Staff Paper

Project **Revenue recognition**

Topic **Disclosure and presentation**

Objective

1. This paper seeks the boards' views on improvements to the proposed disclosure and presentation requirements in the exposure draft *Revenue from Contracts with Customers* ('the ED').

2. This paper also reflects observations and recommendations related to the cross-cutting disclosure discussion from the joint meeting in the week of 21 March 2011. At that meeting, the boards considered the disclosure objectives for the revenue standard and so, as a result, this paper does not discuss those disclosure objectives.

Summary of staff recommendations

3. The staff recommends that the boards retain the disclosures proposed in paragraphs 69-83 of the ED (see the appendix to this paper that includes those proposals), subject to the following clarifications and changes.

4. For the disaggregation of revenues:

   (a) The final standard should include additional examples of potential categories (eg contract duration, timing of transfer, sales channel) but should not prescribe how an entity should disaggregate revenue.

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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(b) An entity should be permitted, but not required, to use several categories to disaggregate revenue.

(c) An entity should not be required to disaggregate the allowance for any expected impairment loss.

(d) An entity should be permitted to disaggregate revenues either on the face of the statement of comprehensive income or in the notes to the financial statements.

5. For the presentation of contract assets and liabilities in the statement of financial position, an entity should be permitted to:

(a) Present contract assets and contract liabilities as separate line items in the statement of financial position.

(b) Provide additional detail about contract assets and receivables either on the face of the financial statements or in the notes to the financial statements.

(c) Use labels other than 'contract asset' or 'contract liability'. However, an entity should disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to consideration (a receivable whether billed or unbilled) and conditional rights to consideration (ie a contract asset).

6. The staff recommends retaining the requirement for an entity to disclose a reconciliation of contract assets and contract liabilities, but emphasizing the role of materiality when determining how much detail to provide in the reconciliation (and whether to provide it in some circumstances).

7. The staff recommends that the final standard should:

(a) not include a maturity analysis disclosure; and

(b) add a sentence to paragraph 77 of the ED to highlight that in some circumstances (eg prepaid subscription services contracts), an entity

would be expected to also include quantitative information about when the performance obligations will be satisfied.

Structure of this paper

8. The paper is structured as follows:

   (a) Setting the scene (paragraphs 10–12)

   (b) Disaggregation of revenues (paragraphs 13–28)

   (c) Presentation of contract assets and liabilities (paragraphs 29–34)

   (d) Reconciliation from opening to closing balance of contract assets and contract liabilities (paragraphs 35–43)

   (e) Maturity analysis disclosure of remaining performance obligations (paragraphs 44–65)

   (f) Disclosures of onerous performance obligations (paragraphs 66–70)

   (g) Disclosures related to significant judgement and changes in judgment (paragraphs 71–77)

   (h) Overall disclosure package (paragraph 78)

   (i) Nonpublic entity considerations (FASB only) (paragraphs 79–88)

9. Appendix A of this paper lists the presentation and disclosure proposals in the ED.

Setting the scene

10. Although respondents generally agreed with the disclosure objectives proposed in the ED, most respondents (mainly preparers, auditors and some professional bodies and standard setters) stated that the disclosures specified in the ED would result in voluminous disclosure that may not be justified on cost-benefit grounds. Concerns were that the disclosures would be costly to prepare and that some of

the information might be misconstrued (eg the relevance of the maturity analysis disclosure as a predictor of future revenues) or that the proposed requirements might yield boilerplate disclosure. Furthermore, a few comments received on the ED and in outreach suggest that each of the proposed disclosures have merit individually, but the overall package of disclosures could be viewed as excessive. In contrast, users were generally supportive of the proposed disclosure package because they consider existing revenue disclosures to be insufficient.

11. The staff thinks that the conflicting feedback on the proposed disclosures highlights a challenge for the boards—to refine the disclosures into a package that provides users with sufficient useful information and for that information to be provided at a reasonable cost. Some of the concerns raised about excessive disclosure may arise because the information required to be disclosed is not useful. A reason why that information may not be useful is that the information is immaterial.

12. If the information provided by a disclosure is immaterial, an entity would not need to provide that information (consistent with existing requirements in IFRSs and US GAAP on materiality and also with the revenue ED and the March 2011 cross-cutting paper on disclosure). However, because the revenue standard would apply to entities operating in a wide array of industries, the standard would need to specify the revenue disclosures that might be relevant for some entities or industries but not others. Consequently, the long list of disclosures in the revenue ED is not necessarily an indicator of disclosure overload. That assessment should be made only after considering the application of those disclosures to particular types of entities or industries.

Disaggregation of revenues

13. Users generally supported the proposal in paragraph 74 of the ED (which is reproduced in Appendix A) to disaggregate revenue into various categories that reflect how revenue and cash flows are affected by economic factors. This is

because users want to understand an entity's different revenue streams when assessing an entity's expected future cash inflows.

14. Respondents to the ED expressed different views on how an entity should disaggregate revenue.

    (a) Many respondents were concerned that the proposed requirement in paragraph 74 to disaggregate revenue duplicates the disaggregation requirements for revenue in IFRS 8 *Operating Segments* and Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification*®.

    (b) Some respondents, mainly users, suggested that the disaggregation requirement should be more specific to encourage greater consistency in the selection of categories to disaggregate revenue.

Disclosure duplication concerns

15. Because of the duplication concern mentioned in paragraph 14(a), many respondents suggested that the boards should align the disaggregation requirements in paragraph 74 and the disaggregation requirements for segment reporting in order to avoid similar disclosure requirements in different standards.

16. The staff disagrees that the revenue standard would lead to the duplication of the disaggregation of revenue. That is because paragraph 72 of the ED states that an entity need not disclose information if it has provided the information in accordance with another standard. Paragraph 72 states:[1]

> Other IFRSs (for example, IFRS 8 *Operating Segments*) require an entity to present and disclose information related to revenue. The entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS. However, an entity shall present and disclose the additional information in accordance with this [draft] IFRS in a way that shows how it relates to information required by that other IFRS.

[1] Paragraph 72 of the FASB's Proposed Accounting Standards Update has the same wording except that the references to IFRSs are to the relevant sections of the FASB Accounting Standards Codification.

17. Furthermore, the segment reporting disclosures are not a substitute for the disaggregated revenue disclosures in the revenue standard. A specific revenue disaggregation requirement is needed in the revenue standard because:

    (a) the segment reporting disclosures for revenue may be based on non-GAAP information (ie the revenue that is reported to the chief operating decision maker may be recognised and measured on a basis that is not in accordance with the revenue standard);

    (b) some entities that would apply the revenue standard are exempt from providing segment disclosures (eg entities that are not listed on a public stock exchange).

Specificity of the disaggregation requirements

Categories

18. Some respondents requested that the revenue standard prescribe disaggregation of revenues into specified categories or include industry-specific guidance on how to disaggregate revenue. The staff does not think either alternative would improve the proposed disaggregation requirements. Because, as noted previously, the revenue standard would apply to entities operating in a wide array of industries, the staff thinks that the disaggregation requirement should be based on a principle that clearly identifies the purpose of the disaggregation rather than listing prescribed categories that might provide disaggregation that is useful in some, but not all, cases.

19. The staff thinks that the disaggregation proposals in the ED provide the entity with the appropriate flexibility to disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors. However, the staff thinks the disaggregation requirement could be improved by mentioning additional categories that might be appropriate. Categories that were suggested in the comment letters and in outreach included:

(a) contract duration (ie to distinguish between short-term and long-term contracts);

(b) timing of transfer of the goods or services (ie to distinguish revenue from goods or service that are transferred to customers at a point in time and revenue from goods or services that are transferred over time); and

(c) sales channels (ie to distinguish between goods that are sold directly to customers and goods that are sold through intermediaries).

20. Furthermore, some respondents also suggested that the disaggregation should be based on the information that is provided to the chief operating decision maker:

> We believe that the way management, specifically the Chief Operating Decision Maker (CODM), evaluates financial performance should be given large weighting in the determination of how revenue should be disaggregated, as these measurements provide the most meaningful information as to how the business is managed. [CL #322]

21. The staff thinks that each of the above suggested categories could be used by an entity to disclose a disaggregation of their revenue to the extent that, for that entity, those categories would meet the disaggregation principle specified in paragraph 74 of the ED.

Disclosure of the disaggregated revenue information

22. Respondents asked for clarification on whether the revenue should be disaggregated into one category or several categories (eg to disaggregate revenue by type of good *and* by geography). For instance:

> […] it is not clear to us whether it is sufficient that the entity disaggregates revenue into the one category it believes to be the most appropriate one or whether disaggregation into several categories (each being appropriate) is required. [CL #370]

23. The ED proposals would allow an entity to use several categories to disaggregate revenue, but the proposals would not require the entity to do so. The staff recommends that the standard should clarify this fact.

24. Furthermore, in the context of a customer's credit risk, the boards decided in March 2011 to require the entity to present an allowance for any expected impairment loss adjacent to revenue in the statement of comprehensive income. The staff recommends that the separate line item for that allowance should not be subject to disaggregation in the context of paragraph 74. The staff thinks that disaggregating the impairment allowance could be burdensome for preparers and it may not provide useful information because collectibility is customer specific and typically managed by the entity centrally whereas the revenue may be disaggregated on a basis that is specific to the attributes of the transaction (eg if the entity sold a good or a service, the location of the sale).

Location of the disaggregation requirements

25. As addressed in the cross-cutting disclosure paper in March 2011, respondents recommended that the boards should develop a general disaggregation principle that would apply across different standards, including for the disaggregation of revenue. In this context, respondents indicated that it would be more appropriate to incorporate the examples of disaggregation categories proposed in the ED into the segment disclosures and, perhaps ultimately, as part of a general disaggregation principle arising from the financial statement presentation (FSP) project. For IFRSs, it was commonly mentioned that such amendments to IFRS 8 should be considered as part of the post-implementation review on that standard. The staff thinks that the disaggregation of revenue could be revisited as part of further study on a general disaggregation principle in the FSP project. The staff does not recommend relying solely on the disaggregation requirements in the segment reporting standards for the reasons outlined in paragraph 17.Disclosure of disaggregation of revenue in the statement of comprehensive income

26. The ED proposals do not address whether the disaggregation of revenue should be presented in the statement of comprehensive income or in the notes to the financial statements. A few respondents to the ED commented that the boards

should require the disaggregation of revenue into categories in the statement of comprehensive income.

27. In targeted outreach, the staff gathered more information from users on whether and why the disaggregation should be presented in the statement of comprehensive income or in the notes. The views of users were mixed on whether it is important to have the disaggregation on the face of the financial statements. The users in favour of disaggregating revenue in the statement of comprehensive income explained that they believed that it would result in disaggregated revenue information becoming available on a more timely basis. Specifically, those users want disaggregated revenue information to be provided in the earnings releases that listed companies typically provide to the market (eg in a press release) in the weeks preceding the release of the entity’s full set of financial statements.

28. As some other users pointed out, entities are typically not compelled to apply IFRSs or US GAAP to the format and presentation of those earnings releases. Consequently, specifying in the revenue standard that an entity should present the disaggregation of revenue in the statement of comprehensive income would not necessarily result in that disaggregation being included in an entity’s earnings release to the market. Consequently, the staff does not think that it is necessary to prescribe whether an entity should present the disaggregation of revenue on the face of the financial statements or in the notes.

Question 1: disaggregation of revenues
The staff recommends that for the disaggregation of revenues, (a) The final standard should include additional examples of potential categories (e.g. contract duration, timing of transfer, sales channel) but should not prescribe how an entity should disaggregate revenue. (b) An entity should be permitted, but not required, to use several categories to disaggregate revenue. (c) An entity should not be required to disaggregate any expected impairment loss. (d) An entity should be permitted to disaggregate revenues either on the face of the statement of comprehensive income or in the notes to the financial statements. Do the boards agree?

Presentation of contract assets and liabilities

29. Many comment letters raised questions regarding the presentation requirements for contract assets and contract liabilities. Those questions included requests for clarification on:

    (a) whether the contract assets or contract liabilities have to be presented as separate line items in the statement of financial position; and

    (b) how to present contract assets and receivables in the statement of financial position.

Presentation of contract assets and contract liabilities

30. The staff recommend that contract assets and contract liabilities should be disclosed in accordance with existing requirements in IFRSs and U.S. GAAP for the preparation and presentation of the statement of financial position and note disclosure.

31. That existing guidance would not necessarily require separate presentation of the contract assets and contract liabilities. For instance, IAS 1.29 requires the entity to present separately:

    (a) each material class of similar items; and

    (b) items of a dissimilar nature or function unless they are immaterial.

32. If the contract assets and contract liabilities are material, the entity would disclose those amounts in separate line items. If those amounts are not material and therefore the entity would not be required to present those amounts separately, the reconciliation requirement in paragraph 75 of the ED would provide the user with the information regarding the amounts of contract assets and contract liabilities that are recognised in the statement of financial position.

Presentation of contract assets and receivables

33. The following response notes the relationship between contract assets and receivables and requests that the revenue standard should be flexible in requiring the presentation of those items in the statement of financial position.

> We currently present both billed and unbilled receivables together on the face of the financial statements as contracts in process and provide a reconciliation of the contracts in process line item in the footnotes to our financial statements. We believe this is the most meaningful presentation, as the vast majority of our contracts are under a continuous transfer of control model and the only difference between billed and unbilled receivables is the timing of the payments. We recognize in other industries the differences between billed and unbilled receivables primarily relates to complete satisfaction of a performance obligation and agree that separate presentation may be most meaningful in those instances, As such, we request that entities be allowed to present contract assets and receivables in a way that provides the most decision useful information to their investors and other financial statement users, as long as they provide related disclosures to reconcile those amounts and explain the presentation. [CL#132]

34. The staff thinks an entity should be permitted to provide additional detail on its contract assets or receivables either on the face of the financial statements or in the notes. Thus, an entity could choose to distinguish between, say, billed and unbilled receivables in the financial statements. An entity should also be permitted to use labels other than 'contract asset' or 'receivable' to describe those assets. However, if the entity uses different labels to describe those assets or recognizes those assets in more than one line item, the entity should disclose that fact so that users of financial statements can clearly distinguish between the assets in which the entity has an unconditional right to consideration because nothing other than the passage of time is required before payment of that consideration is due (ie a receivable) and those assets in which the right to consideration is conditional (ie a contract asset).

Question 2: presentation of contract assets and liabilities
The staff recommends that an entity should be permitted to: (a) Present contract assets and contract liabilities as separate line items in the statement of financial position. (b) Provide additional detail about contract assets and receivables either on the face of the financial statements or in the notes to the financial statements. (c) Use labels other than 'contract asset' or 'contract liability' on the statement of financial position. However, an entity should disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to consideration (a receivable whether billed or unbilled) and conditional rights to consideration (ie a contract asset). Do the boards agree?

Reconciliation from opening to closing balance of contract assets and contract liabilities

35. Many users are concerned that entities report revenue in isolation, and therefore users cannot relate revenue to working capital balances in the statement of financial position, such as trade receivables and advance payments from customers. Feedback from the comment letters and in subsequent outreach activities clearly indicated that users think that the proposed reconciliation would help them to understand the relationship between the revenue recognized in the current reporting period and the changes in the entity's contract assets and contract liabilities. Some users suggested that the disclosure would be especially useful for industries or entities with long-term contracts, such as construction contracts and outsourcing contracts.

36. A few respondents suggested that the reconciliation should provide more detail, such as by:

    (a) adding a line item for cash paid—this would show reimbursements made to customers;

    (b) in the line item for amounts transferred to receivables, distinguishing between receivables that are billed and unbilled; and

    (c) in the line item for foreign currency exchange differences, distinguishing between foreign currency *transaction* gains and losses (included in profit or loss) and foreign currency *translation* gains and losses (included in other comprehensive income).

37. In contrast, most preparers commented that the reconciliation of contract assets and contract liabilities would be very costly to prepare. Most accounting systems do not capture that information and so those systems would need to be redesigned.

Reconsidering the reconciliation of contract assets and contract liabilities

38. After considering the feedback from the comment letters and the targeted outreach, the staff's view is that the reconciliation requirement is consistent with the disclosure objectives of providing information to understand the amounts arising from contracts with customers that have been recognised in the financial statements. The information provided by the reconciliation is not available from other qualitative or quantitative disclosure requirements. Many users acknowledged that the reconciliation would impose costs on preparers, but they considered that the disclosure was important because it would help them to understand the interaction between revenue that has been recognised and the movements in cash, receivables as well as contract assets and contract liabilities.

39. Given those benefits that the reconciliation should provide to users, the staff thinks that the reconciliation can be justified on cost-benefit grounds notwithstanding that some entities may need to implement new systems or processes to collect the relevant information and prepare that disclosure.

40. Some preparers have also questioned the usefulness of this disclosure. In some cases, that might be explained simply as a difference of views between preparers and users. In other cases, that might indicate a concern that the entity would be disclosing information in the reconciliation that is not useful because it is immaterial.

41. One approach to addressing those concerns about the reconciliation would be to require entities to provide a reconciliation only if specified criteria are met. For instance, that criteria might include:

    (a) if the contract meets specified attributes (eg it is a long-term contract, the entity operates in a particular industry); or

    (b) if the contract assets or liabilities are classified as non-current assets or liabilities in the statement of financial position.

    The staff thinks that this would not be a viable approach because of the difficulty in clearly identifying those types of contracts or industries for which

a reconciliation would provide (or would not provide) useful information. Furthermore, that criterion could apply to exclude some, but not all, of an entity's contract assets and contract liabilities from the reconciliation. If that were to happen, the disclosure would not represent a reconciliation of the items in the financial statements.

42. For that reason, the staff proposes a different approach. The staff thinks that the requirements in existing IFRSs and US GAAP to not disclose immaterial information should determine:

    (a) when the reconciliation is provided (eg the reconciliation could be immaterial for entities that operate cash sales businesses); and

    (b) how much detail is provided in that reconciliation. On this point, some comments indicate that the requirement in paragraph 75 of the ED that the '*reconciliation shall, at a minimum, show each of the following, if applicable*' is unclear. The staff thinks that the boards did not intend for an entity to show those specified reconciling line items if that information in that line item was immaterial. Instead, the purpose of that requirement was to encourage entities to include in that disclosure reconciling line items that are additional to each of the reconciling line items specified in paragraph 75 of the ED (assuming that information is material). Examples of those additional reconciling line items would include those line items suggested at paragraph 36.

43. To avoid further confusion, the staff plans to clarify the role of materiality assessments in the disclosure of the reconciliation.

Question 3: reconciliation of contracts
The staff recommends retaining the requirement for an entity to disclose a reconciliation of contract assets and contract liabilities, but emphasizing the role of materiality when determining how much detail to provide in the reconciliation (and whether to provide it in some circumstances). Do the boards agree?

Disclosure of remaining performance obligations

Overview of the disclosure proposed in the ED

44. Paragraph 78 of the ED proposed that an entity should disclose:

    (a) the amount of the transaction price allocated to the performance obligations remaining at the end of the reporting period; and

    (b) the expected timing of the satisfaction of those performance obligations, which is to be presented in one-year time bands for each of the subsequent three years and a fourth time band for all performance obligations remaining after 3 years.

    This disclosure is sometimes referred to as a ‘maturity analysis’.

45. Because the information provided by this disclosure would be most useful for longer-term contracts, the boards proposed the disclosure for only those contracts with an original expected duration of more than one year.

Summary of the feedback received

46. The proposal to disclose the remaining performance obligations in the contract garnered the least support from respondents to the ED. In subsequent outreach with user groups, some users indicated that the proposed disclosure would provide them with information that is ‘nice to have’ but not essential to their analysis. However, the views on the usefulness of the disclosure did vary by

industry and business (eg the disclosure provides more useful information for subscription services than for retail transactions).

47. The main concerns identified with the disclosure proposed in paragraph 78 of the ED related to:

    (a) the breadth of performance obligations that would be included in the disclosure;

    (b) the costs relative to the benefits; and

    (c) the consequences of disclosing forward-looking information.

Breadth of performance obligations to be disclosed

48. Most users suggested that the usefulness of the disclosure would be enhanced significantly if the disclosure also includes the remaining performance obligations associated with wholly unperformed contracts that could be terminated without penalty. Those contracts would be excluded from the scope of the revenue standard by virtue of paragraph 11 of the ED,[2] however users have indicated that those contracts are relevant to their analysis. For example:

> […] we believe reporting entities should disclose all contracts that are significant but cancellable without penalty. […] we are afraid that orders newly added to outstanding would not be disclosed at all, however significant they are as long as they are contracts wholly unperformed and cancellable without penalty. However, we are aware that outstanding orders currently disclosed especially by manufacturing companies are cancellable without penalty in many cases, and they are significant for analyst's estimation of future cash flows of the entity even though the contracts are wholly unperformed. [CL#965]

[2] Paragraph 11 of the ED states "A contract does not exist for the purpose of applying this [draft] IFRS if either party can terminate a wholly unperformed contract without penalty. A wholly unperformed contract is a contract under which the entity has not transferred any goods or services and the customer has not paid any consideration."

The costs to an entity of preparing the disclosure

49. Many respondents commented that it would be difficult and costly to prepare and audit the disclosure. They noted that existing accounting systems are not designed to track and capture the information, including the information on scheduling the timing of the satisfaction of those remaining performance obligations. They also questioned the usefulness of the disclosure because, depending on the nature of the entity's business(es), the disclosure may give prominence to only a relatively small subset of the entity's potential future revenues.

50. Many respondents also disagreed with the prescriptive time bands proposed in the ED. They commented that, if the disclosure is to be useful, an entity should have some flexibility to schedule the amounts of the remaining performance obligations into time bands that are appropriate for their business(es) and industry.

Consequences of disclosing forward-looking information

51. Many respondents commented that the disclosure of remaining performance obligations is forward-looking information. Respondents raised the following concerns with the revenue standard requiring the disclosure of forward-looking information:

    (a) from a conceptual perspective, they consider that forward-looking information should be presented in management commentary rather than in the notes to the financial statements. Respondents noted that, in some jurisdictions, the location of that disclosure also has practical consequences. For instance, in the USA, disclosures that are presented in the notes to the financial statements are excluded from the 'safe harbor' protections regarding forward-looking statements that are afforded under the Private Securities Litigation Reform Act (PSLRA) and related US SEC regulations.

(b) Some respondents stated the proposed disclosure could require entities to disclose commercially-sensitive information. For instance, as one respondent commented:

> For companies […], with longer lead time in the business cycle and fewer contracts signed during a reporting period, this requirement may lead to the compelled disclosure of confidential licensee volume and pricing information and would significantly impact […] ability to close deals with new and existing licensees that could adversely affect […] business. [CL#198]

An image problem?

52. As the above paragraphs illustrate, the overall feedback on the proposed disclosure was resoundingly negative. However, before reconsidering whether to require the disclosure, the staff thinks that it is worthwhile revisiting the boards' initial rationale for proposing that disclosure.

53. In January 2010, the boards discussed whether the presentation of contract balances in the statement of financial position and the reconciliation of those contract balances should be provided on a gross basis or a net basis. Because of concerns about complexity and cost, the boards decided to propose that the contract balances should be presented and reconciled on a net basis. The boards noted that a consequence of their decision would be that an entity would not be required to provide information on the amount of remaining performance obligations that would be expected to be recognised as revenue in subsequent reporting periods. Some board members believed that this information would be very useful to users of financial statements and they did not want users to lose access to that information. For that reason, the boards agreed to propose that an entity should disclose a maturity analysis of its remaining performance obligations.

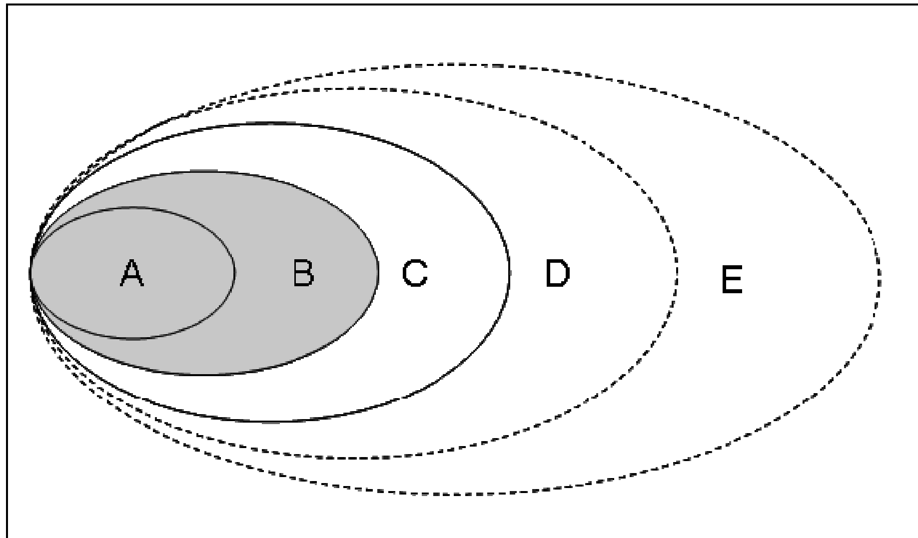
54. Those decisions clearly indicate that the disclosure is not intended to be a 'backlog' disclosure, even though the disclosure is sometimes referred to in those

terms and respondents seemed to judge its usefulness on the basis of its effectiveness as a backlog disclosure.

Reconsidering the disclosure

55. Assuming that the presentation and reconciliation of contract balances would still be provided on a net basis (as proposed in the ED), the boards need to consider how to proceed with that proposed disclosure. Consequently, the remainder of this section of the paper considers the following issues:
    (a) Should the boards require an entity to provide information on the amounts of future revenue that it expects to receive from customers, and how should the boards define the boundaries of those future revenue amounts?
    (b) If so, how much information should an entity provides on the timing of that future revenue?
56. The staff considered alternatives and whether to limit or extend the breadth of the maturity analysis. Figure 1 illustrates the possible measures that could be subject to maturity analysis to provide information regarding the amount and timing of future revenue.

Figure 1: Alternative measures subject to maturity analysis of future revenue



Key:

A: Carrying amount of contract liabilities (ie scheduling when advance payments received from customers will be recognised as revenue)

B: Gross amount of performance obligations remaining from contracts with an original expected duration of more than one year (ie the ED proposal)

C: Gross amount of performance obligations remaining from all contracts with customers (ie including those contracts with an original expected duration of one year or less)

D: Order book/backlog measure (ie including cancellable contracts)

E: Measure of estimated future revenue of entity (ie including anticipated contracts)

A disclosure based on a measure of D or E

57. At one end of the spectrum, the boards could require an entity to provide a disclosure that is based on a measure of revenue that is expected to be recognised in the future from wholly unperformed contracts and from anticipated contracts (eg measure D or E in Figure 1). In various outreach meetings with user groups, users indicated that they are especially interested in the disclosure of that information.

58. As a further benefit, there are three attributes of disclosures required by IFRSs or US GAAP that are generally missing from existing backlog disclosures:

    (a) compulsion to disclose the information;

    (b) consistency in the preparation and disclosure of that information; and

    (c) independent assurance of the information disclosed.

    Therefore, including this disclosure in the revenue standard could be considered to improve the reporting of financial information generally.

59. Despite those benefits, the staff does not recommend requiring this information to be disclosed because the disclosure would include information that paragraph 11 of the ED would exclude from the scope of the revenue standard (ie because the disclosure would include future contracts and contracts that are wholly unperformed and that can be cancelled without penalty). The staff also notes that many users commented that the capital markets often can encourage entities to provide backlog information if it is an important part of their business.

A disclosure based on a measure of B or C

60. The disclosure proposed in the ED is based on a measure of B. A disclosure based on a measure of C would include all remaining performance obligations from contracts within the scope of the revenue standard. In developing the ED, the boards proposed to simplify compliance with the requirement by excluding from the maturity analysis those contracts that have an original expected duration of one year or less. A consequence of proposing that exemption is that there would be no linkage between the net presentation of the contract balances and the gross performance obligations in the maturity analysis disclosure.

61. As noted earlier, respondents raised the following concerns with the disclosure:

    (a) The maturity analysis would provide limited useful information for contracts other than, say, long-term contracts such as construction contracts or outsourcing contracts. In other words, those respondents

considered that the one year exemption was insufficient. Alternatives could include:

(i) prescribing the attributes of contracts that should feature in the maturity analysis; or

(ii) extending the duration of the contracts that are exempt from the disclosure, such as contracts with an expected original duration of two years.

(b) An entity would have practical difficulty in determining the amount of the remaining performance obligations.

62. In many cases, the staff disagrees with the concern (b) in paragraph 61 because under the proposed model an entity would need to determine and allocate the transaction price in order to recognise revenue. Therefore, if the entity cannot determine the amount of the remaining performance obligations, it presumably is unable to recognise revenue. However, in some cases, an entity would not need to strictly apply each step of the model to be able to recognise revenue. This would be the case for some 'cost plus' or 'time and materials' contracts whereby the contract specifies that the contract price is based on a rate per unit of input (eg hours worked, materials consumed). With those contracts, an entity would recognise revenue as it performs the work and consumes the materials in the amount specified in the contract. Consequently, the staff thinks that if the boards require this disclosure, an entity should exclude those contracts from the disclosure for which the entity would not otherwise have to determine the transaction price in order to apply the revenue standard. The staff thinks that this clarification would ease some of the preparation concerns raised by respondents.

No disclosure or a disclosure based on a measure of A

63. At the other end of the spectrum, the boards could decide to:

(a) remove the disclosure requirement completely; or

(b) limit the breadth of the disclosure to only include a maturity analysis of when the entity expects its contract liabilities to be recognised as revenue. This is a disclosure that some entities currently provide, particularly in the information technology industry for businesses in which customers typically pay in advance to receive subscription or maintenance services over time.

Staff recommendation

64. The staff thinks a maturity analysis of remaining performance obligations would provide useful information. However, the staff thinks the costs to preparers of providing that disclosure across all industries would exceed the benefits of the disclosure. In addition, the staff highlights that the final standard already would require a qualitative disclosure of when an entity expects to satisfy its remaining performance obligations (see paragraph 77 of the ED). For reason, the staff recommends that the final standard should:

    (a) not include a maturity analysis disclosure; and

    (b) add a sentence after that disclosure in paragraph 77 of the ED to highlight that in some circumstances (eg prepaid subscription services contracts), an entity would be required to also include quantitative information about when the performance obligations will be satisfied. That would add consistency to the entities that currently provide a similar disclosure.

Timing of future revenue

65. If the boards decide to retain the maturity analysis disclosure, the staff recommends that—consistent with the underlying objective of the disclosure proposed in the ED—an entity should also be required to explain when it expects those amounts to be recognised as revenue. The ED proposed that an entity should schedule the amounts of the remaining performance obligations that it expects to satisfy in time bands that would be prescribed by the standard.

Because respondents disagreed with the rigidity of those time bands and some also expressed a concern that the scheduling could imply a degree of precision in the expectation of which period a performance obligation is expected to be satisfied, the staff recommends that the boards should permit an entity to choose whether to provide that explanation:

(a) on a quantitative basis using a time band series that would be most appropriate for the duration of the contract (which would be consistent with the observations made in the cross-cutting disclosure discussion from the joint meeting in the week of 21 March 2011); or

(b) by using a mixture of quantitative and qualitative information (eg the entity expects that 25-35% of the remaining performance obligations would be satisfied in year *x* and 65%-75% of the remaining performance obligations would be satisfied in years *y* and *z*).

Question 4: remaining performance obligations
The staff recommends that the final standard should: (a) not include a maturity analysis disclosure; and (b) add a sentence after that disclosure in paragraph 77 of the ED to highlight that in some circumstances (eg prepaid subscription services contracts), an entity would be expected to also include quantitative information about when the performance obligations will be satisfied. Do the boards agree? If the boards disagree and decide to require a maturity analysis disclosure, the staff recommends that an entity should explain when it expects those amounts to be recognised as revenue, either: (a) on a quantitative basis using a time band series that would be most appropriate for the duration of the contract; or (b) by using a mixture of quantitative and qualitative information.

Disclosures relating to liabilities from onerous contracts

66. Paragraphs 79 and 80 of the ED proposed that an entity should disclose:
    (a) the amount of any liability recognized for an onerous performance obligation together with information about that liability; and
    (b) a reconciliation from the opening to the closing balance of that onerous liability.

67. The feedback received on those proposed disclosures for onerous liabilities repeated the concerns that respondents raised with recognising a liability (i) for onerous performance obligations when the overall contract is expected to be profitable or (ii) for contracts with low profit margins that oscillate between being onerous and profitable. Those disclosures were also identified as an example of a disclosure requirement that was excessive.

68. The staff thinks that most of those concerns about excessive disclosure are addressed by the boards' tentative decision in February 2011 to change the unit of account for the onerous test from the performance obligation to the contract, specifically the remaining performance obligations in the contract. The effect of that decision is that disclosure about onerous liabilities should be less frequent—because those liabilities will be recognised only when the contract is onerous (and not when only a performance obligation is onerous).

69. Some respondents remarked that requiring a reconciliation of changes in the liability for construction contracts that are onerous represents a change from current practice because existing standards do not require a similar disclosure. However, feedback from users suggests that this disclosure would help them to better understand the risks associated with those contracts.

70. The staff recommends that the disclosures proposed in paragraphs 79 and 80 of the ED should not be amended (other than for the consequential effects of the boards' decision to change the unit of account of the onerous test). Those disclosure requirements would be similar to the disclosure requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for liabilities arising from onerous contracts. Similar reconciliation disclosure is proposed in the ED for insurance contracts.

Disclosures related to performance obligations and significant judgements in applying the revenue standard

71. The ED proposed that an entity should disclose the following information:

    (a) descriptions of the entity's performance obligations (paragraph 77 of the ED);

    (b) judgements, and changes in judgements, associated with determining the amount and timing of revenue from contracts with customers (paragraphs 81-83 of the ED).

72. The main concern raised by respondents in relation to these proposed disclosures is that the disclosures may yield boilerplate information. The following two factors may explain why respondents reached that conclusion.

    (a) The information required to be disclosed is perceived to be general in nature. For instance, those paragraphs would require the disclosure of (among other things) a description of the types of goods or services the entity has promised to transfer, a description of when the entity typically satisfies its performance obligations, the methods used by the entity to recognise revenue for performance obligations satisfied continuously, information about the methods, inputs and assumptions used to determine the transaction price.

(b) To comply with the proposed requirements in a manner that would not yield boilerplate disclosure, some respondents think that an entity would need to disclose information that is specific to individual contracts or classes of contracts. However, that level of detail would not be feasible for an entity to disclose if, for instance, it has numerous contracts in numerous markets to provide various customers with a variety of goods or services. For that reason, those respondents think that many entities will tend towards providing boilerplate disclosure.

73. In targeted outreach with users, the staff discussed these concerns that the disclosures might yield boilerplate information. It was suggested that the existence of boilerplate disclosure is not necessarily indicative of shortcomings in the disclosure requirements of a specific standard, but it could suggest that the requirements are not being applied consistently with the stated disclosure objective.

74. Some users suggested strategies for discouraging boilerplate disclosure. For instance, they stated that information is less likely to become boilerplate if:

(a) narrative information is linked to amounts that are recognised in the financial statements or disclosed elsewhere in the notes; and

(b) the information is specific to the entity and, where possible, to a particular class of the entity's contracts.

75. Some users also suggested that an entity should structure its disclosures to distinguish between disclosures that are specific to the reporting period and disclosures that are unlikely to change between reporting periods, such as the disclosure of significant accounting policies. Similar proposals to separate such explanatory information have been made in the recently released discussion paper "Cutting clutter" [3] by the Financial Reporting Council in the UK.

[3] *Cutting clutter* (2011), Financial Reporting Council, http://www.frc.org.uk/images/uploaded/documents/Cutting%20clutter%20report%20April%2020112.pdf

76. The staff thinks that those considerations regarding the structure and presentation of explanatory information should be addressed comprehensively in the scope of another project, such as a possible future project to provide a disclosure framework.

77. The staff recommends the disclosures proposed in paragraphs 77 or 81-83 of the ED should not be amended (other than for drafting improvements). However, the staff plans to emphasise in the Basis that:

    (a) disclosure that has the characteristics of boilerplate is unlikely to satisfy the disclosure objective in paragraph 69 of the ED; and

    (b) those disclosures would not be necessary if the information is immaterial.

Overall disclosure package

78. Because a lot of feedback on the ED indicated that the package of proposed disclosures was excessive, the staff would like to ask the boards to confirm whether—after agreeing to the revenue disclosures individually—they also agree to those disclosures as a package that will be included in the revenue standard and applied by all entities (subject to the information to be disclosed being material).

Question 5: overall disclosure package
Do the boards agree with the revenue disclosures as a total package?

Nonpublic entity considerations (FASB only)

79. This section of the paper was prepared by the team of FASB staff that focuses on the financial reporting of private entities and not for profit entities.

80. The staff has conducted outreach to obtain feedback from nonpublic entity constituents including financial statement users, preparers, and auditors to

evaluate whether nonpublic entities should be exempt from providing some of the proposed revenue recognition disclosures. This section includes a summary of the feedback received from nonpublic entity constituents relating to the revenue recognition disclosure requirements in the ED.

81. The FASB is not being asked to make any decisions about nonpublic entity disclosure exemptions at this time. The staff has considered the feedback received from nonpublic entity constituents and will provide the FASB with a further analysis and its final recommendations about disclosure exemptions for nonpublic entities at a subsequent FASB meeting, subject to the boards' decisions reached on the disclosure requirements for all entities.

Overall views

82. Many respondents stated that nonpublic entities should not be required to provide the level of disclosures proposed in the ED. They indicated that some of the proposed disclosure requirements would:

    (a) Not provide decision-useful information to users of nonpublic entity financial statements. While some of the proposed disclosure requirements would provide useful information, many users of nonpublic entity financial statements already receive supplemental revenue information based on their individual needs in addition to what is required by existing guidance. Also, many users have direct access to management; therefore, they can obtain additional information upon request if needed.

    (b) Provide information that is too detailed for many users of nonpublic entity financial statements. Several users indicated that the proposed requirements would result in disclosure overload. This results in a cost to users because they must sort through the notes to find the information that is relevant to their decision-making process.

(c) Not provide benefits that will outweigh the costs due to the efforts involved to prepare and audit the disclosures.

Disaggregation

83. Preparers are concerned with the difficulty and costs to compile this information and potential competitive disadvantage by disclosing disaggregated revenue information. Preparers of nonpublic entity financial statements noted that the proposed disaggregation requirement is similar to the required disclosures under Topic 280, Segment Reporting, which are encouraged but not required for nonpublic entities.

84. Some users have stated that disclosure of disaggregated revenue information could provide useful information depending on what information is conveyed. However, some users indicated concerns that the disclosures may not provide useful information in all circumstances based on the flexibility in the proposal. Some users that require disaggregated revenue information, such as investors and sureties, indicated that they already receive this information directly from management.

85. The staff thinks that nonpublic entities should be exempt from the quantitative proposed disclosure requirements on disaggregation of revenue in paragraph 74 of the ED. However, the staff thinks that nonpublic entities should be required to disclose qualitative information about their revenue that will help users of nonpublic entity financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Reconciliation from opening to closing balance of contract assets and contract liabilities

86. The majority of nonpublic entity constituents do not think that the costs of providing a reconciliation of contract assets and contract liabilities will outweigh the benefits. Preparers and auditors are concerned with the level of detail and costs associated with compiling this information. Some users have stated that

they do not find all roll forward information decision-useful and they are concerned about disclosure overload. Nonpublic entities generally are not required to disclose reconciliations from the opening to the closing balance (roll forwards) of accounts included in the statement of financial position because their users often can obtain this information directly from management. The staff thinks that this exemption should apply to the reconciliation disclosure requirements included in paragraphs 75 and 76 of the ED relating to contract balances and paragraph 80 of the ED relating to the liability recognized for onerous performance obligations (pending the boards' decision on Agenda Paper 4C / FASB Memo 143C on the onerous test).

Maturity analysis

87. Currently, entities are not required under U.S. GAAP to disclose a maturity analysis of amounts allocated to remaining performance obligations. However, under SEC rules, public entities are required to disclose certain unaudited backlog information in MD&A. Many auditors of nonpublic entities have commented on the difficulty to audit such information which would increase costs to preparers. Some users of nonpublic entity financial statements currently receive similar information directly from management in more detail than what is being proposed. This disclosure could result in redundant information that may not provide additional benefits to users of nonpublic entity financial statements. The staff thinks that the costs of providing this information will outweigh the benefits to users; therefore, nonpublic entities should be exempt from the disclosure requirements in paragraph 78 of the ED.

Judgements, assumptions, methods, and inputs

88. The disclosure requirements about significant judgments included in paragraphs 81 and 82 of the ED are generally consistent with the requirements in Topic 235, Notes to Financial Statements, and Topic 275, Risks and Uncertainties, which most nonpublic entity constituents agree are cost-beneficial. Topic 235 requires

a nonpublic entity to disclose important judgments as to the appropriateness of principles relating to revenue recognition to current and future periods. However, the specific requirements in (a) and (b) of paragraph 81 and paragraph 83 require additional detail that some users may not need and others can obtain directly from management, which results in concerns about disclosure overload. Therefore, the staff thinks that nonpublic entities should be exempt from the disclosures required under (a) and (b) of paragraph 81 and paragraph 83.

Appendix A—ED proposals on presentation and disclosure

Presentation (see paragraph B91)

64 When either party to a contract has performed, the entity shall present the contract in the statement of financial position as either a *contract asset* or a *contract liability* depending on the relationship between the entity's performance and the customer's performance.

65 If an entity performs by transferring goods or services to a customer before the customer performs by paying consideration, the entity shall present the contract as a contract asset. Conversely, if a customer performs before an entity performs, the entity shall present the contract as a contract liability.

66 An entity shall present an unconditional right to consideration as a receivable (not as a contract asset) and shall account for that receivable in accordance with IFRS 9. A right to consideration is unconditional when nothing other than the passage of time is required before payment of that consideration is due.

67 An entity shall present any asset recognised in accordance with paragraph 57 separately from the contract asset or contract liability.

68 An entity shall present any liability recognised for an onerous performance obligation separately from any contract asset or contract liability.

Disclosure (see paragraphs B92–B96)

69 To help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, an entity shall disclose qualitative and quantitative information about:

(a) its contracts with customers (paragraphs 73–80); and

(b) the significant judgements, and changes in judgements, made in applying the [draft] IFRS to those contracts (paragraphs 81–83).

70 An entity shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

71 If the disclosures provided in accordance with this [draft] IFRS and other IFRSs do not meet the objective in paragraph 69, an entity shall disclose whatever additional information is necessary to meet that objective.

72 Other IFRSs (for example, IFRS 8 *Operating Segments*) require an entity to present and disclose information related to revenue. The entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS. However, an entity shall present and disclose the additional information in accordance with this [draft] IFRS in a way that shows how it relates to information required by that other IFRS.

Contracts with customers

73 An entity shall disclose information about its contracts with customers to help users understand the amount, timing and uncertainty of revenue and cash flows from those contracts, including:

(a) a disaggregation of revenue for the period (paragraph 74);

(b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraphs 75 and 76); and

(c) information about the entity's performance obligations (paragraphs 77 and 78), including additional information about its onerous performance obligations (paragraphs 79 and 80).

Disaggregation of revenue

74 An entity shall disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Examples of categories that

might be appropriate include:

(a) type of good or service (for example, major product lines);

(b) geography (for example, country or region);

(c) market or type of customer (for example, government versus non-government customers); or

(d) type of contract (for example, a fixed-price versus a time-and-materials contract).

Reconciliation of contract balances

75 An entity shall provide a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall, at a minimum, show each of the following, if applicable:

(a) the amount(s) recognised in the statement of comprehensive income arising from:

(i) revenue from performance obligations satisfied during the reporting period;

(ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;

(iii) interest income and expense; and

(iv) the effect of changes in foreign exchange rates;

(b) cash received;

(c) amounts transferred to receivables;

(d) non-cash consideration received; and

(e) contracts acquired in business combinations and contracts disposed.

76 An entity shall reconcile the opening and closing aggregate balance of contract assets and contract liabilities to the amounts presented in the statement of financial position.

Performance obligations

77 An entity shall disclose information about its performance obligations in contracts with customers, including a description of:

(a) the goods or services the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(b) when the entity typically satisfies its performance obligations (forexample, upon shipment, upon delivery, as services are rendered or upon completion of service);

(c) the significant payment terms (for example, whether the consideration amount is variable and whether the contract has a material financing component);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

78 For contracts with an original expected duration of more than one year, an entity shall disclose the amount of the transaction price allocated to the performance obligations remaining at the end of the reporting period that are expected to be satisfied in each of the following periods:

(a) not later than one year;

(b) later than one year but not later than two years;

(c) later than two years but not later than three years; and

(d) later than three years.

Onerous performance obligations

79 An entity shall disclose the amount of any liability recognised for onerous performance obligations together with a discussion of:

(a) the nature and amount of the performance obligations for which the liability has been recognised;

(b) why those performance obligations have become onerous; and

(c) when the entity expects to satisfy the liability.

80 An entity shall provide a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall show the amounts recognised in the statement of comprehensive income attributable to each of the following, if applicable:

(a) performance obligations that became onerous during the period;

(b) performance obligations that ceased to be onerous during the period;

(c) amount of the liability that was satisfied during the period;

(d) the time value of money; and

(e) changes in the measurement of the liability that occurred during the reporting period.

Significant judgements in the application of the [draft] IFRS

81 An entity shall disclose the judgements, and changes in judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from contracts with customers. That disclosure shall explain the judgements used in:

(a) determining the timing of satisfaction of performance obligations (paragraph 82); and

(b) determining the transaction price and allocating it to performance obligations (paragraph 83).

Determining the timing of satisfaction of performance obligations

82 For performance obligations satisfied continuously, an entity shall disclose:

(a) the methods (for example, output methods, input methods and methods based on the passage of time) used to recognise revenue; and

(b) an explanation of why such methods are a faithful depiction of the transfer of goods or services.

Determining the transaction price and allocating it to performance obligations

83 An entity shall disclose information about the methods, inputs and assumptions used:

(a) to determine the transaction price in accordance with paragraphs 35–49;

(b) to estimate stand-alone selling prices of promised goods or services;

(c) to measure obligations for returns, refunds and other similar obligations;

(d) to measure the amount of any liability recognised for onerous performance obligations (including information about the discount rate).