as two or more contracts; and**
- (c) to account for a contract modification as a separate contract or as part of the original contract.**

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We agree with the proposed principle for combining and segmenting contracts, and for contract modifications. However, we think that further clarifications from the Boards are required in the following areas to make the proposed principle operational:

- In the case of contract modifications, we note that the indicators for ascertaining price interdependence proposed in paragraph 13 of the ED (i.e. the contracts are entered into at or near the same time, the contracts are negotiated as a package with a single commercial

objective, and the contracts are performed either concurrently or consecutively) may not be relevant as contract modifications are usually separately negotiated subsequent to the execution of the original contract.

- Paragraph 14 of the ED proposes that the price of a contract is not interdependent with the price of another contract solely because the customer receives a discount on goods or services in the contract as a result of an existing customer relationship arising from previous contracts. However, paragraph 13 of the ED proposes that two or more contracts should be combined and accounted for as a single contract if the price of one contract is dependent on the price of another contract, which could be interpreted as suggesting that two or more contracts are priced interdependently when a customer receives a discount in one contract as a result of the price charged by the entity in another contract. We note that this also appears to be the interpretation of the price interdependence principle in example 2 of the proposed application guidance. We are concerned that these inconsistencies may cause confusion and result in significant diversity in practice which could compromise the comparability of financial statements.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We do not agree with the proposed principle for identifying separate performance obligations as we believe it would not result in relevant/decision-useful financial information that faithfully depicts the essence of an entity's business as explained below:

- We are of the view that only an entity's own business should be considered in applying the "distinct" concept as the businesses of other entities should not have a bearing on the goods or services which an entity has promised to provide under the contract with the customer. This would be consistent with paragraph 20 of the ED which requires an entity to evaluate the terms of the contract and its customary business practice to identify all promised goods or services and to determine whether to account for them as separate performance obligations.

For example, Entity X is in the business of providing wireless services to customers. In order to increase its customer base, Entity X launches a new promotion whereby customers receive a free television upon signing a two-year post-paid wireless service contract. Applying the requirements in paragraph 23 of the ED, Entity X would be required to account for the television as a separate performance obligation since an electronics store sells the television separately.

We do not think that an entity whose business does not include the sale of television should consider delivery of the television as a separate performance obligation.

- We believe that an entity's business model should be considered in applying the

proposed principle for identifying separate performance obligations. For example, in the telecommunications industry, heavily discounted or free handsets are typically provided as incentives to entice customers to enter into or renew airtime service contracts. Such incentives are commonly viewed by the telecommunications industry, primarily providers of communication services instead of handset manufacturers, as part of the cost of acquiring customers (i.e. marketing/business expense) rather than revenue-generating activities. Specifically, we believe that goods or services that are incidental to the primary goods or services sold by an entity (it follows that revenue from the outright sales of such goods or services by the entity, if any, must therefore be insignificant) should not be treated as separate performance obligations if they are bundled in a contract to incentivise the purchase of the primary goods or services.

Accordingly, we suggest that paragraph 23(b) of the ED be deleted and paragraph 23(a) be amended to read along the line “the entity, ~~or another entity,~~ sells an identical or similar good or service separately and provided the good or service is not incidental to the primary good or service sold by the entity”.

Should the Boards decide not to change the proposed principle, we think that the proposal in paragraph 23(b)(i) of the ED relating to distinct function is not sufficiently clear as to whether the utility of a good or service should be assessed together with other goods or services contained in the same contract or other goods or services that are available in the market. We believe it should be the latter as otherwise a good or service would always meet the distinct function requirement. Consider the following example:

Entity X is in the business of providing wireless services. Entity X enters into a two-year post-paid wireless service contract with a customer and charges the customer an upfront connection fee for connecting the customer to its network. Entity X and its competitors can only connect customers to their respective networks, i.e. customers cannot purchase connection services separately in the market.

Applying the proposal in paragraph 23(b)(i), Entity X may determine that the connection service has a distinct function as it has utility together with the wireless service sold in the same contract. Assuming the connection service has a distinct profit margin (i.e. satisfies the requirement proposed in paragraph 23(b)(ii) of the ED), Entity X would account for the connection service as a separate performance obligation and recognise the connection fee as revenue once the customer is connected to its network.

We believe that the connection service in the above example is not a separate performance obligation as it could not be sold separately. Hence, we suggest that paragraph 23(b)(i) be refined as follows:

“...a good or service has a distinct function if it has utility either on its own or together with other goods or services (other than those contained in the same contract)...”

Question 3

Do you think that the proposed guidance in paragraphs 25 – 31 and related application guidance are sufficient for determining when control of a promised good or service has

been transferred to a customer? If not, why? What additional guidance would you propose and why?

We have the following concerns:

A) Robustness of the proposed control-based revenue recognition model and decision-usefulness of the resultant financial information

As highlighted under our broad views to the ED on page 1, we believe that the proposed control-based revenue recognition model is very prescriptive and not robust enough to be applied to all types of contracts with customers. We are therefore concerned that the proposed model would not result in decision-useful financial information that faithfully represents the economic phenomena that it purports to represent. Specifically, we would like to draw the Boards' attention to the following examples of situations where the model is, in our view, not appropriate and requires refinement:

(i) Collective control situations

In a collective control situation, each buyer owns a specific fraction of a pool of owners' rights but does not have "full control" over that fraction by virtue of the fact that he is likely to be bound by a collective agreement. This is particularly pertinent in a multi-unit real estate development, which is prevalent in the Asia-Oceania region. In such a situation, the individual buyer of a specific unit will not have "full control" of the unit even after the transfer of the unit from the seller notwithstanding that the buyer has fully assumed all owner rights. This means that the single buyer does not have the power or ability to make changes to his own unit, for instance, changing the shape of the windows of his unit from rectangle to circle, as it infringes on the collective rights of the other buyers. Control criteria that presumes the conveyance of a good lends itself to confusion as to whether such transactions represent the conveyance of a good or of a collection of rights. This confusion manifests itself in arguments that revenue can be recognised only upon the ability to exercise unfettered rights over the good, when in fact the owner never acquires such unfettered rights. In other words, at no point in time was control passed from one single party to another single party in a collective control situation. In this regard, we would like to underscore our disagreement with the control criteria applied by the Boards in "Example 17 – Sale of Apartments" in the application guidance to determine when control of the apartment is transferred to the customer (in particular, the customer's ability to specify major structural changes to the design of the apartment and to take physical possession of the uncompleted apartment during construction) as it is overly simplistic and fails to give due consideration to the concept of control from the dimension of a collective control situation.

Specifically, we believe that the “transfer of control” concept proposed in the ED, which is premised on the assumption of a single seller/single buyer situation, is too simplistic to address the issues that arise from a single seller/multiple buyers situation. As a consequence, we find that developers of multi-unit real estate, who are dealing with multiple buyers in a collective control situation, would not be able to meet the transfer of control requirement during construction as they would have difficulties satisfying most, if not all, of the indicators of control proposed in the ED. We are therefore not persuaded that the control notion proposed in the ED by itself would result in consistent revenue recognition that faithfully reflects the economic substance of the underlying transaction.

In this regard, we would like to reinforce a similar concern we have pertaining to joint control situations in the context of consolidation which we have shared with the IASB in our written comments to the ED on Consolidated Financial Statements and the ED on Conceptual Framework for Financial Reporting: The Reporting Entity. In a joint control situation, e.g. a business trust, the economic reality is that no one party has full control of the trust as control is shared amongst various parties such as the manager of the trust, the board of directors of the manager, the trustee and the unit-holders. In such a situation where it is difficult to exactly pin-point or define who has control, we have recommended to the IASB that additional guidance be provided in the final standards that would rest the definition of control with the final approving authority.

We are glad to note that the IASB has tentatively decided that when two or more parties have discrete, unilateral decision-making authority over different activities of an entity that significantly affect the returns, the party that has the ability to direct the activities that ***most*** significantly affect the returns meets the power element of the control definition. We are broadly supportive of this tentative decision reached by the IASB as we believe it would help to provide some clarity as to who should be the controlling party in a joint control setup. Accordingly, we would recommend that the IASB incorporate this principle in the final consolidation standard, and that the same should also be done to cater for collective control situations in the Boards’ revenue recognition project.

(ii) Service contracts

We believe that it is difficult to apply the proposals in the ED to determine when control of a service is transferred to a customer (e.g. audit, valuation, legal and other expert services). This difficulty is amplified in paragraph 31 of the ED which acknowledges that two out of four proposed indicators of control (i.e. physical possession and legal title) would not be relevant to services. We are therefore concerned that the control notion as currently defined in the ED is not appropriate for service contracts and that it could result in significant diversity in practice.

(iii) Long-term or service contracts where asset is transferred to the customer at the end of the contract

For long-term or service contracts where the asset is transferred to the customer at the end of the contract, instead of on a continuous basis, we are of the view that the control model as currently defined would result in revenue recognition at a single point of time at the end of the contract because of difficulties in applying the concept of “continuous transfer of control”

(which, for example, in law is determined by the balance of respective rights in the particular context). The assessment of whether control transfers on a continuous basis or at a point in time is one of the most critical judgements to be made in applying the proposed control notion. However, we believe that the guidance and indicators of control proposed in the ED are not rigorous enough to provide sufficient clarity as to whether control is transferred continuously. For example, two of the proposed indicators of control, legal title and physical possession, would not be relevant in assessing if control transfers continuously for such contracts as legal title to and physical possession of the asset are transferred to the customer only at the end of the contract. Without meaning to abandon this concept, the standard should provide clear and robust guidance that makes it easier to apply the concept, by drawing on the indicators that would apply in determining the continuous transfer of control.

In essence, we reiterate that we are not convinced that the control-based model as currently defined in the ED is appropriate for revenue recognition purposes. As revenue is a key indicator of an entity's financial performance and plays a pivotal role in the broader context of financial performance reporting, we strongly urge the Boards to re-consider the proposed conditions/indicators for revenue recognition in the final standard so as to ensure that they are rooted in broad and robust principles that can be applied to all types of contracts with customers. In this respect, we recommend that the Boards incorporate/develop/introduce the following as possible indicators of control and accentuate those indicators that are relevant in determining the continuous transfer of control or that are highly suggestive of the continuous transfer of control (such as (a) to (e) below, rather than legal title and physical possession proposed in the ED) in the final standard:

- a) The assumption of predominant “risks and rewards” similar to those of an owner. In our view, risks and rewards cannot and should not be decoupled from control as they are not different approaches/mutually exclusive. Risks and rewards will generally derive from control, and thus provide a strong indicator of where that control lies. This is coherent with the tentative decisions reached by the Boards in the joint Consolidation project with regards to the interaction between risks and rewards and control. Furthermore, from an investor's perspective, the legal framework that leads to risks and rewards will be a relevant determinant of control. We believe that risks and rewards could play a pivotal role in providing answers to the more complex cases for revenue recognition, where it can be helpful in assessing and determining control.
- b) The transfer of equitable/beneficial interest given that in some situations, the ability of a customer to sell, exchange, use, or pledge an asset is predicated on the transfer of equitable /beneficial interest, rather than only upon the transfer of legal title at a later date.
- c) Differentiate the passage of control in a multi-stage delivery contract from that for a single-stage delivery contract. In the former, the achievement of key milestones which is certified by an independent qualified person that crystallises the unconditional and irrevocable liability of the buyer to make specified payment has commercial substance and is key to understanding the rights of the entity and the customer, and whether revenue should be recognised.

- d) If a good or service is an identifiable/unique non-fungible asset, this would be tantamount to “the design or function of the good or service is customer-specific”. This is on the basis that once an entity has contracted to sell an identifiable/unique non-fungible asset, the entity cannot sell the same asset to another customer or substitute it with another asset. Consequently, the entity does not have the right of an owner to deal freely with the asset, i.e. the entity cannot direct the use of, and receive the benefit from, the asset.
- e) If a customer can choose from a range of standardised options specified by the entity and has indeed made his choice at the onset of the contract, this would be tantamount to “the design or function of the good or service is customer-specific” as the entity would be precluded from substituting the customer’s choice with any other option.

B) Control from the customer’s perspective

We note that the ED proposes that control be considered from the perspective of the customer rather than that of the entity. We do not agree with the proposal and believe that it is more appropriate to consider control from the entity’s perspective given that financial statements are prepared for the entity.

There are many situations where the entity loses control and the customer gains control simultaneously, hence assessing control from the customer’s perspective would be no different from the entity’s perspective. However, there are also situations where the entity loses control but the customer does not yet gain control. In these situations, the analysis of control from the customer’s perspective and the entity’s perspective would be different, and we are of the view that it would not be appropriate to disallow revenue recognition by the entity simply because the customer has not yet obtained control.

Question 4

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

We are broadly supportive of the proposal that revenue should be recognised only if the transaction price can be reasonably estimated. However, rather than mandating the use of the “probability-weighted” approach for the measurement of transaction price in all cases, we believe that the Boards should permit the use of the “most likely” approach (particularly in single item or small portfolio situations) if this approach results in more relevant and decision-useful financial information. Whilst we agree that the use of a statistical method based on possible outcomes and probabilities typically works well for large homogeneous

populations, we do not think that it is generally appropriate for single item or small portfolios as there is often no or insufficient historical data. This is similar to the concerns expressed by us on various other discussion papers and exposure drafts issued by the IASB that proposed to mandate the use of the probability-weighted approach (e.g. ED on Financial Instruments: Amortised Cost and Impairment, ED on Measurement of Liabilities in IAS 37, etc).

In addition, we would like to suggest that the “probability recognition criterion” in the current IASB Framework be retained until the Boards address the definition of an asset in the joint Conceptual Framework project. In our view, recognition of a contract asset/revenue that has a low possibility of a future inflow of resources is not desirable and does not reflect the economic reality of the situation. It creates artificial volatility and undermines the relevance of financial statements as the resultant financial information would not help users in predicting an entity’s ability to generate future cash flows.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect *how much* revenue an entity recognises when it satisfies a performance obligation rather than *whether* the entity recognises performance obligation? If not, why?

We do not agree with the proposal to reflect the customer’s credit risk in the transaction price and revenue. We are of the view that entities that are not in the business of lending or financing generally do not factor credit risk into the price of goods or services sold and any impairment loss is typically treated as a business expense. As revenue and impairment loss have different characteristics/predictive values, it is questionable if the proposal would generate decision-useful information.

Question 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree that revenue should be adjusted to reflect the time value of money if payment from the customer is due either significantly before or significantly after the transfer of goods or services to the customer.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We are broadly supportive of the proposal. However, we have the following concerns:

- We note that a consequence of allocating the transaction price to each performance obligation in proportion to the stand-alone selling prices of the underlying goods or services is that any discount in the contract would be allocated to all performance obligations regardless of an entity’s pricing methodologies or strategies in bundle deals (unless the contract meets the criteria in paragraph 15 of the ED for contract segmentation), and this could result in a “day one” loss for some performance obligations assuming onerous test is carried out at the performance obligation level as proposed in paragraph 54 of the ED (please see our comments in the next section on the onerous test proposal). Consider the following example:

An entity bundles a low-margin performance obligation with a high-margin performance obligation and offers a discount on the latter to its customer. Allocating the transaction price in accordance with the proposal in the ED would result in some discount being allocated to the low-margin performance obligation despite that this was not contemplated by the entity. This causes the low-margin performance obligation to turn onerous.

	<u>Cost</u>	<u>Stand-alone selling price</u>	<u>Discount offered</u>	<u>Net selling price</u>	<u>Profit/(Loss) based on net selling price</u>	<u>Allocated transaction price under ED</u>	<u>Profit/(Loss) under ED</u>	<u>Allocated transaction price based on stand-alone profit margins</u>	<u>Profit/(Loss) based on stand-alone profit margins</u>
Performance obligation L	80	90	-	90	10	75	(5)	85	5
Performance obligation H	40	90	(30)	60	20	75	35	65	25
Total contract	<u>120</u>	<u>180</u>	<u>(30)</u>	<u>150</u>	<u>30</u>	<u>150</u>	<u>30</u>	<u>150</u>	<u>30</u>

In this regard, we recommend that the Boards consider refining the proposed allocation approach to take into account an entity’s pricing methodologies or strategies in allocating the transaction price. As an alternative, the Boards may wish to consider allowing the

discount to be allocated to each performance obligation in proportion to the stand-alone profit margins of the underlying goods or services as this may improve the discipline of allocation/reduce abuses.

- We do not agree with the Boards' proposal to carry out an onerous test at the performance obligation level. We think that an onerous test should be carried out at the contract level. In our view, it would not be appropriate for an entity to recognise a loss on a performance obligation that is part of a profitable contract. In addition, applying the onerous test at the performance obligation level may result in an entity recognising a day one loss (i.e. at contract inception) as demonstrated in the example above. We are not convinced that the proposed approach provides decision-useful information, since in many industries, goods and services are often bundled to achieve a desired overall level of net profitability rather than specific margin for each individual performance obligation. Even if the Boards permit the loss to be recognised at the point where the onerous performance obligation is satisfied, we do not believe such an approach is appropriate or desirable as it could result in the front loading of profit in the event the profitable performance obligation is satisfied first. This, in our opinion, would not reflect the economic substance of bundle deals.

In addition, performing the onerous test at the performance obligation level would effectively negate the proposal in paragraph 24 of the ED which stipulates that it may not be necessary to apply the recognition and measurement requirements to each performance obligation separately if goods or services are transferred to a customer at the same time. We suggest that the Boards clarify how this inconsistency should be dealt with.

- We do not agree that subsequent changes in transaction price should be allocated to *all* performance obligations on the same basis as at contract inception as proposed in paragraph 53 of the ED. We think that the facts and circumstances surrounding the change in transaction price should be assessed to ensure that the change is allocated to the appropriate performance obligations (e.g. if an entity agrees to a reduction in transaction price due to a delay in satisfying a particular performance obligation, the reduction should be allocated to that performance obligation only).

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

We believe that the proposed requirements are generally operational and sufficient. However, we do not agree that the costs of obtaining a contract should always be expensed as incurred as proposed in paragraph 59(a) of the ED. We are of the view that incremental costs which

result directly from, and are essential to, acquiring a contract and which would not have been incurred had the contract not been entered into should be capitalised. We think that this is consistent with the accounting for transaction costs in ED *Financial Instruments: Amortised Costs and Impairment*, the accounting for initial direct costs in ED *Leases*, the accounting for incremental acquisition costs in ED *Insurance Contracts*, and the current requirements in IAS 11.

Should the Boards decide not to change the proposed requirements on accounting for the costs of obtaining a contract, we recommend that the Boards clarify the rationale for the inconsistencies in accounting for similar costs as observed above.

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

Please refer to our comments under question 8.

In addition, we note that paragraph 55 of the ED proposes that a performance obligation is onerous if the present value of the probability-weighted costs that relate directly to satisfying that performance obligation exceeds the amount of the transaction price allocated to that performance obligation.

Subject to our comments under question 7 on onerous test, we are not convinced that the Boards should mandate the use of the “probability-weighted” approach in the measurement of costs required to satisfy a performance obligation in *all* cases. We suggest that the Boards consider permitting the use of the “most likely” approach if this approach results in more relevant and decision-useful financial information. This is consistent with our comments under question 4.

Question 10

The objective of the boards’ proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Question 11

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We agree with the proposals in questions 10 to 12 as we believe the proposals would enhance users' understanding of the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we note that the proposed disclosure requirements are not always consistent with the principles proposed in the ED. For example, the disclosure of disaggregated revenue proposed in paragraph 74 of the ED would effectively negate the principle proposed in paragraph 24 of the ED which stipulates that it may not be necessary to apply the recognition and measurement requirements to each performance obligation separately if goods or services are transferred to a customer at the same time. In this regard, we suggest that the Boards clarify how the inconsistency should be dealt with.

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (i.e. as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We agree that the proposed requirements should be applied retrospectively *provided* there is sufficient lead-time for preparers to implement the proposals.

Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Please refer to our comments to the earlier questions.

In addition, we are concerned that a proposed standard which is supplemented by numerous pages of mandatory application guidance that would form an integral part of the proposed standard is too prescriptive for a principle-based standard. We believe that application guidance should not be used to supplement principles that are not clearly articulated in the

standard. Where the principles are not clear, the Boards should clarify the principles rather than provide application guidance that is mandatory.

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.**

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We agree that a warranty that covers latent product defects is not a performance obligation in itself, and accordingly, should be distinguished from a warranty that covers post-delivery faults which give rise to a performance obligation in addition to the performance obligation to transfer the goods specified in the contract.

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

- (a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and**
- (b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.**

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

We agree that an exclusive licence to use intellectual property is different from a non-exclusive licence, and accordingly, the pattern of revenue recognition under each should be different. We think that an exclusive licence to use intellectual property is similar to a right to use a tangible asset granted to a customer (i.e. a lease) in that the entity cannot grant a similar licence to more than one customer at the same time. As such, we support the Boards' view

that an entity's performance obligation under an exclusive licence to use intellectual property is satisfied continuously over the term of the licence, as this is consistent with how a lessor would account for a right to use a tangible asset granted to a customer. Conversely, in the case of a non-exclusive licence, an entity could grant the same or similar licence to more than one customer at the same time without any constraint. Consequently, the entity does not have any remaining unsatisfied performance obligation when the customer is able to use and benefit from the licence.

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We agree with the proposal.

Other comments

The ED defines a contract asset as an entity's right to consideration from a customer in exchange for goods or services transferred to the customer. Once an entity has an unconditional right to consideration (i.e. when nothing other than the passage of time is required before payment of that consideration is due), the ED requires the entity to recognise a receivable and to account for it in accordance with IFRS 9.

We note that the ED appears to suggest that a right to consideration must be unconditional for it to meet the definition of a financial asset. However, we believe this may not be consistent with the definition of a financial asset in IAS 32, which does not require the right to be unconditional. We recommend that the Boards clarify this apparent inconsistency.

We hope that our comments will contribute to the Boards' deliberation on this exposure draft. Should you require any further clarification, do contact me.

Yours faithfully

Dexter Tan
Secretary, Accounting Standards Council