29 June 2009

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sir

RESPONSE TO DISCUSSION PAPER – PRELIMINARY VIEWS ON REVENUE RECOGNITION IN CONTRACTS WITH CUSTOMERS

The Accounting Standards Council (ASC) appreciates the opportunity to comment on the Discussion Paper – *Preliminary Views on Revenue Recognition in Contracts with Customers* issued by the International Accounting Standards Board (IASB) in December 2008.

1. We generally agree with the boards' preliminary views to improve the existing guidance in IFRS and US GAAP by developing a single, contract-based revenue recognition model that could be applied across industries. However, we also note that there could be actual application issues of such broad revenue recognition concepts. The proposed model introduces more complexity and subjectivity in the measurement process, through the requirement to recognize revenue as the change in an entity's contract asset or contract liability. In S24 of the DP, the proposal acknowledges that the boards have not yet expressed a preliminary view on how an entity would measure the rights in a contract's asset. Reliability issues may limit the effectiveness of the boards' proposal to achieve consistency in revenue recognition. As such, we encourage the boards to provide more specific measurement guidance on the determination of the balance sheet amounts of an entity's contract asset and contract liability. For example, the boards may wish to address the following measurement issues relating to the proposed model.

    - Discounting of transaction price (or the promised consideration) for long-term contracts, if the time value of money is significant (in the same manner that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires provisions to be discounted if the time value of money is significant)

    - Providing more specific guidance to guide the estimation process along the lines of the Financial Accounting Standards Board, SFAS 157 *Fair Value Measurements* if stand-alone selling prices of underlying goods and services are not observable.

    - The boards should consider providing more specific guidance on the measurement of variable-fee contracts.

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2. We understand the DP proposes that satisfaction of performance obligations is measured based on a “control-based” approach. We are of the view that the “risks and rewards” should be included as one of the criteria to measure the satisfaction of performance obligation, as the “risks and rewards” approach reflects the economic substance of transaction. Financial statements are read, in the main, for the purpose of making economic decisions. The financial statements should therefore faithfully represent the economics of the transactions, rather than the legal attributes of the transactions. Therefore, we recommend that “risks and rewards” should be taken into consideration as part of the primary framework for revenue recognition in addition to the “control-based” approach.

3. In addition, the control concept introduced in the DP should provide further guidance/clarification. The DP contains a few examples of the control concept. However, it does not provide a clear enough definition of control or provide sufficient guidance on when control transfers. These two areas are most significant in the effective application of the new control model.

4. We would also like to draw your attention to S25 of the DP where the board had proposed the following: -

   “performance obligations initially should be measured at the transaction price – the customer’s promised consideration. If a contract comprises more than one performance obligation, an entity would allocate the transaction price to the performance obligations on the basis of the relative stand-alone selling prices of the goods and services underlying those performance obligations”.

   It is viewed that the stand-alone price is not a good basis as bundle deals are usually priced lower than the sum of individual units, thus recognizing the revenue in the above manner would result in an accelerated recognition of revenues in the earlier life span of the project.

5. In Paragraph 3.2 of Chapter 3 of the DP, the boards had proposed the following definition of “performance obligation”.

   “An entity’s performance obligation is a promise in a contract with a customer to transfer an asset (such as a good or service) to that customer”.

   While the boards have taken steps to explain why an “asset” includes “service”, the use of “asset” in this manner is potentially confusing and conflicts with the definition of “asset” in the IASB’s Framework for the Preparation and Presentation of Financial Statements as a bundle of “future’ benefits rather than immediately consumed “benefits”.

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The definition also lacks clarity on the transfer of an asset under construction. The boards should provide further clarification on this matter, such as its potential consequential to IFRIC 15. An asset under construction is not "transferred" to the customer until completed; however, the rights in the asset are progressively transferred. The definition as given in the proposal is restrictive and the boards may wish to consider expanding the definition to include the rights in the asset in addition to the asset itself.

We hope that our comments will contribute to the IASB's future deliberations on this project. Should you require any further clarification, do contact me. Thank you.

Yours faithfully,

Dexter Tan
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