



Glenn Brady,
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26th March 2012

Dear Glenn,

The Financial Reporting and Analysis Committee (FRAC) of The Chartered Financial Analyst Society of the UK (CFA UK) welcomes the opportunity to submit its response to Revenue Recognition.

CFA UK represents more than 9,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 9,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.

Revenue from Contracts with Customers

Final response to Exposure Draft, March 2012

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?

Yes. However, if we had been asked to comment on the subsequent section on “measuring progress” we would have reiterated a concern raised in our original response that a pragmatic approach, minimising the departure from current practice, can look like a continuation of percentage of completion. The input method is the clearest example of where there is a risk of diluting the principle of transfer of control to the customer. The danger with an approach that is very accommodating for the producer, or service provider, is that some revenue will be recognised too early. (Par 45 recognises this issue).

We have generally supported the use of risks/rewards analysis to help determine ownership of assets and welcome this addition to the indicators of when control is transferred.

Question 2: Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

Mixed views on where to put the line, but in favour of it being split out. In our original response we said: “Some members oppose taking account of customer’s credit risk in the transaction price, preferring an approach that keeps the two events – selling and collecting – separate. They do not wish to lose any transparency on the impairments, preferring that these are shown separately in the P&L.”

The reservation is that all receivables, whether they relate to trade revenue or loans, be considered for impairment in line with IFRS 9. More generally: where there is a financing that this ED should refer those arrangements to IFRS 9 rather than providing the accounting for it within this ED.

An interesting question on this is: Do we want to have, for each item, two lines, the first line with the “best guess” amount, followed by a second line that shows potential departure (eg impairment) from this amount, starting from the very top? Or do we want the top of the income statement to be a reflection of the current economic reality?

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

The indicators in Par 82 are certainly needed. The words “reasonably assured” are stronger than the original “reasonable estimate”. More generally, the reduced dependence on probability-weighted calculations is welcome. We have expressed some reservations previously either because this method is inappropriate when the outcome is binary, or because the judgments are both complex and subjective. The phrases

“expected value” or “most likely amount” are still subjective, but apply a simpler test to what the user wants to know. It is inevitable, however, that the more subjective, or judgment-based, estimates are, the more users require disclosure of assumptions and sensitivities.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period...greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Yes

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)**

In the IASB exposure draft, see paragraph D19 in Appendix D.

- **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 (par 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.

Bearing in mind the principle stated in paragraph 109, the following lengthy description of what should be disclosed does look overly prescriptive. Our main concern is that the preparer should apply the standard in a way that reflects its business model and provides relevant and material information. It must be remembered that the revenue line is one of the most important to analysts and that the weaknesses in IFRS 8, operating segments, have left us wanting further disaggregation.

Paragraph 110 says that the entity needs to consider how much detail is necessary. It might be better to spell out that what follows is not a list of minimum requirements but guidance that a company should apply where relevant. The materiality test should also be stressed.

Some other observations:

1. *The use of estimates and forecasts for long-term contracts means that users are dependent on management judgement. As has been stated before, the more this is the case, the more we need to see the workings behind the calculation.*

2. *Once a balance sheet approach is adopted then a desire to see reconciliations between opening and closing balances is inevitable.*
3. *The standard as amended has allowed a broad range of approaches, so broad that Thomas J Linsmeier, of the FASB, has stated in his alternative view: "the proposed model has introduced exceptions that permit revenue to be recognised in a manner that is inconsistent with the core principle on which the entire standard is purportedly based." The more variation in approach a standard allows, the more explanation is needed.*
4. *There are areas where more information might have been useful. While par 109 mentions cash flow, it is only mentioned once in the detail that follows, in par 117 (b). Also, contracts usually go wrong because of cost over-runs, and this standard gives no early warning of that happening before the contract becomes onerous.*
5. *It is not for users to estimate the cost of implementation. Since managing long-term contracts is a complex business, we would expect preparers to be continually monitoring progress. It looks as though the disclosure requirements are amenable to a variety of ways of depicting this. If this is not the case and/or if providing the information costs too much, then they will say so. We would prefer to wait for the final responses to this ED to hear any evidence of this.*
6. *There is some sympathy on the FRAC for not requiring quarterly reporting of all the disclosure requirements, although we would expect management to be collecting the information regularly. The latest indication from the EU is that it is rowing back on quarterly reporting requirements more generally. Bearing in mind other regulations that require the disclosure of price sensitive information, quarterly reporting of detailed information is not something the FRAC feels strongly about.*

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?

It seems sensible to apply the transfer-of-control principle more widely where it is relevant, and this type of transaction looks amenable to this treatment.

We look forward to discussing the issues raised in this response.

Yours sincerely,



Jane Fuller
Chair, Financial Reporting and Analysis Committee
CFA Society of the UK

A handwritten signature in black ink, appearing to read "Will Goodhart". The signature is written in a cursive, slightly slanted style.

Will Goodhart,
Chief Executive
CFA Society of the UK