



VIA EMAIL

International Accounting Standards Board
Mr. Hans Hoogervorst, Chairman
30 Cannon Street
London
EC4M 6XH
England

Current Board Discussion on proposed IFRS Standard on *Revenue from Contracts with Customers (minimum amount of contingent considerations)*

Dear Mr. Hoogervorst,

As we follow very carefully the latest developments of the proposed IFRS Standard on *Revenue from Contracts with Customers* we would like to share our severe concerns based on a tentative decision made at the Joint Session of the IASB and FASB on July 24, 2013. If our understanding of the current discussions is correct, during the meeting a tentative decision was taken how the new Standard would require recognition of a minimum amount of variable consideration in the estimate of the transaction price, when such amount would not result in a significant revenue reversal at a later date.

We know that the Boards have already decided at their December Meeting to delete the paragraph 85 which was a *lex specialis* for licenses of intellectual property and rely on a more general principle.

Based on our understanding of the recent discussions from the July Meeting of the Boards however, we now see that tentatively a new proposal removing significant parts of the restrictions so far was made and accepted by the Boards.

According to our understanding of the new proposal for all contracts an entity should include a minimum amount of variable consideration in the estimate of the transaction price, when including that amount would not result in a significant revenue reversal without any exception.

August 14, 2013

Rolf Funk
Chief Accounting Officer

Dr. Martin Schloemer
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We strongly disagree with this new concept. We do not believe that it would improve financial reporting within our industry - clearly spoken, we believe the opposite.

Variable considerations within the form of sales based royalties have a material impact on the total revenue figure. Contracts are in general a kind of profit split arrangements between the company which has developed the compound in early stages and the acquiring company which has the knowledge, ability and financial resources to finalize the expensive development work at the last steps and to do the worldwide marketing. In general contracts might last about a period of a decade and at any stage/time a project could be stopped due to different reasons (regulatory, marketing, market entrance of new developed drugs etc.).

We would consider it as inappropriate based on our understanding of the accounting principles to record any element of the potential value arising from this transaction at the time of entering into the sales-based royalty agreement.

Furthermore, any amount to be recognized would be very judgmental and even if (only) a minimum amount is required it could vary year by year or drug by drug. Our talks with analysts confirm the view that recognizing and reversing a minimum royalty based revenue could lead to a tremendous bias within our revenue figures and distort the overall quality. Furthermore it could clearly lead to additional Non-GAAP information to correct for this "bias" and to align the "understanding" of analysts.

If the Board believes, that although changes have been made since the RE-ED on revenue recognition was issued, the concept of the RE-ED on variable consideration for intellectual property is still valid, we urge the Board for clarification. We believe that without a clear concept and a solid accounting literature with principle-based guidance preparers, regulators and users might enter into a field of undesirable financial reporting based on very judgmental assumptions.



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As we have no chance to communicate our concern within a public consultation any more we use this way to address our severe concerns. Please let us know, if you need any further details from our industry to gather an understanding of this important issue.

We welcome any dialogue on this topic with you or the staff.

Yours sincerely,

A handwritten signature in black ink, appearing to read "R. Funk".

Rolf Funk
Bayer AG
Chief Accounting Officer

A handwritten signature in black ink, appearing to read "Dr. M. Schloemer".

Dr. Martin Schloemer
Bayer AG
Head of Accounting
Principles & Policies

cc: Henry Rees, Technical Director for the *Revenue from Contracts with Customers* project