

Topic

**Feedback on European Outreach on Revenue
Recognition and Leases**

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.



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**Feedback on European Outreach on
Revenue Recognition and Leases**

IFRS Advisory Council - June 2011 meeting

Objectives of the outreach events



- European input to the IASB
 - Assist with finalisation of standards
 - Ensure that final standards are suitable for use in Europe
- Main questions
 - Major concerns about EDs solved?
 - Any new major concerns?

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Events



Re-deliberations in scope

- Revenue recognition
- Leases

Locations

- Amsterdam
- Copenhagen
- Frankfurt
- Helsinki
- London
- Madrid
- Paris

Timing

- May 2011

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Revenue recognition

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Re-deliberations in focus



- Disaggregation of contracts
- Timing of revenue recognition
- Costs and benefits
 - Uncertain consideration
 - Credit risk
 - Time value of money

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Overall response

Was a complete overhaul of the existing standards really needed?

Support for the direction, but further refinements and guidance are needed

Need to analyse the final standard more closely

Re-exposure?

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Specific comments



- Disaggregation of contracts
 - Support for “no need to separate if integration service included”
 - ! – **BUT:** supporting guidance needed to avoid diverging interpretations

! For the IASB to consider

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Specific comments (continued)

- Timing of revenue recognition
 - Support for the direction on criteria for continuous transfer... But:
 - ! – **Concerns:**
 - revenue could be recognised beyond rights for consideration acquired
 - ! • “No alternative use” to be reconsidered: too great prominence and subject to diverse interpretations

! For the IASB to consider

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Specific comments (continued)

- Allocation of revenue to performance obligations
 - ! – Difficulties remain for certain industries
 - Telecommunication
 - Software

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Specific comments (continued)

- Uncertain consideration
 - Support for the “reasonably assured” limit
 - Supplementary monitoring needed as notion subject for further discussion within the Board
- Credit risk
 - Support for not reflecting credit risk in transaction price and separate presentation
 - BUT: Views split on geography of the allowance

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Specific comments (continued)

- Time value of money
 - Support for the direction
 - ! – **BUT:** Need to address practical difficulties under POC
- Disclosures
 - Too excessive and eliminate benefits of IFRS 8 *Operating Segments*
 - Need to be industry-specific and explain business model

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Recommendations made to the IASB

- Make the right to payment for performance to date a necessary condition for revenue recognition
- Solve the remaining concerns in specific industries
- Reconsider:
 - Short-term exemption for time value of money
 - Where to report credit risk
 - Disclosures


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Leases

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Re-deliberations in focus



- Definition of a lease
- Are all leases the same, and if not, should all leases be accounted for similarly?
- Options
- Contingent rents
- Short-term leases

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Overall response

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Keep current IAS 17 model

Not much support for the direction

Need to analyse the final standard more closely

Re-exposure!!!


15

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Specific comments

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- Definition of a lease
 - Support for the revised definition, notably “the specified asset” notion
 - ! – **BUT:** supporting guidance needed to avoid diverging interpretations

! For the IASB to consider

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Specific comments (continued)

- Two types of leases
 - Not all leases – as defined - are financing arrangements
 - ! – **Support for:** right-of-use model applied to financing arrangements
 - ! – **No:** the same model cannot apply to arrangements of a different nature
 - ! – **Keep current IAS 17 model:** quality of direction not sufficient to support change

! For the IASB to consider

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Specific comments (continued)

- Options to extend and purchase
 - Improvement: to include only options with significant economic incentive
 - ! – **However:** only “non – genuine” options to be taken into account (similar to contingent rents)

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Specific comments (continued)

- Contingent rents
 - Improvement: not to proceed with weighted-average approach, not to include “genuine” contingent rents
- Short-term leases
 - ! – **Support for:** simplified approach for both lessees and lessors
 - Split views on 12-month exemption

! For the IASB to consider

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Recommendations to the IASB

- Rethink fundamentally the boundary of the project and have a full consultation process on that new basis
 - Revised definition?
- Be more restrictive in the treatment of options
- Keep the exemption for short term leases

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