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DSR – öffentliche SITZUNGSUNTERLAGE

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
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Berlin, 19 February 2009

Discussion Paper 'Preliminary Views on Revenue Recognition in Contracts with Customers'

Dear David,

We appreciate the opportunity to respond to the International Accounting Standards Board's Discussion Paper 'Preliminary Views on Revenue Recognition in Contracts with Customers'. This letter represents the view of the German Accounting Standards Board (GASB).

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For detailed comments we refer to the appendix to this comment letter.

If you want to discuss any aspects of this letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



A CONTRACT-BASED REVENUE RECOGNITION PRINCIPLE

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Question 7

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 1 EFRAG thinks that in the gift cards example, the gift card is a separate performance obligation. EFRAG's reasoning is that, when purchasing a music player, the customer at the same time receives an unconditional and enforceable right to download a certain amount of music. That right could be sold separately. It follows that the transaction involves two performance obligations: one relating to the music player and one relating to the download right.
- 2 However, EFRAG members have differing views on how to account for the discount in the example. We agree that the offer of a discount on future purchases is part of the contractual terms related to the first purchase and this part of the contract has been accepted by the customer. We therefore believe that the first transaction does involve two elements: the sale of the music player and the sale of an option (the right to buy future downloads at a discount). We note that this option is not a contract (an obligation for the customer) to buy the music as this offer has not yet been accepted by the customer. The issue is therefore how to account for the option sale. We believe the sale of the option involves a separate performance obligation. The entity would have a performance obligation to give the customer a discount on future music purchases. We are, however, not sure whether or not to recognise – or measure at an amount different from nil – this performance obligation unless it is onerous.
- 3 (a) On the one hand, we can see that many practical issues would arise in trying to recognise and measure the obligation. This is partly due to the fact that it is often possible to negotiate a discount. Furthermore, sometimes the discounts offered are discounts from a price that no transactions ever take place at. It can also be difficult to determine



when exercised options have lapsed (and thus when the performance obligation can be derecognised). When this is said, we would recognise a performance obligation if the offer would be so beneficial that this part of the contract would be loss generating.

- 4 (b) On the other hand, when the option has a value, we think that it would be in line with the requirements of the discussion paper dealing with how to allocate the transaction price to recognise a performance obligation for the offered discount. Furthermore, we note that the effect of not recognising a performance obligation would appear to be that the entire transaction price is recognised as revenue when the first transaction takes place. Thus, the sale of the music player with the offer of future discounts attached would be treated as being as profitable as a sale of the same music player for the same total contract price; even though the sale with the discount offer attached will compel the entity to sell the downloads more cheaply. Furthermore, the subsequent sale of those downloads would seem less profitable – even though the discount on the music was necessary in order to be able to sell the music player. In other words, it could be argued that it would front load revenue and profit recognition if no performance obligation is recognised in relation to the offered discount.

Question to EFRAG's constituents: We would particularly welcome comments on this issue. How would you analyse the transaction and why? And what are the consequences for the way it should be accounted for?

- 5 The issue discussed above is whether particular types of sales incentives involve separate performance obligations, but we think it is also important to consider whether sales incentives represent revenue generating activities or should be regarded as marketing. If it is marketing, EFRAG's view is that it should not lead to the deferral of revenue.



B. Sichtweise des DSR in früheren Sitzungen

- 6 Alle sogenannten *incentives*, die für den Kunden einen zusätzlichen Vorteil darstellen, sind als selbständige Leistungsverpflichtungen zu behandeln. Der Umsatz ist entsprechend abzugrenzen.

C. Entwurf der Stellungnahme des DSR

- 7 We think that sales incentives give rise to separate performance obligations if they are provided in a contract with a customer and provide an incremental benefit for the customer. Therefore, we would conclude that in both cases mentioned in paragraph 3.27 a separate performance obligation exists.
- 8 In the TuneCo case the incremental benefit consists of the gift card, which has a stand-alone value for the customer.
- 9 The same applies for the SongCo case. In this case the customer receives a 40 per cent discount for purchases up to CU100, which also has an incremental value for the customer.
- 10 On the other hand, some might not believe that a separate performance obligation exists in this discount example because the offer is part of the contract related to the first purchase which has been accepted by the customer, but nevertheless believe that the discount offer has to be accepted by the customer before a contract – and hence a performance obligation – exists in relation to the future purchases.
- 11 However, we are of the opinion that in both cases a contract with regard to the incentive has not been entered into at the time of the first purchase. Nevertheless, the entities have to stand ready to give the incentives if the customer decides to make a second purchase. Hence, in both cases a performance obligation exists which does not consist of the obligation to transfer an individual good, but rather consists of the obligation to enter into a contract with the customer under pre-defined conditions.



Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

12 keine



SATISFACTION OF PERFORMANCE OBLIGATIONS

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 13 EFRAG notes that, in the existing Framework, an asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. It follows from that, that a resource will cease to be a particular entity's asset when that entity no longer has control of the resource. EFRAG therefore agrees with the discussion paper that, under the existing definition of an asset, an entity should derecognise an asset when it no longer has control of that asset. We also agree that the point in time in which an asset is derecognised (as a result of a transfer) is the point at which the performance obligation has been satisfied and revenue should be recognised.
- 14 However, we think that stating that derecognition should take place when control is lost will only take us so far, because the notion of control is not well understood and is not viewed in the same way by all people. We can foresee some problems arising if the proposal as currently drafted is implemented. For example:
- 15 (a) Some argue that the risks and rewards test in IAS 18 is simply an attempt to implement a control-based test. They would therefore argue that the discussion paper is wrong to see control and risks and rewards as alternatives. We suspect that the IASB is hearing a similar argument from some constituents commenting on the control notion in ED 10 Consolidated Financial Statements. It is certainly a view we share to some extent.
- 16 (b) The recent ED Derecognition raises a number of issues about the control notion described in this Discussion Paper. For example, in the ED if one entity transfers a financial asset to a second entity in circumstances that mean that the second entity does



not have the practical and unilateral ability to dispose of the transferred asset, the first entity still has control of the asset and should continue to recognise it. One circumstance in which the second entity might not have control of the transferred asset is when the entity has a valuable put option. We think this is analogous in many ways to a transaction in which an entity transfers goods to a customer as part of a sales transaction, but also grants that customer return rights. Yet paragraph 4.12 appears to argue that in such circumstances the second entity/customer has control of the transferred asset.

- 17 (c) We mentioned earlier in this letter the consignment stock arrangement that is a common transaction between car manufacturers and car dealers. We also mentioned the sale-or-return arrangement that is common between book publishers and bookshops. In both these transactions, if control of the inventory has deemed to have past to the car dealer/bookshop, the discussion paper would appear to concluding that a sale has taken place and revenue should be recognised. However, at least some of these arrangements are not in our view in substance a sale. We are not sure whether that means that control has not actually passed, or whether control is not the ultimate test.
- 18 Notwithstanding the above, we agree that, unless and until IASB changes the definition of an asset, the test has to be control-based. It is just that we think the basic principle will need to be supplemented by guidance that illustrates the principle if it is to be applied consistently.
- 19 It is common for a sales transaction to involve the entity delivering, on the customer's instruction, the goods or services to a third party. In such circumstances, it might be that the customer controls the goods or services just before they are transferred to the third party or it might be that, although the goods or services are being delivered to the customer's instructions, the customer never actually controls them. We think it important that the wording the IASB uses in the ED to describe the control notion takes into account such possibilities.

B. Sichtweise des DSR in früheren Sitzungen

- 20 Der im DP diskutierten Vorgehensweise, den bisherigen der Umsatzrealisierung zugrundeliegenden *risks and rewards*-Ansatz zugunsten eines *control*-Ansatzes aufzugeben, steht der DSR aus verschiedenen Gründen skeptisch gegenüber. Im Gegensatz



zum DP bevorzugt der DSR weiterhin eine konsequente Ausrichtung am *continuous approach* (siehe EFRAG PAAinE DP Revenue Recognition – A European Contribution).

C. Entwurf der Stellungnahme des DSR

- 21 As already mentioned, we do not share the approach described in the DP that the satisfaction of the performance obligation is the main trigger for recognising revenue. Thus, we are of the opinion that revenue recognition is not driven by the change of control. We would rather prefer that revenue be a measure of activities carried out to fulfil contracts with customers. This notion is neither necessarily connected with the transfer of an asset nor with the control of an asset.
- 22 Furthermore, we have doubts that the approach described in the DP is consistent because:
- (a) On the one hand the satisfaction of a performance obligation depends on the individual contract and the legal jurisdiction which has to be applied in regard to this contract. Different jurisdictions have different requirements when a performance obligation is fulfilled. On this basis, the boards in paragraph 4.19 draw the logical conclusion that if in one legal jurisdiction an asset has not been transferred to the customer whereas in another legal jurisdiction an asset in a similar contract has been transferred, then those differences are substantive, and therefore should be accounted for differently in order to provide relevant, comparable information to users of financial statements.
 - (b) On the other hand the notion of control is neither exclusively driven by the requirements of different legal jurisdictions rather than the IASB/FASB's understanding what control means, nor is it viewed in the same way by all people. Therefore, it seems to be logical that the satisfaction of a performance obligation from a legal perspective and the change of control are not necessarily congruent with each other. So, in our opinion the boards will certainly not reach their aim that two contracts are accounted for differently whether the satisfaction of a performance obligation is fulfilled under the requirements of different legal jurisdictions or not.



Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

23 Ausgehend von den unterschiedlichen Definitionen im Hinblick auf die rechtliche Erfüllung einer Leistungsverpflichtung und den *Control*-Begriff erscheint es konsequent, dass Fälle auftreten können, dass z.B. nach deutschem Recht aus rechtlicher Sicht bereits eine Übereignung eines Vermögenswert vorliegt, aber u.U. nach einem speziellen Standard alle *Control*-Kriterien noch nicht erfüllt sind, bzw. umgekehrt, dass bereits ein *Control*-Wechsel stattgefunden hat, über trotzdem noch keine Übereignung und damit keine Erfüllung der Leistungsverpflichtung vorliegt.

Frage an den DSR: Sollte die obige Argumentation durch ein Beispiel untermauert werden? Wenn ja, welches Beispiel würde sich anbieten?

**Question 9**

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 24 EFRAG agrees that an act of performance by the customer (for example, paying the contract price) does not result in revenue being generated. However, as mentioned earlier, EFRAG has some fundamental concerns with the approach proposed in the discussion paper.
- 25 EFRAG notes that the proposal could result in a significant change to existing practice, with the recognition of revenue occurring much later than at present on some (but not all) construction-type contracts and service contracts. As the objective of financial statements is to provide decision-useful information to users of financial statements, we have been considering whether this accounting effect would result in more decision-useful information than existing standards. It has been difficult to do this because the paper itself does not discuss the issue. Nor does it explain why the line revenue of the income statement/statement of comprehensive income is important and what purpose it is intended to fulfill. We think this is a weakness of the paper.
- 26 Our tentative view is that the proposed model results in a reduction in the usefulness of the revenue number for construction-type and service contracts that do not involve a continuous transfer of the asset being constructed to the customer. As already mentioned, we recognise that the value of the activities of the period could be reported on another line than is not revenue but we think that approach would be problematical and would address some of the issues that would arise concerning the effect the paper's proposal would have on some key figures and ratios.
- 27 In EFRAG's view the revenue number is at its most useful when it measures the activity undertaken in fulfilling a contract with a customer (see our response to Question 2). For that reason we believe that the activity undertaken pursuant to a contract with a cus-



tomers should be the underlying revenue recognition principle. This revenue recognition model is further explained in Appendix 2.

28 We have so far expressed our concern solely in terms of those types of construction contract in which the asset under construction is not transferred on a continuous basis, because in those cases revenue recognition in accordance with the principles in the discussion paper will be significantly out of line with the activity carried out pursuant to the contract. Our concern though is a generic one; we think the most decision-useful revenue number is one that represents a measure of activity in fulfilling a contract with a customer; in all circumstances in which the discussion paper's proposals do not approximate to that number, they are unsatisfactory.

B. Sichtweise des DSR in früheren Sitzungen

29 Der DSR ist der Ansicht, dass der im DP vorgeschlagene Ansatz insbesondere bei langfristigen Fertigungsaufträgen aus konzeptioneller Sicht zu wesentlichen Änderungen führt. Der Rat hat allerdings Zweifel daran, ob sich daraus zumindest in Deutschland auch wesentliche Änderungen für die bestehenden Bilanzierungspraxis ergeben werden, da auch nach deutschen Rechnungslegungsvorschriften die PoC-Methode nicht zulässig ist, man allerdings durch eine entsprechende Vertragsgestaltung ähnliche Bilanzierungsfolgen generieren kann.

C. Entwurf der Stellungnahme des DSR

30 In our answer on question 2 we expressed our opinion that the information needs of users with regard to long-term construction contracts with non-continuous transfer of assets are not met by the proposal in the DP to recognise revenue only when a performance obligation is satisfied (see question 2).

31 In general, we are of the opinion that an approach which only focuses on the satisfaction of a performance obligation does not meet the information needs of users because the user can not assess whether the company has undertaken any activities to fulfil the performance obligation or not. A contract, which from an economic perspective has



reached a degree of performance of 99 %, is treated equally with a contract where the company has not begun yet to carry out any activities to satisfy the performance obligation.

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

- 32 Frage 9 deckt sich meines Erachtens inhaltlich weitgehend mit Frage 2, da bereits dort problematisiert wird, bei welchen Verträgen der vorgeschlagene Ansatz keine entscheidungsnützlichen Informationen liefert. Der DRSC Staff schlägt daher vor, bei Frage 9 in erster Linie auf Frage 2 zu verweisen und bereits dort alle Verträge aufzuführen, die mit dem vorgeschlagenen Ansatz nicht adäquat erfasst werden können.



MEASUREMENT OF PERFORMANCE OBLIGATIONS

Question 10 (a)

Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 33 We have stated previously that we believe that revenue should be some sort a measure of activity carried out in fulfilling a contract with a customer. It follows from this that no revenue should be recognised on contract inception as a result only of the fact that a contract is profitable, which in turn means, under the proposal in the discussion paper, that on contract inception the contract asset and contract liability should be measured at the same amount. We agree with the proposal that the contract asset should be measured at the original transaction price. It follows from all of this that we believe that the performance obligations should be measured initially at the original transaction price.
- 34 We recognise however that the issue raised in this question is part of the broader issue of how to measure liabilities. We think that, in order to make the use of IFRS less complicated, it is important that IFRS standards are consistent and that issues are treated in the same way from standard to standard (cross-cutting issues). We have therefore discussed the measurement of performance obligations on initial recognition (and subsequently) in the context of liability measurement generally.
- 35 (a) Therefore, a key issue that needs to be addressed is whether a liability that represents a performance obligation arising from a contract with a customer should be measured on the same basis as other liabilities; for example, a financial liability or a litigation liability or a liability arising from an insurance contract. This issue is not discussed in the discussion paper, which is probably a missed opportunity to discuss a fundamental cross-cutting issue that underlies a number of active projects. We encourage IASB to tackle this issue.
- 36 (b) We would nevertheless note that, at least on the face of it, the proposals in the discussion paper are rather different from those set out in the IASB's 2007 Discussion Paper Insurance Contracts. That paper, for example, proposed an approach to liability



measurement that was a type of current exit price approach. When we responded to that discussion paper, we did not express a view on the exit value approach proposed because we thought it difficult to comment on the proposal without getting into profit recognition issues, and we did not believe the paper provided a satisfactory basis for such a discussion. It needs also to be recognised that the Insurance Contracts paper did not deal with revenue recognition (although it did address profit (or income) recognition). We recognise that recognition of income and of revenue is not the same thing.

- 37 In reaching the view that the performance obligations should be measured initially at transaction price, we have focused primarily on the conceptual arguments and the decision-usefulness of the resulting information; we have not considered the practical implications. Nor have we debated what a current exit price approach would provide in terms of information to the users. However, we agree with the comment in the discussion paper that the current exit price approach appears to be more complex than the original transaction price approach – we think it appears to be much more complex.
- 38 Incidentally, we are concerned about the second argument the boards have used in favour of the original transaction price approach (see paragraph 75(b) above); that the exit price approach would mean day one revenue if all the performance obligations are not identified. We think that, if there is a real risk of not identifying a performance obligation, there are bigger problems with the model proposed than just measurement. This issue is discussed further in our response to Question 4.

B. Sichtweise des DSR in früheren Sitzungen

- 39 Das im DP vorgeschlagene Modell, die Leistungsverpflichtungen im Rahmen der Erstbewertung zu ihrem ursprünglichen Transaktionspreis anzusetzen, wird vom DSR unterstützt.
- 40 Ein *exit price* im Sinne eines Vergleichspreises wird aufgrund häufig nicht miteinander vergleichbarer Kaufsituationen als nicht relevanter Bewertungsmaßstab angesehen.

C. Entwurf der Stellungnahme des DSR



- 41 The GASB agrees that performance obligations should be measured initially at the transaction price because we share the opinion of the IASB/FASB that a current exit price would rarely be observable for the remaining performance obligations in a contract with a customer.
- 42 Furthermore, we believe that an exit price would not be the relevant measure because the individual purchase decision is not only the result of a comparison of different prices for the same good, but rather is influenced by a variety of other factors (eg preference of a special brand, short-term availability of the good etc). In the end, every selling situation is unique, so that different prices can not really be compared with each other.

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

- 43 Keine

**Question 10 (b)**

Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 44 EFRAG believes that both of the triggers discussed in the paper have weaknesses. The fact that a cost trigger can result in an entity recognising adverse changes in circumstances in periods after the period in which the changes occur means that it might not result in timely information being provided to users of financial statements. On the other hand, the current price trigger approach is likely to be costly to apply.
- 45 For those reasons, EFRAG has discussed other possible models for identifying an onerous performance obligation. However, none of the other models discussed seemed any better. Therefore, the choice does indeed seem to be between the two approaches discussed in the paper. Of those approaches, EFRAG favours the cost trigger approach, because it is practicable; in other words we agree that a performance obligation should be deemed onerous if the expected cost to satisfy the obligation exceeds the carrying amount of the obligation.
- 46 Bearing that in mind, we also agree with the proposal in the paper that a performance obligation that is deemed onerous should be remeasured to the entity's expected cost to satisfy the performance obligation.
- 47 In our response to question 5, we discussed briefly the level at which the onerous contract test should be performed. For example, should it be at the level of the performance obligation or at the level of the contract. We stated then that we were assuming that the paper intends it to be applied at the level of the remaining contract. Finally, we think it is important that, whatever model IASB chooses, there is consistency between it and the model in the revised version of IAS 37.



B. Sichtweise des DSR in früheren Sitzungen

- 48 Der DSR spricht sich für den sogenannten *cost trigger* aus. Der Rat kritisiert, dass das Diskussionspapier den Begriff *cost* nicht konkretisiert, so dass unklar bleibt, ob es sich um Voll- oder Teilkosten handelt. Der DSR plädiert dafür, dass lediglich die direkten Kosten der Vertragserfüllung berücksichtigt werden.
- 49 Der Rat stellt klar, dass im Falle, dass die Kosten den Anspruch auf Gegenleistung überschreiten, keine Neubewertung der Leistungsverpflichtung zu erfolgen hat, sondern eine Rückstellung gebildet werden muss, um bei Auflösung der Leistungsverpflichtung kein überhöhte Umsatzerfassung zu generieren.

C. Entwurf der Stellungnahme des DSR

- 50 We agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation because we see no adequate alternative compared to this approach. In particular, we believe that a current price trigger approach is not an adequate solution because in our opinion the entire margin has to act as a buffer to absorb adverse changes in circumstances.
- 51 Bearing this in mind, we nevertheless regret that the discussion paper does not explain what is meant by the term 'cost'. We encourage the IASB to tackle this issue in the following exposure draft. In our view, only the direct costs of providing the good or service should be included in the onerous test because it seems to us that from a user's perspective this is the most relevant information.
- 52 Furthermore, we would like to clarify that in our opinion if an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. We think that not the performance obligation itself should be remeasured because it seems to us that this would result in a higher amount of revenue when the performance obligation is fulfilled.



Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

53 Keine

**Question 10 (c)**

Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

Question 10 (d)

Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 54 It is perhaps worth starting by reminding ourselves that a key objective of this project is to develop a single, universally-applicable revenue recognition principle. EFRAG supports this objective, as we explained in our response to Question 1.
- 55 (a) In a principles-based financial reporting system, it would be odd to have more than one notion of what revenue represents and when it arises.
- 56 (b) There are also good practical reasons to have a single principle. In particular, if there is more than one principle, it will be necessary to draw some sort of line between those transactions that should be accounted for using one principle and those that should be accounted for using the other. Boundaries of this type seem almost inevitably to lead to complexity and to comparability issues. It can also be difficult knowing which principle to apply to new types of transaction.
- 57 If it is decided that the principle in the paper does not work well for certain types of contract, we either have to find a better principle or accept that the goal of a single, universally-applicable revenue recognition principle is not achievable in practice, at least for the time being. And, if we conclude that it is not possible at the current time to have a single, universally-applicable revenue recognition principle, we need to consider whether it would be better, in the circumstances, to continue to use the existing IFRS model (with two principles), perhaps supplemented by additional guidance.



58 We have already explained that in our view it would have been preferable to adopt a revenue recognition principle that involves recognising revenue as the contract progresses. We think that principle could deal with some of the concerns underlying the types of contract listed in paragraphs 89 and 90 above. However, we accept that the principle would not eliminate the concerns.

Paragraph 89 items

89 *The IASB's debate has considered whether some of the following types of contract should be measured differently on initial recognition and/or subsequently remeasured, for example, at their current exit price.*

(a) Long-term, fixed price contracts for goods and services having volatile prices (for example a take-or-pay contract for power or a commodity).

(b) Contracts in which the eventual outcome depends on specified uncertain future events (for example many guarantees, warranties, contracts with customer options and other stand ready obligations, particularly if longer-term).

(c) Long-term contracts involving big ticket items, such as large construction projects, where relatively small variations in circumstances can be significant to an entity's cash flows and perhaps therefore should be reported as they arise and not just when they result in an onerous performance obligation.

59 EFRAG's understanding is that the concerns underlying the contracts listed in paragraph 89 relate to whether the approach proposed in the paper, with its focus on original transaction price and remeasurements only if obligations become onerous, is able to cope satisfactorily with contracts where there is significant uncertainty as to the outcome (in terms of overall contract profitability). It is, we understand, these types of contract that have led some IASB and FASB members to argue for a current exit price model and remeasurement of performance obligations rather than an original transaction price.

60 We should also state that we are not persuaded that, in every circumstance in which there is significant uncertainty, the approach that results in the most useful information will always involve remeasurement. Indeed, we think that remeasurement can sometimes have the effect of obscuring the uncertainty that exists. Furthermore, we think it is important to differentiate, on issues such as this, between revenue recognition and income (or profit) recognition. For example, it might be that changes in expectations about future outcomes are an income recognition event, but not a revenue recognition event. Thus, the measurement approach that might be best for the performance obligation might not be the measurement approach that is best for revenue recognition because,



although all these issues have tended to be related in the past, it does not follow that they should continue to be related – or at least related in the same way.

- 61 Bearing all these things in mind, we are not convinced that any of the types of contract mentioned in paragraph 89 above raise concerns that cause us to believe that a different revenue recognition and measurement model to the one proposed in the discussion paper is necessary. On the other hand, we think it worth exploring whether the performance obligations themselves would in these circumstances be more usefully measured using a different alternative measurement basis. We think they may.
- 62 However, again, even though a different basis of measurement for some performance obligations would be necessary in order to provide decision-useful information, this should not affect how revenue is measured. In the view of EFRAG, the measurement of revenue should reflect the amount an entity receives in consideration for its transfer of an asset to the customer. Revenue should therefore for example not reflect increases or decreases in the costs to satisfy a performance obligation. In other words, if a performance obligation is measured using a different approach than the original transaction price, this measurement should not be used for revenue recognition purposes. Instead revenue recognition should be as if the performance obligation had been measured at the original transaction price. This approach would require that an entity record (but not necessarily present or disclose) the original transaction price for revenue measurement purposes even when it measures its performance obligation at another amount.

Paragraph 90 items

90 *For similar reasons (and other reasons), the IASB has also considered whether some or all of the following contracts should be excluded from the scope of the standard:*

(a) *Financial instruments and some non-financial instrument contracts that otherwise would be in the scope of standards such as IAS 39 Financial Instruments: Recognition and Measurement. In the IASB's view, because of the potential volatility in the value of those contracts, the proposed revenue recognition model might not always provide decision-useful information about them.*

(b) Insurance contracts that are in the scope of IFRS 4 Insurance Contracts. The IASB/FASB have an active project on the agenda for insurance contracts. In the IASB's view, the proposed revenue recognition model might provide decision-useful information for some contracts that the insurance project is considering, but not all of them.

(c) Leasing contracts that are in the scope of IAS 17 Leases. IASB/FASB have a joint project on the agenda for lease accounting, but one concentrating initially on developing an improved lessee accounting model. The boards have not yet decided how the proposed revenue recognition model would apply to lessor accounting.



- 63 We see the items listed in paragraph 90 above (financial instruments, insurance contracts and lease contracts) in very different terms to the paragraph 89 list (contracts with significantly uncertain outcomes). That is primarily because the paragraph 90 items are industry-specific and the IASB is currently carrying out major projects to develop comprehensive standards for those contract-types. We believe, as we have said already, that for conceptual and practical reasons it would be best if a single approach applied to all transactions, regardless of industry, but we also think it would be wrong simply to assume – or to take quick decisions without considering the issues in a comprehensive way – an approach developed with more generalised types of contract will necessarily also work for these industry-specific transactions. More work is needed on the industry-specific areas first.
- 64 On the other hand, we recognise that it could be argued that, if one wants a single, universally-applicable principle, decisions in this revenue recognition project should be deferred until the insurance, leasing and financial instruments projects have got further – because otherwise we run the risk of developing principles that will need to be changed when those projects are complete. The existence of cross-cutting issues of this type is of course a fact of life for all standard-setters, and they just have to find a balance that enables them to achieve progress and at the same time an increasing degree of consistency.
- 65 Bearing all this in mind, our tentative view is that for the time being the following performance obligations should not be within the scope of a revenue recognition standard:
- 66 (a) Performance obligations that would be within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Although many financial instruments would not meet the definition of a performance obligation as defined in the discussion paper – for example because the contract is not with a customer as defined – we think some performance obligations could be financial instruments. We do not think that it would help the understandability and decision-usefulness of the information to account for financial instruments differently depending on whether they meet the definition of performance obligation.
- 67 (b) Insurance contracts. As we have already mentioned, the IASB has a major project on the accounting treatment of insurance contracts, and one of the key issues being



considered in that project is how to measure insurance liabilities and what implications this has for the income statement. We think that, until that work is further advanced, all performance obligations relating to insurance contracts should be scoped out of the revenue recognition standard.

- 68 (c) Leasing contracts. Again, a major project on leases is underway and our view is that, until this work is further advanced, performance obligations in relation to leasing contracts should probably be excluded from the scope of a revenue recognition standard.

B. Sichtweise des DSR in früheren Sitzungen

- 69 Der DSR befürwortet zwar ein einheitliches Prinzip zur Umsatzerfassung, lehnt allerdings das vorgeschlagene Bewertungsprinzip ab. Insbesondere hat der DSR Zweifel, dass das im DP vorgeschlagene Prinzip bei folgenden Vertragstypen zu adäquaten Ergebnissen führt: langfristige Fertigungsverträge, Verträge bzgl. Finanzinstrumente, Leasingverträgen und Versicherungsverträgen.

C. Entwurf der Stellungnahme des DSR

- 70 We notice that the IASB/FASB have not excluded any particular contracts with customers from the proposed model. However, because of the potentially broad scope of a standard on contracts with customers, they have considered whether the proposed model, and in particular its measurement approach, would provide decision-useful information for the following contracts:

(a) Financial instruments and some non-financial instrument contracts that otherwise would be in the scope of standards such as IAS 39 Financial Instruments: Recognition and Measurement. In the IASB's view, because of the potential volatility in the value of those contracts, the proposed revenue recognition model might not always provide decision-useful information about them.

(b) Insurance contracts that are in the scope of IFRS 4 Insurance Contracts. The IASB/FASB have an active project on the agenda for insurance contracts. In the IASB's



view, the proposed revenue recognition model might provide decision-useful information for some contracts that the insurance project is considering, but not all of them.

(c) Leasing contracts that are in the scope of IAS 17 Leases. IASB/FASB have a joint project on the agenda for lease accounting, but one concentrating initially on developing an improved lessee accounting model. The boards have not yet decided how the proposed revenue recognition model would apply to lessor accounting.

71 We also have major concerns that the proposed model would provide decision-useful information for these contracts because the measurement approach applied for these arrangements are quiet different. Furthermore, as already mentioned above, we believe that the proposed model does not provide decision-useful information for long-term construction contracts.

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

72 Keine

**Question 11**

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

(b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

A. Veröffentlichter Entwurf des EFRAG Comment Letter

73 As already mentioned, EFRAG agrees with the paper's proposals that, on contract inception, both the contract asset and contract liability should be measured at the original transaction price. We further agree that an entity should recognise pre-contract costs and any costs involved in obtaining the contract (including commissions) as expenses as they are incurred unless they qualify for recognition as an asset in accordance with other standards.

74 However, we understand why some are concerned about the proposal that, even though the original transaction price will have been set so as to recover certain pre-contract costs and contract acquisition costs, none of that price will be recognised immediately to match those costs. It means, for example, that losses could arise in the early years of a profitable contract. It also means that an entity that is expanding will seem less profitable than one that is shrinking. However, in the view of EFRAG, regardless of how the price has been calculated, it is being earned by satisfying performance obligations and should therefore be recognised only as those obligations are satisfied.



To do otherwise would be inconsistent with the view that revenue is some sort of measure of activity undertaken in pursuant of a customer contract.

75 EFRAG has specifically considered if, for example, revenue could in some way be allocated to commissions paid to an agent in relation to the acquisition of an insurance contract. EFRAG does not think that this would be in accordance with the model proposed in the discussion paper, because no performance obligation is fulfilled at that point. Some believe that this is another reason why basing revenue recognition on the fulfilment of performance obligations is not appropriate.

B. Sichtweise des DSR in früheren Sitzungen

76 Dem Vorschlag des IASB im DP zufolge sind in den Transaktionspreis (Erstbewertung der Leistungsverpflichtung) auch den Verhandlungen und dem Abschluss eines Vertrags zuzurechnende Aufwendungen einzurechnen. Diesem Vorschlag stimmt der DSR unter der Prämisse zu, dass es sich um zusätzliche, dem Vertrag direkt zurechenbare (interne und externe) Aufwendungen handelt.

77 Der DSR spricht sich allerdings dafür aus, dass ein Gleichlauf hergestellt wird zwischen der Erfassung diese Kosten und der Erfassung des entsprechenden Umsatzes. Durch die Anwendung des *continuous approach* wird dies sichergestellt.

C. Entwurf der Stellungnahme des DSR

78 We agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations. But we are concerned about the proposal that, even though the original transaction price will have been set so as to recover certain pre-contract costs and contract acquisition costs, none of that price will be recognised immediately to match those costs.

79 We are in favour of matching the direct costs of obtaining a contract with revenue as far as the original transaction price will have been set so as to recover these costs. This



effect is reached by the continuous approach which measures the activity undertaken in pursuant of a customer contract. We believe that this approach provides more decision-useful information because otherwise the users get the impression that a contract is unprofitable only because of the time gap between the recognition of these costs as an expense and the recognition of the corresponding revenue.

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

80 Keine

**Question 12**

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

A. Veröffentlichter Entwurf des EFRAG Comment Letter

- 81 EFRAG agrees with this proposal. We also think that, generally speaking, stand-alone selling prices ought also to be readily available and the method ought to be relatively simple to apply.
- 82 We have, though, debated at some length what the reference to the entity's stand-alone selling price might mean in certain circumstances. For example, we think that in many cases a stand-alone selling price would depend on the customer, so it is necessary to decide whether to account for this customer effect. We think the stand-alone selling price is referring to the price the entity would have charged the customer, if that particular customer – and not any other customer – would have bought the good or service separately. We have reached that conclusion because in many cases it is likely to be impossible to estimate a stand-alone selling price without taking the customer into account. However, we think it would be useful if the ED could clarify the IASB's intentions.
- 83 We have also considered the situation in which the stand-alone selling price does not fully reflect the cost associated with providing an unbundled good or service. For example:
- 84 Assume a translator works for an entity under conditions where the control of the work performed is transferred to the customer on a continuous basis (for example because the customer owns the computer the translator is working on). The translator charges a fixed price per page to be translated no matter how many pages are to be translated. This price is therefore the translator's stand-alone selling price per page. If a customer has more than one page to be translated, the translator will not receive payment until all pages have been translated. However, the translation of each page could be sold separately, so the proposals in the discussion paper would require revenue to be recognised



on a page by page basis. In this situation the model of the discussion paper would allow the translator to choose to translate the easiest pages first (ie those that involve the lowest cost) and to recognise revenue related to the translated pages based on the fixed stand-alone selling price per page even though all pages have to be translated before the translator would receive payment.

85 In exploring this example we have asked ourselves whether the paper's proposal would provide decision-useful information under these circumstances. We think it would. Even though the translator will also have to translate the more difficult pages before receiving the payment related to the more easy pages, the revenue on the easier pages has to be recognised at the time when these pages are translated and that the profit margin is higher when these pages are translated. Accordingly, this higher margin should also be reflected in the income statement / statement of comprehensive income when the translation of the easy pages occurs.

B. Sichtweise des DSR in früheren Sitzungen

86 Hinsichtlich der Aufteilung des Transaktionspreises auf die einzelnen Leistungsverpflichtungen sollen laut Diskussionspapier als Basis die „stand-alone“-Verkaufspreise der einzelnen, hinter der gesamten Leistungsverpflichtung stehenden Güter bzw. Dienstleistungen dienen (Konzept der relativen Veräußerungspreise). Der DSR stimmt dieser Sichtweise zu.

C. Entwurf der Stellungnahme des DSR

87 We agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations.

88 We alternatively discussed to allocate the transaction price on the basis of the fair value of each good or service. We noted that this basis for allocation would be in line with the wording of IFRIC 13. Under this interpretation, the consideration allocated to the award credits shall be measured by reference to the fair value, ie the amount for which the



award credits could be sold separately. Assuming the term 'fair value' in this context is understood as an exit price, we nevertheless doubt that a fair value would be the adequate basis of allocation because it would negate the entity's price policy. On the other hand some could argue that this is not a disadvantage, but rather an advantage of a fair value driven allocation basis because it would not allow making cross-subsidies (ie improper assignment of costs among goods such that certain goods are overpriced while other goods are underpriced relative to the activity costs assigned).

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

89 Im aktuell erschienenen Exposure Draft *Fair Value Measurement* nimmt der IASB Änderung an IFRIC 13 vor; hält allerdings an dem *fair value* als Verteilungsbasis fest. Daraus kann gefolgert werden, dass im Rahmen von IFRIC 13 ein *exit price* als Verteilungsmaßstab heranzuziehen ist. Andererseits lässt sich m.E. daraus kein zwingendes Argument gegen den Vorschlag des Diskussionspapiers ableiten, da im Fall, dass das Diskussionspapier in einen endgültigen Standard mündet, IFRIC 13 entsprechend den Vorgaben des Diskussionspapiers angepasst werden könnte.



90 Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

A. Veröffentlichter Entwurf des EFRAG Comment Letter

91 EFRAG agrees with the discussion paper that, if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price.

92 EFRAG thinks that what the paper then goes on to propose is reasonable and pragmatic. Indeed, we think the only practical alternatives to the proposal would be to either prohibit – or at least not require – unbundling of contracts consisting of goods and services that are not also sold separately or to base unbundling on expected cost. EFRAG does not find these alternatives more attractive than the proposal.

B. Sichtweise des DSR in früheren Sitzungen

93 Für den Fall, dass Güter bzw. Dienstleistungen nicht separat veräußert werden, soll deren „stand-alone“-Verkaufspreis für Zwecke der Aufteilung des Transaktionspreises geschätzt werden. In diesem Zusammenhang ist der DSR der Auffassung, dass eine Schätzung grundsätzlich nicht in allen Fällen möglich sein wird.

C. Entwurf der Stellungnahme des DSR

94 The GASB generally agrees with the proposal in the discussion paper that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purpose of allocating the transaction price.



- 95 Nevertheless, we have major doubts that an estimation of the stand-alone selling price is possible in any case. For example, a buyer orders from a winegrower to a fixed price several bottles from one sort of wine and several bottles from another sort, and both sorts have not been produced yet. In that case, in our opinion the winegrower will not be able to estimate the stand-alone selling price of the different sorts because the selling price is primarily influenced by the quality of the wine and the winegrower can not reliably estimate which sort of wine will have which quality.
- 96 Assuming the entity is not able to estimate the stand-alone selling price, we would prefer that the entity would have to account for that performance obligation together with the other performance obligations.

Frage an den DSR: Hat der DSR materielle Anmerkungen zu diesen Ausführungen?

D. Anmerkungen des Projektmanagers

- 97 In Paragraph 5.47 des Diskussionspapiers wird gegen die Lösung des Rats eingewandt, dass, falls man keine Aufteilung vornehmen würde, es dazu führen würde, dass eine bereits erfüllte Leistungsverpflichtung als unerfüllt behandelt wird, solange nicht auch die zweite Leistungsverpflichtung erfüllt ist. Diese Argumentation geht davon aus, dass man bei Abschluss eines Vertrages eine Aufteilung zwischen den verschiedenen Leistungsverpflichtungen vornimmt und diese im weiteren Verlauf auch nicht mehr geändert wird. Es stellt sich allerdings die Frage, ob man im Falle, dass eine Schätzung bei Vertragsabschluss nicht vorgenommen werden kann, nicht zu einem späteren Zeitpunkt diese Aufteilung nachholen könnte, wenn eine Schätzung möglich ist. Andernfalls würde dies dazu führen, dass auch eine Kategorisierung des Umsatzes unterbleibt, obwohl dem Unternehmen alle Informationen vorlägen, um eine solche durchzuführen. Insbesondere unter der Prämisse, dass die Summe der Leistungsverpflichtungen und die Gegenleistung netto ausgewiesen werden, erscheint es möglich, vom Grundsatz abzuweichen, dass bereits bei Vertragsschluss eine entsprechende Aufteilung zu erfolgen hat.