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Project	Revenue Recognition		
Paper topic	Update on outreach regarding disclosure and transition proposals		
CONTACT(S)	Natasha Dara	ndara@ifrs.org	+44 (0)20 7246 6919
	Heather Harris	hlharris@fasb.org	+1 (203) 956-3455
	Brian Schilb	bjschilb@fasb.org	+1 (203) 956-3447

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Purpose of the paper

1. This paper provides a summary of the feedback received on the proposed disclosure and transition requirements in the 2011 Exposure Draft *Revenue from Contracts with Customers* (“the 2011 ED”). This summary includes feedback that was received through comment letters and outreach activities undertaken during both the comment period and the redeliberations period, including the feedback provided in the disclosure and transition workshops held in late 2012.
2. This paper does not include any staff recommendations and the Boards will not be asked to make any technical decisions on the proposed disclosure and transition requirements at this meeting. The staff will prepare a separate paper with analysis and recommendations on the proposed disclosure and transition requirements for the Boards to discuss at their February 2013 joint meeting.

Structure of this paper

3. This paper is structured as follows:
 - (a) Background (¶4-10)
 - (b) Overview of the disclosure and transition workshops (¶11-14)
 - (c) Summary of feedback on the proposed disclosure requirements (¶15)
 - (d) The proposed disclosure requirements (¶17-17)
 - (e) Qualitative disclosures (¶18-23)
 - i. Information about performance obligations (¶19-20)
 - ii. Significant judgements (¶21-22)
 - (f) Quantitative disclosures (¶24-58)
 - i. Disaggregation (¶25-33)
 - ii. Reconciliation of contract balances (¶34-41)
 - iii. Remaining performance obligations (¶42-54)
 - iv. Assets recognised from the costs to obtain or fulfil a contract with a customer (¶55-58)
 - (g) Proposed interim disclosure requirements (¶59-66)
 - (h) Other topics (¶67)
 - (i) Transition and effective date (¶68-71)
 - (j) Next steps (¶72)

Background

4. The invitation to comment in the 2011 ED included a question for respondents about the Boards' proposal to prescribe revenue disclosures that an entity should provide in its interim reports. However, many respondents, both in comment letters and in outreach, did not limit their comments to the proposed interim

disclosure requirements, but instead also provided feedback on all of the proposed disclosure requirements and on the proposed transition requirements.

5. A number of respondents acknowledged and supported the Boards' objective to improve the disclosures related to revenue recognition in order to provide more useful information for users. However, in relation to specific areas of the proposed disclosure requirements, the feedback indicated a nearly unanimous divide between users and preparers.
6. Most users and regulators commented that the proposals (for both interim and annual reporting) would yield improved disclosures from current requirements. Users acknowledged that the proposed disclosure requirements may appear extensive, but they thought that this perception is more reflective of the inadequacy of current disclosure requirements than it is a criticism of the proposals:

The Board's project on revenue recognition offers for the first time comprehensive disclosures about revenue. Current required disclosures about revenues are inadequate. Not surprisingly, many companies voluntarily supply revenue data to help fill the void between current requirements and users' needs for information. The Board is sure to hear many concerns from preparers about the volume of incremental disclosure it has proposed. Indeed, the increase is significant when measured relative to today's minimal requirements. Yet, when measured against the importance of revenue-related issues to financial analysis, and the volume of data that many companies voluntarily supply, the proposals are reasonable. Generally, we find the proposals helpful, expanding disclosures in important areas. However ...enhancing the disclosures could better meet users' needs. (CL #28 Investors Technical Advisory Committee)

7. Many users commented that the proposed guidance could be enhanced further by requiring additional disclosures beyond those proposed. Regulators also

advocated additional disclosures of revenue, however they were mindful of the additional costs of compliance that preparers would bear for additional disclosures.

8. In contrast, preparers and other respondents (ie national standard-setters, auditors and industry organisations) expressed significant concerns with the prescriptive nature and volume of disclosures proposed in the 2011 ED. In particular, these respondents opposed the addition of the proposed disclosure requirements on the basis that the disclosures do not appropriately balance the informational needs of users with the practical concerns of preparers.
9. In addition to concerns about the overall cost-benefit of the proposed disclosure requirements, preparers indicated that they have practical concerns that would hinder their ability to apply the proposals. Of particular concern are the proposed reconciliations of contract balances and the disclosures about remaining performance obligations proposed in paragraphs 117 and 119 of the 2011 ED, respectively. Preparers said that the proposed disclosure requirements would require information that is not needed by management in running the business and therefore, would be of questionable benefit to users. Furthermore, respondents indicated that because preparers do not currently use some of the information required by the disclosures, they could gather it only by making significant and costly systems changes:

...preparers across all industries express extremely strong disagreement with the proposed disclosures because of significant additional costs for preparing them. That is, they are concerned that additional investment in accounting systems would be needed to collect data from across many consolidated entities, including small-sized ones, and to process them into auditable accounting information. This data, including the tabular reconciliation of contract assets and liabilities and the analysis of the entity's remaining performance obligations, is not currently used for any internal management purposes. They also have strong reservations about the effectiveness of the

proposed items from the perspective of their usefulness to a disclosure in financial reporting as well as their benefit to internal management information. (CL #188 Accounting Standards Board of Japan)

10. In addition, preparers questioned how some of the proposed disclosure requirements would be used in the user's review and analysis.

Overview of the disclosure and transition workshops

11. The disclosure requirements in the 2011 ED were designed to complement the model for recognising and measuring revenue and to help users understand the effects of where and how estimates and judgements are made. As noted above, users and preparers have polarised views of the proposed disclosure requirements and, as a result, the Boards decided to conduct workshops to facilitate a discussion between users and preparers. The objective of these workshops was to better understand user and preparer perspectives and to identify potential solutions to address both user needs and preparer costs.
12. The Boards held four workshops between September and December 2012 in the United States, the United Kingdom and Japan. The average workshop was about 3-4 hours and workshop participants included Board members and staff, users, including both accounting and industry analysts, and preparers representing various industries, such as:
 - Technology;
 - Services;
 - Retail;
 - Industrial;
 - Telecommunications; and
 - Media and entertainment.

13. In preparation for the workshops, the preparer and user participants developed materials that were presented in the workshops. Preparer materials included descriptions of why a disclosure may be difficult to prepare, as well as potential alternative disclosures that may provide similar information but at a lesser cost to preparers. User materials included a summary of their overall views as well as a list of the most critical revenue disclosures, current best practices, and alternatives.
14. The workshops encouraged debate and were robust working sessions in which users and preparers took the opportunity to discuss their respective concerns and preferences.

Summary of feedback on the proposed disclosure requirements

15. The feedback received on the proposed disclosure requirements can be broadly categorised as follows:
 - (a) general comments on the proposed disclosure requirements as a whole, including concerns about disclosure overload;
 - (b) specific comments on the proposed disclosure requirements of qualitative information about revenue;
 - (c) specific comments on the proposed disclosure requirements of quantitative information about revenue; and
 - (d) comments on the proposed interim disclosure requirements for revenue.

The proposed disclosure requirements

16. With the exception of most users, respondents and outreach participants expressed concerns that the proposed revenue disclosures would result in disclosure overload. To help address those concerns, they suggested that paragraph 109 or 110 of the 2011 ED should be clarified, so as to minimise the likelihood that the disclosures listed in the 2011 ED come to be viewed as required minimum

disclosures or a checklist. (Paragraph 110 states that an entity shall consider the level of detail necessary to satisfy the disclosure objective and to aggregate or disaggregate disclosures so that useful information is not obscured by the inclusion of a large amount of insignificant detail.) Some respondents also explained that the words ‘an entity shall’ in paragraph 109 and before each disclosure increased the likelihood that those disclosures could be seen as minimum disclosures or a checklist. To address this problem, these respondents suggested that it might be helpful to explicitly state that the proposed disclosure requirements should not be interpreted as minimum requirements or a checklist in the standard itself (in addition to paragraph BC 248 as currently written).

17. Some preparers stated that a prescriptive list of disclosures would become a compliance exercise – ultimately, the emphasis should be consistent with the way management views the business, which in turn helps to ensure that the disclosures are relevant. They think that as management changes the way it manages the business, the disclosures should change accordingly. They acknowledged that some disclosures are useful in some industries, but not in others and that by applying a management perspective to disclosures, there may be a challenge with consistency between entities and industries because of the different ways in which entities are managed. Some preparers suggested that the Boards should consider the adequacy of the proposed disclosure requirements in light of the disclosure objectives being developed by the FASB in its disclosure framework project.

Qualitative disclosures

18. Generally, respondents focused their comments on the quantitative disclosures (disaggregation of revenue, reconciliation of contract balances, analysis of remaining performance obligations, and assets recognised from the costs to obtain or fulfil a contract) rather than the qualitative disclosures (information about performance obligations and significant judgements). However, respondents provided the following feedback on the qualitative disclosures.

Information about performance obligations (¶118 of the 2011 ED)

19. Paragraph 118 of the 2011 ED explains that an entity should disclose information about its performance obligations in contracts with customers. This information should include, for example, when the entity typically satisfies performance obligations, the significant payment terms and the nature of the goods or services that the entity has promised to transfer (see Appendix A for a reproduction of the proposed disclosure requirements). Existing standards require entities to disclose their accounting policies for recognising revenue, but users commented that in many cases, entities provided ‘boilerplate’ descriptions. To address this problem, paragraph BC 267 explains that the Boards opted to require entities to provide more descriptive information about its performance obligations to complement accounting policy disclosure requirements in existing standards.
20. Some respondents note that the qualitative information required by paragraph 118 of the 2011 ED will be useful in understanding the revenue recognition criteria used by entities.

Significant judgements (¶ 124-127 of the 2011 ED)

21. Paragraph 124 of the 2011 ED states that an entity should disclose the judgements and changes in judgements made in applying the proposed revenue standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. The 2011 ED notes that, at a minimum, explanations should be provided for judgements used in determining (a) the timing of satisfaction of performance obligations, and (b) the transaction price and the amounts allocated to performance obligations (see Appendix A for a reproduction of the proposed disclosure requirements).
22. Few respondents commented on this aspect of the proposed disclosure requirements. Other requests for disclosure about significant judgements included:
- (a) more information on variable consideration and how it is estimated;
 - (b) how an entity determines that it does not reasonably expect a significant revenue reversal; and

- (c) where an entity has determined the amortisation period for amortising the costs of obtaining a contract to be longer than the contract (because, for example, there are specifically anticipated future contracts).

Other qualitative information

23. Other requests by users for qualitative disclosures were for the following information:
- (a) how the entity determined a financing component to be significant to the contract;
 - (b) average remaining duration of open contracts (ideally, the average duration of all new contracts entered into within the period); and
 - (c) gross margin information.

Quantitative disclosures

24. As mentioned above, respondents generally raised more specific comments on the quantitative disclosures below. Their feedback also addressed their thoughts on the provision of these disclosures on both annual and interim bases.

Disaggregation of revenue (¶114-116 of the 2011 ED)

25. The 2011 ED states that an entity should disaggregate revenue from contracts with customers into the primary categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The 2011 ED provides examples of these categories, such as type of good or service, geography, or contract duration (see Appendix A for a reproduction of the proposed disclosure requirements).
26. Similar to other disclosures, views between preparers and users on this topic were divided.

27. Preparers were concerned that the disclosure requirement would lead to too much disaggregation of revenue, which could be overwhelming for many entities, particularly large, diversified entities. To balance these concerns, preparers suggested this disclosure should be flexible and based on the information used by management to manage the business (similar to the approach to segment reporting).
28. Many preparers were concerned about the proposed disclosure requirements for disaggregating revenues because, in their view, the sample categories listed in paragraph 115 of the 2011 ED could be read as minimum requirements or a checklist. These preparers expressed a concern that they would have to disaggregate using many or all categories. Those respondents asked the Boards to emphasise that those categories were examples, rather than minimum requirements, perhaps by relocating the list in paragraph 115 to the implementation guidance instead. Others suggested clarifying the term ‘primary categories’ in the disaggregation principle.
29. Users thought the disaggregation requirements would be helpful because an increase in disaggregated revenue information is critical to their analyses. These users think that the proposed disclosure requirements for disaggregation will provide a more detailed depiction of revenue that may not otherwise appear in segment revenues. Many also appreciated that the proposals would require this information in the notes to the financial statements and therefore it would be audited (currently some disaggregation information is provided in analyst briefings).

Interaction with segment reporting guidance

30. Some users thought that the disaggregation requirements in paragraphs 114 and 115, should also require disaggregation of revenue within segments (ie a disaggregation of segment revenues). This is because, in some cases, often with large conglomerate entities, the segment revenues are too aggregated to be meaningful. In addition, in those cases, disaggregated revenue information by the consolidated group would not be helpful without the segment breakdown to

provide context. Although users in one jurisdiction think sufficient information is provided and, therefore, appeared happy with segment disclosures from entities in their country, users in other jurisdictions did not share this view.

31. Further disaggregation of segment revenues would provide more visibility into product margins. Users clarified that this did not mean cost disaggregation, but specified that better disaggregation would help them better estimate the corresponding margin.
32. Preparers questioned whether they would be expected to change or update the disaggregation of revenue disclosure as their business operating environment changes. There was a concern that the basis for disaggregation could change from period to period if the economic factors that affect revenue also change. If there is a fundamental shift in the way the entity operates (eg due to environmental pressures), then the entity would re-organise. The disaggregation of revenue disclosure should correlate with internal processes.
33. Preparers were concerned, however, that the disaggregation of revenue disclosure unnecessarily duplicates the segment disclosure requirement (despite the clarification in paragraph BC253 of the 2011 ED that indicates the disaggregation was not intended to duplicate the existing guidance in IFRS 8 *Operating Segments* and ASC Topic 280 *Segment Reporting*). Some suggested that if additional segment information was required or there was concern that the segment information was not properly applied, then IFRS 8 and ASC Topic 280 should be amended.

Reconciliation of contract balances (¶117 of the 2011 ED)

34. The 2011 ED states that an entity should disclose in tabular format a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (see Appendix A for a reproduction of the proposed disclosure requirements).
35. This proposed disclosure requirement was very contentious, with preparers strongly opposed to many aspects of the proposed requirement. Preparers argued

that the proposed disclosure requirement was too burdensome and would be difficult to prepare, because they do not currently track all of the information that would be required to be disclosed in this reconciliation. As a result, significant system changes would be required.

36. Some users thought that the disclosure would help in their analysis because it would explain the reasons for changes in contract balances and identify whether the entity had positive or negative working capital. Some highlighted that rollforwards of contract balances (including deferred revenue) can be extremely helpful in understanding the entity's performance. Others explained that contract liabilities (deferred revenues) were the second most critical number in the financial statements and thought more disclosure related to that contract balance should be provided.
37. Some users commented that presenting the reconciliation in a tabular format (as proposed in the 2011 ED) would be useful if it is provided consistently over a long period of time, for example, if long-term contracts are core to the entity. As an alternative to the format of the reconciliation in the 2011 ED, some users suggested requiring a rollforward of contract liabilities that would separately identify:
- (a) increases in the contract liability balance (which would often arise from advance payments on new contracts);
 - (b) decreases in the contract liability that arise because the entity has satisfied its performance obligation and has recognised that amount as revenue; and
 - (c) when the entity expects the closing balance of the contract liability to convert to revenue.
38. As mentioned above, preparers disagreed with the proposed disclosure requirement. Some preparers thought that the reconciliation was similar to a direct cash flow statement and therefore thought it was inappropriate to require it in the proposed revenue standard. Many also included a number of other reasons for disagreeing with the proposed reconciliation disclosure:

- (a) the disclosure will be costly to prepare because the information is not currently tracked and may be difficult to compile on a consolidated basis;
 - (b) the information is not used by management;
 - (c) it is not clear how the information will be useful to users; and
 - (d) it is not clear how the disclosure helps to achieve the disclosure objective of enabling users to “understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.”
39. Other preparers also observed that while the contract liability balance may provide insight into expected future performance (ie the satisfaction of performance obligations that will be satisfied in the future) and therefore the amount of revenue to be recognised in future periods, it will only provide an indication of the revenue to be recognised from contracts in which the customer pays in advance. It will not provide any information on revenue expected to be recognised from contracts in which the customer promised to pay in arrears. Preparers commented that entities often have thousands of contracts which could be in an unbilled position, a deferred position, or could even swing back and forth between the two depending on the timing of revenue recognition, the timing of billings in the contract and the reporting period end.
40. Some respondents, in both the preparer and user categories, advocate a combination of quantitative and qualitative disclosures. Below are two examples of a combination of quantitative and qualitative disclosure; the first from an investor group and the second from a preparer:

“... a tabular reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities and the proposed reconciliation line items. In addition, we believe companies should disclose qualitative information that is relevant to understanding the components of the reconciliation of the contract asset and

liability line items.” (CL #28 Investors Technical Advisory Committee)

“For example, for unbilled receivables (part of contract assets), entities could disclose beginning and ending balances, policies on billing and a description of major drivers, including when receivables are expected to be billed. For deferred revenue (contract liabilities), entities could provide information on typical transactions on which revenue is deferred and the key drivers of the changes in the balance, including the amount of deferred revenue that was recognized as revenue in the last 12 months.” (CL#26 IBM Corporation)

41. In order to provide similar information that would be helpful to users without the significant cost to preparers, some suggestions for alternative disclosures were discussed. These included the following:
- (a) providing more flexibility for preparers in meeting this disclosure (ie remove the requirement for tabular format);
 - (b) limiting the scope of the requirement to only require reconciliation for specific types of contracts, for example, for long-term contracts or for contracts in which the contract consideration is paid at contract inception and a substantial contract liability is recognised (which is common in the software industry); and
 - (c) requiring a reconciliation-like disclosure only when there is a significant timing difference between cash collection and performance.

Analysis of remaining performance obligations (¶118-121 of the 2011 ED)

42. The 2011 ED states that, for contracts with an original expected duration of more than one year, an entity should disclose the aggregate amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue. Entities are given the choice to disclose this information on a quantitative basis using appropriate time

bands for the duration of the remaining performance obligations or by using qualitative information (see Appendix A for a reproduction of the proposed disclosure requirements).

43. Concerns about the analysis of remaining performance obligations disclosure can be separated into three main topics:
- (a) Forward-looking information
 - (b) Relevance of this disclosure to ‘backlog’
 - (c) Practical concern with the scope

Forward-looking information

44. A number of respondents voiced concerns that the disclosures about remaining performance obligations would require them to disclose forward-looking information that more appropriately belongs in a section about management’s discussion and analysis (MD&A). For example, in a long-term construction-type or production-type contract, an entity would be required to predict the percentage of completion at the end of each of the next several years.

Relevance of the remaining performance obligations disclosure to ‘backlog’

45. Several respondents commented that, despite the explanations provided in paragraph BC261, they thought that the proposed disclosure requirement for remaining performance obligations might mislead users because it could be understood to represent backlog.
46. Preparers specifically had concerns about the relationship between this disclosure and what is known as backlog today. The remaining performance obligation disclosure would represent a subset of an entity’s backlog because the remaining performance obligation disclosure is limited to:
- (a) contracts with durations of more than one year;
 - (b) contracts that are not within the scope of paragraph 42; and

- (c) contracts that are not wholly unperformed or cannot be cancelled without penalty.

In contrast, a backlog disclosure commonly includes contracts that are wholly unperformed (ie executory) and may also include future contracts arising from ‘framework arrangements’ or other anticipated contracts.

- 47. The term ‘backlog,’ a key performance indicator in many industries, is not defined by accounting principles, but is a non-GAAP measure which can be defined differently by different entities, sometimes even within the same industry.
- 48. In one discussion preparers expressed their apprehension about providing the information for remaining performance obligations in the audited financial statements and stated their preference for presenting similar information in the MD&A (ie, ‘backlog’). Some preparers argued that providing backlog information in the MD&A, even though it is unaudited, is better because it includes contracts that are not captured in the remaining performance obligation disclosure (eg estimates of work under framework arrangements). Some users think that this information should be audited and that there should be more consistency in the reporting of it. A few users commented that, they would prefer information on remaining performance obligations to be audited, but would accept that information in the MD&A, because they think it is more important that the information is provided, and in a timely, consistent manner.

Practical concern with the scope

- 49. As noted above, the 2011 ED would not require an entity to disclose its remaining performance obligations for those contracts that meet either of the following conditions:
 - (a) contracts with an initial expected duration of less than one year (¶119 of the 2011 ED); and
 - (b) performance obligations for which the entity recognises revenue in accordance with paragraph 42 of the 2011 ED (revenue corresponds with the entity’s right to invoice) (¶121 of the 2011 ED).

50. Some preparers commented that these distinctions are not made by management to manage the business and so such distinctions could be another cause for differing amounts in the analysis of remaining performance obligations disclosure and backlog information in the MD&A. In one workshop, some preparers mentioned that delivery dates for long-term contracts may not always be determined at contract inception, so the preparers would not know whether or not those contracts should be included in the remaining performance obligation disclosure. Users responded that even if the delivery date is not fixed, management’s view of an uncertain situation like this is still useful information for an investor – users stated that even information based on estimates is useful for their analysis.
51. Some users acknowledged that in some cases, it might be more difficult to divide performance obligations into those under and over one year than to just disclose the information for all performance obligations. As such, they agreed that the practical expedient to only consider contracts with durations of greater than one year may not always be helpful. They said that the disclosure in its current form does not include quantitative information on all performance obligations and will not identify which performance obligations are already contract liabilities. Analysts suggest that this limits usefulness.

Other concerns

52. Users in one jurisdiction stated that if management does not use the information, that it may not be helpful for users. This did not appear to be a consistent view among users in all other jurisdictions.
53. Some users would prefer that the “explanation of when the entity expects to recognise that amount as revenue” to be quantitative, possibly in a tabular format, in order to reduce inconsistency, while a few preparers requested an example of a qualitative disclosure for remaining performance obligations.
54. A few respondents suggested that this disclosure should only be required for specific industries in which it would be relevant. Users agreed that this type of information may be needed only in certain sectors.

Assets recognised from the costs to obtain or fulfil a contract (¶128-129 of the 2011 ED)

55. The 2011 ED says that an entity should disclose a reconciliation of the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer by main category of asset (see Appendix A for the full requirements).
56. In comparison to the other proposed disclosure requirements, respondents commented least on this one. Overall, most of those who did, said that they did not see the benefit of this disclosure and thought it would be costly to preparers.
57. Preparers commented that this rollforward is not currently performed and does not provide management with useful information. Preparers suggested that costs and corresponding deferred revenues should be disclosed along with narratives discussing any unusual relationships between costs and deferred revenues.
58. The user view was that this disclosure would be helpful in identifying the volume of new customer contracts when analysed in conjunction with other revenue disclosures and backlog information.

Interim disclosures

59. Question 5 of the 2011 ED asked whether respondents agree with the Boards' proposal to amend IAS 34 *Interim Financial Reporting* and ASC Topic 270 *Interim Reporting* to require entities to provide the disaggregation of revenue, reconciliation of contract balances, analysis of remaining performance obligations and assets recognised from the costs to obtain or fulfil a contract with a customer disclosures on an interim basis.
60. As a result of these proposed amendments, many have observed that there will be little difference between what is required on an annual basis and what is required on an interim basis. Thus, given their concern with the volume of annual disclosures, preparers have explained that the shortened timeframe to file their interim financial statements would limit their ability to comply with the proposed interim requirements. (For example, in some jurisdictions, the interim financial

statements must be filed in as few as 40 days.) Respondents highlighted that the proposals to require the disclosures on an interim basis amplifies their cost-benefit concerns.

61. Preparers and other respondents also commented that specifying the proposed interim disclosures appears to conflict with the principles underlying IAS 34 and ASC Topic 270, which are that interim disclosures should provide users with explanations about significant changes in an entity's operations and/or financial condition since its previous annual financial statements. Those respondents consider that the Boards are deviating from this principle in one project while simultaneously pursuing broader disclosure objectives in the on-going FASB disclosure framework project.

We do not agree with the proposals in the ED to specify mandatory disclosures in respect of revenue in interim financial reports. It is inappropriate for the revenue Standard to amend IAS 34 and ASC 270 in such a way as to require disclosures that are not in line with the principles currently set out in those Standards. Any change to the principles for disclosure in IAS 34 and ASC 270 should be considered as a separate project and, at this stage, insufficient thought has been given to the purpose of disclosures in interim financial reports. (CL #75 Deloitte Touche Tohmatsu Limited)

62. Most of the user views of the proposed interim disclosure requirements are similar to their views on the annual disclosures. That is, that they welcome the proposals and explain that such information is crucial to their analyses, regardless of the timing of the reported financial information.

We agree that an entity should provide each of the proposed disclosures in its interim financial statements. Financial statement users rely on both interim and annual financial statements when analyzing a company's business, financial position, and results. The relevance of revenue generated by a company and the accompanying

disclosures are not confined to an annual period. In our view, apart from accounting policy information that has remained unchanged during periods subsequent to the annual reporting, interim disclosures should mirror the disclosures provided on an annual basis. (CL #275 Standard & Poor's Ratings Services)

63. Contrary to those views, a small number of users disagree with the need to specify extensive interim disclosure requirements. These users share the views of preparers in that the principles of IAS 34 and ASC Topic 270 should guide the preparation of interim financial statements such that information is only provided in areas where there is a significant change or a need for an update.
64. One user group surveyed their members and found that about two-thirds did not think that all of the proposed disclosure requirements should be required at interim dates. Users in another jurisdiction think that all disclosures should be presented on an interim basis as well as on an annual basis because having the information only at the end of the year does not allow analysts to monitor changes in balance sheet balances that affect revenue.
65. Preparers note that while disaggregation of revenue may not be difficult to disclose on an interim basis (ie implying that the information could be obtained), there are cost considerations. Specifically, all disclosures – including interim disclosures in financial statements – must go through internal processes for gathering and analysing the data, review by multiple levels of management, and reviewed by the auditors.
66. Some preparers think that interim disclosures should be kept simple because they have different objectives than annual disclosures; for interim disclosures, timeliness is more important. Interim disclosures should be required only if material, not just in amount but with respect to being materially different from the information disclosed on an annual basis. Some users agree with this, while others say the information, in total, is necessary, so if an entity needs more time to prepare the interim reports, this is acceptable. They note that quarterly disclosures

are equally as important to them as annual disclosures because analysts update their models at least quarterly.

Other topics

67. A number of users agreed that a disclosure of volume information about revenue transactions (eg number of units sold, number of sales returns, price-volume and product mix information, etc) would be useful in their financial analysis because it helps analysts better understand an entity's revenue stream.

Transition method and effective date

68. While the Boards did not ask a question about the proposed transition method or effective date, many comments were nonetheless received on these proposals in the 2011 ED. The 2011 ED affirmed the 2010 ED's proposal for full retrospective transition and added some optional practical expedients. As with the 2010 ED, users generally support full retrospective application for purposes of their financial statement analyses. Supporters of full retrospective transition typically prefer an extension of the transition period to alternatives to full retrospective application. Many preparers and auditors acknowledge the Boards' attempt to simplify the retrospective application transition proposal by introducing optional practical expedients; however, they continued to have significant concerns about the practicality of a full retrospective application. Most preparers describe the significant implementation costs that would be incurred if full retrospective transition were required in the final standard, particularly in light of the pervasive effect of the revenue line item (eg on taxes, statutory reporting, compensation and other costs), long-term contracts, additional audit and review requirements, and process and system updates. Most preparers do not believe that the proposed practical expedients would mitigate much of the implementation cost of a full retrospective transition. A few preparers also raised the possibility that past information may not be available to apply the model on a full retrospective transition basis.

69. Some preparers indicated that they would like a longer period between issuance of the standard and the effective date in order to be better prepared before the first reporting period under the new standard.
70. In some of the disclosure and transition workshops and in some comment letters, alternatives to full retrospective transition were suggested, including:
- (a) allowing a choice of transition method or permitting prospective application;
 - (b) prospective application with disclosures of qualitative and quantitative effects of transition; and
 - (c) a modified retrospective transition method with additional practical expedients, such as:
 - (i) *No restatement of completed contracts* – extend one of the practical expedients of the 2011 ED such that none of the contracts completed (as assessed under existing standards) before the date of initial application would be required to be restated.
71. One proposal of a presentation method that was discussed at all of the disclosure and transition workshops was to show only one year of comparable financial statements. Under this method, one year of comparable financials would be presented under both new and old methods. Either the *current period* or the *prior period* would be dually presented (see **Illustration** below). If the *current period* were to be dually presented, then enhanced disclosure of the model’s effect on significant line items of the prior period would be required. There were arguments both for and against each form of dual presentation, but there was overall support for a one year “bridge” transition approach in recognition of the needs of users and burden on preparers of full retrospective transition. While users in attendance would still prefer a full retrospective transition, there was an acknowledgement that this could be a cost-effective compromise.

Illustration: Modified retrospective transition approach

Prior period presented under new and old methods			
	20X5 New	20X4 New	20X4 Old
Service revenue	XXX	XXX	XXX
Product revenue	XXX	XXX	XXX
Total revenue	XXX	XXX	XXX
Cost of sales	XXX	XXX	XXX
Gross profit	XXX	XXX	XXX

Current period presented under new and old methods			
	20X5 New	20X5 Old	20X4 Old
Service revenue	XXX	XXX	XXX
Product revenue	XXX	XXX	XXX
Total revenue	XXX	XXX	XXX
Cost of sales	XXX	XXX	XXX
Gross profit	XXX	XXX	XXX

Next steps

72. At the February 2013 joint board meeting, the Boards will be asked to consider a paper that contains the staff analysis and recommendations for any refinements or revisions to:
- (a) the proposed disclosure requirements;
 - (b) the proposal to prescribe revenue disclosures to be provided in interim reports; and
 - (c) the proposed transition requirements and effective date of the revenue standard.

Appendix A

Disclosure¹

- 109 **The objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**
- (a) **its contracts with customers (paragraphs 113–123);**
 - (b) **the significant judgements, and changes in the judgements, made in applying the [draft] IFRS to those contracts (paragraphs 124–127); and**
 - (c) **any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraphs 91 and 94 (paragraphs 128 and 129).**
- 110 An entity shall consider the level of detail necessary to satisfy the disclosure objective 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 substantially different characteristics.
- 111 Amounts disclosed are for each period for which a statement of comprehensive income is presented and as of each period for which a statement of financial position is presented, as applicable, unless otherwise stated.
- 112 An entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS.

Contracts with customers

- 113 An entity shall disclose information about its contracts with customers, including all of the following:
- (a) a disaggregation of revenue for the period (paragraphs 114–116);
 - (b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraph 117); and
 - (c) information about the entity's performance obligations (paragraphs 118–121), including additional information about any onerous performance obligations (paragraphs 122 and 123).

Disaggregation of revenue

- 114 An entity shall disaggregate revenue from contracts with customers (excluding amounts presented for customers' credit risk) into the primary categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. To meet the disclosure objective in paragraph 109, an entity may need to use more than one type of category to disaggregate revenue.
- 115 Examples of categories that might be appropriate include, but are not limited to, the following:
- (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 and non-government customers);
 - (d) type of contract (for example, fixed-price and time-and-materials contracts);
 - (e) contract duration (for example, short-term and long-term contracts);
 - (f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and

¹ As noted in question 5 in the 'Introduction and questions for respondents' section, the IASB proposes to amend IAS 34 *Interim Financial Reporting* to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.

(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

116 A nonpublic entity need not apply the proposals in paragraphs 114 and 115. Rather, a nonpublic entity shall disclose qualitative information about how economic factors (such as type of customer, geographic allocation of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows. A nonpublic entity shall disaggregate revenue in accordance with the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time).

Reconciliation of contract balances (see paragraph IE17)

117 An entity shall disclose in tabular format a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall disclose each of the following, if applicable:

- (a) the amount(s) recognised in the statement of comprehensive income arising from either of the following:
 - (i) revenue from performance obligations satisfied during the reporting period; and
 - (ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;
- (b) cash received;
- (c) amounts transferred to receivables;
- (d) non-cash consideration received;
- (e) effects of business combinations; and
- (f) any additional line items that may be needed to understand the change in the contract assets and contract liabilities.

Performance obligations

118 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:

- (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);
- (b) the significant payment terms (for example, when payment is typically due, whether the consideration amount is variable and whether the contract has a significant financing component);
- (c) the nature of the goods or services that 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);
- (d) obligations for returns, refunds and other similar obligations; and
- (e) types of warranties and related obligations.

119 For contracts with an original expected duration of more than one year, an entity shall disclose the following information as of the end of the current reporting period:

- (a) the aggregate amount of the transaction price allocated to remaining performance obligations; and
- (b) an explanation of when the entity expects to recognise that amount as revenue.

120 An entity may disclose the information in paragraph 119 either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations or by using qualitative information.

121 As a practical expedient, an entity need not disclose the information in paragraph 119 for a performance obligation if the entity recognises revenue in accordance with paragraph 42.

Onerous performance obligations

122 An entity shall disclose the amount of the liability recognised for onerous performance obligations along with a description of all of the following:

- (a) the nature and amount of the remaining performance obligation(s) in the contract that are onerous for which the liability has been recognised;
- (b) why those performance obligations are onerous; and
- (c) when the entity expects to satisfy those performance obligations.

123 An entity shall disclose in tabular format a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall include the amounts attributable to each of the following, if applicable:

- (a) increases in the liability from performance obligations that became onerous during the period;
- (b) reductions of the liability from performance obligations satisfied during the period;
- (c) changes in the measurement of the liability that occurred during the reporting period; and
- (d) any additional line items that may be needed to understand the change in the liability recognised.

Significant judgements in the application of the [draft] IFRS

124 An entity shall disclose the judgements, and changes in the judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from contracts with customers. At a minimum, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

- (a) the timing of satisfaction of performance obligations (paragraphs 125 and 126); and
- (b) the transaction price and the amounts allocated to performance obligations (paragraph 127).

Determining the timing of satisfaction of performance obligations

125 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- (a) the methods used to recognise revenue (for example, a description of the output method or input method); and
- (b) an explanation of why such methods are a faithful depiction of the transfer of goods or services.

126 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when the customer obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

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

- (a) determine the transaction price;
- (b) estimate stand-alone selling prices of promised goods or services;
- (c) measure obligations for returns, refunds and other similar obligations; and
- (d) measure the amount of the liability recognised for onerous performance obligations.

Assets recognised from the costs to obtain or fulfil a contract with a customer

128 An entity shall disclose a reconciliation of the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 91 and 94), by main category of asset (for example, costs to obtain contracts with customers, precontract costs and set-up costs). The reconciliation shall include amounts related to each of the following, if applicable:

- (a) additions;
- (b) amortisation;
- (c) impairment losses;
- (d) reversals of impairment losses; and
- (e) any additional line items that may be needed to understand the change in the reporting period.

- 129 An entity shall describe the method it uses to determine the amortisation for each reporting period.
- 130 A nonpublic entity may elect not to provide any of the following disclosures:
- (a) A reconciliation of contract balances (paragraph 117)
 - (b) The amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (paragraph 119)
 - (c) A reconciliation of liability balances recognized from onerous performance obligations (paragraph 123)
 - (d) A reconciliation of asset balances recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128)
 - (e) An explanation of the judgments, and changes in judgments, used in determining the timing of satisfaction of performance obligations (paragraphs 125 and 126) and in determining the transaction price and allocating it to performance obligations (paragraph 127).