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Dear Hans,

IASB Exposure Draft ED/2011/6 *Revenue from Contracts with Customers*

On behalf of the IFRS Committee I am writing to comment on the IASB Exposure Draft ED/2011/6 'Revenue from Contracts with Customers' (herein referred to as 'ED'). The IFRS Committee is pleased to have the opportunity to provide comments on this ED.

The IFRS Committee appreciates the joint efforts undertaken by the IASB and the FASB to clarify the principle for recognising revenue and to develop a common revenue standard for IFRS and US GAAP that uses a single revenue recognition approach for all transactions.

We believe the boards have made significant progress on the proposed revenue recognition model. However, we still have some concerns with the revised ED. Predominantly we encourage the Board to reconsider the following issues that are further explained in the two appendices to this letter:

- Lack of definitions and distinguishing criteria for the terms 'good' and 'service' makes any distinction often challenging and creates grey areas, particularly if intangible assets are involved.
- Proposal to present impairment losses on trade receivables as a separate line item, adjacent to the revenue line item is not useful for users of corporate financial statements. Instead we recommend maintaining the current presenta-



tion of this line item within the functional costs and disclosing the amount of a customer's credit risk in the notes to the financial statements.

- Proposal to include the onerous test in the revenue standard, to perform the onerous test at the performance obligation level and to limit the onerous test to obligations that an entity satisfies over a period of time greater than one year. Instead we recommend addressing the accounting for onerous performance obligations as stated in the existing liabilities standard. If the onerous test remains in revenue standard, then we suggest that it should be performed at a contract level, and it should cover all contracts with customers.
- Proposed disclosures for both annual and interim financial statements are excessive. We think that the proposed disclosures could be inconsistent with the information management uses to run the business. As a result, the disclosures may not be valuable to users.

Additionally, we believe that it is necessary to reconsider the following issues:

- Lack of definitions for the terms 'customer' and 'collaborator' in the scope of the proposed standard causes difficulties in distinguishing counterparties in a contract being a customer or a collaborator. The accounting treatment is different in both cases; we therefore suggest that the Board defines both terms and develops criteria in order that the two can be distinguished.
- Full retrospective application of the proposed guidance will be difficult to apply for entities with long term contracts and in some cases may be impracticable. Instead we recommend applying the modified retrospective application.

Please find our detailed comments on the questions raised in the ED in the appendices to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Appendix A

Question 1:

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

The IFRS Committee agrees with the principle of revenue being recognised when a promised good or service is transferred to the customer. Furthermore, we support the proposal to recognise revenue over time if some performance obligations result in the transfer of goods and services to the customer on a continuous basis. This is because we believe that such an approach provides more decision-useful information to users of financial statements.

We are aware that the new recognition standard is principle-based, and as such, a certain level of judgement will be required to determine when control of a good or a service has been transferred to the customer. There are situations, however, in which applying the criteria of paragraphs 35 to 37 could be challenging. Closely linked to this is another, more general, issue relating to the distinction between the terms 'good' and 'service'. The lack of clear differentiation between these two terms makes any distinction often complicated and creates grey areas, particularly if intangible assets are involved. A good example of such a situation is when an entity grants the customer the right to use an intangible asset with an indefinite useful life, for a specified time. This can be seen either as a transfer of goods, or as a transfer of services. Depending on the answer, the accounting treatment differs. In the example below, we explain a situation in more detail in which the lack of a definition of the terms 'good' and 'service' causes additional difficulties in applying the criteria of paragraphs 35 to 37.

We noticed that one of the requirements of the ED is, for instance, that a licence represents a performance obligation that an entity (licensor) satisfies at the point in time when the customer (licensee) obtains control of the licence. A good illustration of such a situation is when software developers sell the same software licences to a



number of customers on the same terms. However, there are cases in which determining the point in time of the transfer of control of a licence is not that simple. Such a situation occurs for example when an entity grants a customer the right to the use of a licence of a trademark with an indefinite useful life. In addition, it is assumed that the licensee has to pay a fixed licence fee to the licensor for a specified period of time, which is shorter than the economical useful life of the licence. It is agreed that at the end of the specified period of time the licence returns to the licensor. Furthermore, it is assumed, that during the time the licensee had the right to use the trademark, the value of the trademark has increased significantly.

The first question which occurs concerns the problem of whether control is transferred to the licensee, and if so, when. Following the principle of the current proposals, one might assume that control is transferred at that point in time at which the licensee obtained the right to use the trademark. As a consequence, the licensor should derecognise the part of the asset over which the licensee obtained control. Which part of the trademark should be derecognised is, however, unclear as it is an intangible asset with an indefinite useful life.

A closer analysis of the example above demonstrates the similarities with a lease contract in which a lessee has acquired the right to use the underlying asset, and pays for that right with lease payments. We think that in substance, the right to use a licence could be a leasing arrangement, and thus the application of the leasing standard to such scenarios may be more appropriate. On the other hand, we note that the leasing of intangible assets is outside of the scope of the current proposal for a standard on leases. This could create confusion, since licensing agreements generally transfer rights of use in various forms.

However, besides the similarities with a lease contract, the example described above also has some similarities with sales and repurchase agreements. Such agreements occur when certain contracts provide for the sale of an asset to a customer, and simultaneously provide the entity with the unconditional right or obligation to repurchase the asset from the customer. It could be argued that to grant a customer the right to use the licence of a trademark, with an indefinite useful life for a specified period of time (after which the licence returns to the licensor) is a sale with a repurchase agreement. If so, the current ED specifies that such a transaction would be accounted for as a lease if the repurchase amount is less than the original selling



price of the asset. Otherwise, the repurchase transaction would be treated as a financing arrangement.

Based on the example described above, we believe that a clear definition of the terms good and service will help to find a solution not only to this example but also for other cases in which a clear classification is not possible. As a result, we would like to encourage the boards to develop a clear definition when a transferred asset is a good and when it is a service.

Eventually, we would like to address the issue on accounting for the bundle as a single performance obligation, which in our view, needs some clarification. On the one hand, the ED proposes that when criteria defined in paragraph 29 are met, an entity shall account for the bundle as a single performance obligation. On the other hand, the principles in paragraph B 10 require that a warranty, for which a customer has the option to purchase separately from the entity, should be accounted for as a separate performance obligation by the entity. The question is what kind of accounting treatment is appropriate if such a type of warranty is strongly interrelated to other goods or services which are a part of a bundle. Is the warranty also a part of a bundle? Furthermore, even if the answer is that the warranty is a part of a bundle, it is still unclear whether the entity can or should account for them together as one performance obligation. In our view, some clarification on this matter would be helpful.

Question 2:

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

On the whole, we agree with the boards' proposal that an entity should present its gross revenue. Although we understand the intention of the boards in linking the presentation of the gross revenue line with the impairment loss line when accounting for revenue resulting from contracts with customers, we do have concerns that such



a presentation could be misunderstood by some users of financial statements. Given that the loss figure currently proposed combines initial expectations and subsequent adjustments that relate to revenue recognised in previous periods, we doubt that presenting subsequent adjustments, as if they related to the gross revenue for the current period, is useful for users of financial statements. Therefore, we disagree with the proposal to present impairment losses as a separate line item adjacent to the revenue line. Instead we recommend presenting this line item as an adjustment to other income or as expense in the profit or loss statement. We believe that users will receive information that is more useful if the amount of a customer's credit risk is provided in the notes to the financial statements. Furthermore, we suggest splitting this amount into two categories; one which relates to the initial estimate of collectibility at contract inception, and another which includes subsequent changes in assessing credit risk.

In addition, the ED requires that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) when accounting for amounts of promised consideration that an entity assesses as being uncollectible owing to customer credit risk. We are concerned that this requirement will create significant practical and operational issues, in particular for those entities dealing with small non-rated entities or occasional customers. The application of the three bucket approach, currently being discussed in connection with the impairment model under IFRS 9 is, in our view, not appropriate for trade receivables. We strongly recommend that the Board modify the proposed IFRS 9 guidance on impairment if its application should be required for measuring impairment losses of trade receivables. Moreover, we believe that if such impairment losses are not material and not a part of pricing decisions, it is not appropriate to apply very complex techniques in order to make estimates that are usually required for financial instruments.

Question 3:

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satis-



fied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

In general, we agree with the proposed requirements regarding a constraint on revenue recognition. Furthermore, we support the proposal that the cumulative amount of revenue an entity recognises should be limited to the amount to which the entity is reasonably assured to be entitled, rather than the amount that can be reasonably estimated, which was proposed in the 2010 exposure draft. We understood that this constraint involves being reasonably assured and therefore it is not a quantitative probability threshold but rather a qualitative assessment based on the level of predictive experience held by a particular entity. Nonetheless, there may be situations in which applying the term introduced could cause some difficulties in practice. For example, if a contract includes a consideration component that is variable according to the outcome of future events, and if the entity is not reasonably assured to be entitled to 20% of that amount (meaning that the entity is reasonably assured to be entitled to 80% of the amount of the variable consideration) in the sense that 80% is virtually certain to be achieved, what amount of variable consideration, if any, should be recognised upfront by the entity? Should it be 80% of it, or none of it?

Additionally, we point out that under the model proposed, for cases in which the consideration is variable and is constrained, in general an entity has to derecognise an asset, e.g. a licence before revenue can be recognised. This mismatch results out of the fact that control of an asset may already be transferred to the customer, however, the related revenue could not be recognised as the consideration to which the entity will be entitled to is not reasonably assured.

Furthermore, we believe that the term 'reasonably assured' lacks a clear definition according to IFRS. Although this expression is a common term used under the current US GAAP requirements for revenue recognition (which are primarily included in



ASC 605 *Revenue Recognition*), it is not a common term for IFRS, apart from its usage in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Therefore we recommend that the Board provide further guidance on this term.

The other example refers to a situation in which a long term contract includes variable consideration in the transaction price, and the management has experience with similar types of contracts, but that experience is limited in predicting the outcome of the contract. Following the proposed requirements, the entity is not allowed to recognise the amount of variable consideration as revenue upfront. In a subsequent accounting period certain circumstances may change, and the management may then be able to predict the outcome of that contract. The ED does not clarify whether or not the entity is required to report significant adjustments to the amount of revenue recognised at the inception of the contract, which resulted from subsequent changes in facts and circumstances.

We recommend that the Board clarify the accounting treatment for the examples described above.

Additionally, we have some concerns about paragraph 85. We generally agree with the exception proposed and introduced in this paragraph, but we think that the current proposal would be more useful to users and conceptually more consistent if the following issues were to be resolved. Firstly, we think that according to BC 203, paragraph 85 refers to situations in which factors outside the entity's control could subsequently affect the amount of revenue to be recognised. In BC 203 sales-based royalties are mentioned solely as an example for such situations, and it is therefore unclear why paragraph 85 covers only sales-based royalties and pays no attention to production-based royalties. If this is intentional, we do not understand why the accounting treatment for sales-based royalties should be different to that of production-based royalties or other situations where the consideration is based on factors outside the entity's control. Our second concern relates to the placement of paragraph 85. In our view it is not conceptually consistent to have the practical expedient as a standalone paragraph at the end of the section. We think that conceptually more appropriate treatment will result if paragraph 85 is integrated with paragraphs 82 or 83.



Question 4:

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that an entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We appreciate the fact that the boards are to develop a standard that is principle-based and conceptually consistent. However, we do not understand why the accounting for onerous contracts should – in the future – be a part of two standards as the overall economic background is equivalent. For this reason, we recommend addressing the accounting for onerous performance obligations as stated in the existing liabilities standard IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In our view, provisions for onerous performance obligations are cost accruals and therefore should be addressed in the liability standard rather than in the revenue standard. As we further point out our recommendation will not only be conceptually consistent but will also apply to all performance obligations and therefore will avoid any difficulties resulting from the current proposal to limit the scope of the onerous test.

Furthermore, since IAS 37 does not apply any longer to rights and obligations arising from contracts with customers (according to paragraph D21 of the ED), the outcome will be that the onerous test will not be applied to executory contracts with customers, and for transactions arising from contracts with customers where the loss is not related to the purchase of inventory and therefore do not fall under the scope of IAS 2, at all. We explain such transaction in more detail below.

If the boards decide to retain the onerous test in the revenue standard, then we disagree with the proposal that the onerous test should be performed at the performance obligation level and also with the proposal to limit the scope of the onerous test to performance obligations that are satisfied over time.

In our view, the onerous test should be performed at the contract level rather than at the performance obligation level. The proposed approach may not, in a large number of cases, reflect the underlying economics of the transaction, in particular when



an individual performance obligation is not profitable, but the overall contract is. Furthermore, we disagree with the boards' view expressed in the Basis for Conclusions (BC 207) that changing the unit of account for the onerous test from a performance obligation level to a contract level would add complexity and be arbitrary. On the contrary, we believe that applying the onerous test at the contract level will be similar to the current accounting treatment and therefore would not cause any additional complexity, but would better reflect the underlying economics of the transaction. Moreover, we are of the opinion that to perform the onerous test at the level of the performance obligation introduces inconsistencies with the IASB's Conceptual Framework (Framework). This is because losses recognised for an individual performance obligation in an overall profitable contract would not meet the definition of a liability under the Framework. To avoid this inconsistency, the unit of account cannot be lower than a contract or contracts in such cases that an entity combines two or more contracts in accordance with the requirements as defined in paragraph 17. In addition, we disagree with the boards' view that specifying the contract as the unit of account could be arbitrary as it would depend on whether the entity provides its goods or services in one contract, or in more than one contract.

Additionally, we believe that the need to track costs in each reporting period at a performance obligation level in order to determine whether they are onerous will be challenging for a number of entities. The reason for this is that entities usually track costs at the contract-level or higher. Consequently, the costs of implementing the new requirements may outweigh the benefits achieved.

As mentioned above, we do not support the boards' decision to limit the scope of the onerous test to performance obligations that are satisfied over a period greater than one year. The boards have clarified that performance obligations excluded from the scope of the onerous test typically have, or result in the creation of, related assets that would be subject to impairment testing by other standards, e.g. standards on inventories (IAS 2 *Inventories*). Although this view certainly applies to some transactions, there are transactions arising from contracts with customers where the loss is not related to the purchase of inventory and therefore do not fall under the scope of IAS 2. As indicated above, since IAS 37 does not apply any longer to rights and obligations arising from contracts with customers, the outcome will be that the onerous test will not be applied to such transactions at all. We do not support this conclusion



as we cannot see the reason why a 13-month contract is to be onerously tested, yet a 12-month contract that is onerous will not be tested if the impairment losses do not relate to the inventory within the scope of IAS 2.

In conclusion we recommend applying the existing onerous test in IAS 37 to contracts that are in the scope of the revenue recognition project. Such an approach will resolve the boards' concerns about whether performing the onerous test at the contract level will be inconsistent with the proposed model for recognising revenue at the performance obligation level.

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115);
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117);
- An analysis of the entity's remaining performance obligations (paragraphs 119–121);
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.



It is difficult to assess whether the disclosure requirements for any item in the financial statements are appropriate when they are specified in each standard, rather than in accordance with a clear disclosure framework. One of the consequences of this is that some of the proposed disclosures appear to duplicate information already required under different existing standards. Therefore, we strongly recommend that the boards develop a disclosure framework which will specify what information should be included, and how it should be disclosed in the notes to the financial statements. Such a framework would simplify the process of identifying disclosures in each area.

We understand the boards' objective of improving disclosures in connection with revenue from contracts with customers, but we consider the proposed requirements to be excessive and have concerns about whether the proposed disclosures meet the objective stated. Moreover, we have concerns that useful information will be difficult to recognise because of the volume of detailed information required by the ED. Additionally, the disclosure requires information that is not currently being used by management in some cases. In such cases we would question the benefit of providing such information to users. For that reasons, we urge the Board to reconsider the proposed disclosure requirements and to make sure that the required information satisfies the needs of the users and can be prepared at costs that do not outweigh the benefits achieved.

Our comments on disclosures that we consider unnecessary or whose purpose is unclear follow:

Disaggregation of revenue

We agree that disclosure of disaggregated revenue information should help users understand the composition of the revenue that has been recognised in a reporting period. As the Board acknowledged, the level of disaggregation is important because the information is obscured if the disclosure of that information is over-aggregated or too voluminous. We believe that the current requirements in IFRS 8 *Operating Segments* provide the appropriate level of information about the different types of revenue-generating activities of an entity. Further disaggregation may not be consistent with management's view of the business, and therefore we do not consider it to be useful.



Reconciliation of contract balances

We do not believe that the reconciliation of the movements in the aggregate balance of contract assets and contract liabilities is valuable. We are convinced that for most entities this information is not currently being produced or used by management to evaluate performance or run the business. We are also concerned that such reconciliation may be confusing to users, particularly when an entity collects cash, or recognises receivables, upon satisfying a performance obligation.

Remaining performance obligation

We do not think that the requirement to disclose the aggregate amount of the transaction price allocated to remaining performance obligations and the timing of expected recognition meet the boards' intention to give users information to understand an entity's future revenue streams. In our view, the required information is selective and would not necessarily enable an entity to reflect the economics specific to their business, or provide indicators of future revenue. For example, a factor that is not part of the required disclosure, but that might have an impact on future revenue is currency fluctuation. In addition, preparing an analysis of the entity's remaining performance obligation might be a burden to some preparers. Aggregation of this information may require a significant administrative effort, and significant cost, to update systems in order to provide the necessary information. If the Board continues to require such disclosures, we recommend making it clear that it excludes performance obligations that have been satisfied, though revenue has been constrained and therefore not recognised.

Assets recognised from the costs to obtain or fulfil a contract

In our view the required reconciliation of the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract is excessive. We consider that information on the closing balance of such assets would be sufficient and should be required only when it is significant.

Given the extent of annual disclosures that would be required by the ED, we question whether such extensive interim disclosure guidance is necessary and whether it balances appropriately the costs for preparers and benefits for users. Additionally, we believe there should be a clear distinction between requirements for interim and an-



nual reporting. In our view, the objective of interim disclosure should be to supplement the annual disclosures with information about the effects of significant changes in an entity's financial statements since the entity's most recent annual report. The key information about revenue should be disclosed in an interim financial report consistent with the principles of IAS 34 *Interim Financial Reporting*. Furthermore, we believe that those requirements are appropriate. If the Board, however, takes the view that this information should be reported quarterly we strongly recommend defining new principles, replacing IAS 34 instead of applying a conceptual inconsistent piece meal approach.

Question 6:

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Generally, we agree that the principles included in the proposed standard should be applied to a transfer of non-financial assets that are not part of an entity's ordinary activities. Furthermore, we agree that to achieve an appropriate level of consistency in practice, the requirements for derecognition and measurement of gains or losses on the sale of non-financial assets, which are part of the entity's ordinary activities, and those which are not, should be similar. Nonetheless, we have some doubts as to whether the consequences of the proposed amendments have been fully evaluated. The proposed principle, based on the transfer of control, may change the current accounting treatment as there may be a divergence in practice in understanding the principle for derecognition of PP&E or intangible assets or the accounting for contingent (variable) considerations, and it could therefore cause some unpredictable consequences. In this regard we paid particular attention to the transfer of control of



intangible assets. Furthermore, we have doubts that the principles of IFRS 5 *Non-current assets Held for Sale and Discontinued Operations* and the proposed standard are fully compatible. Therefore, we encourage the boards to consider further whether the proposed requirements, when applied to a transfer of non-financial assets that are not part of an entity's ordinary activities, would have any uncommon consequences in practice, or not.



Appendix B

In addition to the questions raised in the ED we would like to comment on the following issues:

- Scope
- Effective date and transition method
- Consistency with other projects
- Other concerns

- **Scope**

We noted that paragraph 10 of the ED requires that the proposal does not apply to a contract with a collaborator or a partner. However, there may be situations in which differentiating between whether counterparty in a contract is a customer or a collaborator is difficult. Such a situation occurs, for example, when an entity licenses intellectual property to another party, and the consideration varies based on the party's subsequent sales. It could be argued that the counterparty is a customer or a possible outcome could also be that the counterparty is a collaborator. The accounting treatment is different in both cases; we therefore suggest that the boards define both terms and develop criteria for the distinction between them.

- **Effective date and transition method**

We understand that the ED proposes full retrospective application of the new requirements in order to achieve an appropriate level of comparability across presented periods. However, we believe that full retrospective application of the proposed requirements will for many entities, be difficult to apply and in some cases may be impracticable as well. In particular, entities with existing long-term contracts, contracts with variable considerations or other non-standardised complex contracts that require a large degree of estimation will find it a very significant challenge to apply the proposed requirements retrospectively. Such application may require an entity to recreate information from the time at which the transaction was entered into, and which is no longer available. Consequently, management will make subjective estimates that



could reduce the relevance and the faithful representation of the financial statements. To avoid unnecessary costs that outweigh the benefits, we suggest that the boards allow a modified retrospective application. Such application will reduce challenges described above through introducing some practical expedients, e.g. allowing disclosing at least one period of comparative information about the change in accounting for revenue recognition, if obtaining the required information is not practicable or very costly.

If full retrospective application is required, we believe that preparers will need more time to implement the proposed requirements, than if other transition methods were to be allowed.

- **Consistency with other projects**

We are also concerned about the timing of the adoption of the revenue standard in connection with the other new standards, in particular the standard on leases that the boards are currently developing. An example of an interaction between the proposed revenue standard and proposed leases standard relates to different accounting treatment for economically similar transactions, in particular to accounting treatment of contingent revenue guidance under the proposed revenue standard and contingent rent guidance in lessor accounting under the proposed leases standard. We recommend that the boards reconsider such interactions between current projects and clearly explain significant differences in the accounting models for economically similar transactions.

Additionally, we recommend including cost-benefit considerations in the Board's determinations of the appropriate effective date and transition for each standard individually and as a whole.

- **Other concerns**

Mass-market industries

Additionally, we would like to emphasise that the proposed model for revenue recognition will be particularly complex and costly to apply to mass-market industries. Therefore, we encourage the Board to develop a practical expedient for contracts with multiple performance obligations in mass-market industries, as they often have a



huge amount of different types of contracts. As additional difficulty, for each of these contracts, the transaction price should be allocated to the various performance obligations based on the stand-alone selling price for the particular customer.

Allocating the transaction price

The ED generally requires that an entity allocate consideration on the basis of estimated stand-alone selling prices. In some circumstances, the ED allows an entity to use a residual approach to estimate the stand-alone selling price. In our view, application of residual approach is only reasonable for estimating the stand-alone selling price of a good or service where a contract includes not more than one performance obligation that represents the residual. There are, however, industries in which a contract includes more than one performance obligation with highly variable or uncertain selling prices. Consider the software industry in that such scenarios are very common and include arrangements that compromise, among others, software products and rights to specified future upgrades or software products and options to purchase further products at incremental discounts. The ED does not provide guidance on how to allocate the transaction price in such situations. We recommend that the boards develop practical expedients on allocating the transaction price for scenarios in which the stand-alone selling price cannot be reliably estimated for more than one performance obligation. We would like to emphasise that such practical expedient should be used only when it reflects the economics of the transaction and is a reasonable approximation of the stand-alone selling price.