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Chairman

JH
n°68

Paris, the 14th October 2010

IASB
30 Cannon Street
LONDON EC4M 6XH

UNITED KINGDOM

Re : Exposure Draft ED/2010/6 Revenue from Contracts with Customers

Dear Madam or Sir,

I am writing on behalf of the ANC to give you our comments on the above-mentioned Exposure Draft(ED). Our detailed comments are set out in the attached Appendix.

The ANC is convinced that the primary objective of financial statements should be to reflect the underlying economic activity and performance of the entity, measured by its value-creation process in order to provide decision-useful information to users.
In this respect, we consider that the single revenue recognition model proposed in the ED, which is based on the transfer of control, would not portray the economic activity and performance of the entity and as such would not result in decision-useful information as:

- No revenue would be recognised for entities that perform under construction-type and service contracts for which the execution of the contract by the entity does not coincide with the transfer of control of the asset to the customer. Such accounting will result in a misrepresentation of the economic activity of the entity as its income statement would portray the same performance than the income statement of another entity that has not signed any contract;
- The principle proposed for the identification of performance obligations, based on the notion of “distinct good or service”, does not reflect the effective business model of the entity and as such results in an “arbitrary” picture of the performance of the entity;
- The use of a probability-weighted reasonable estimate for the measurement of variable consideration for single contracts would not provide decision-useful information about the future cash flows of the entity as it may portray revenue that is unlikely to be the amount that the customer ultimately pays;
- The proposed accounting treatment for statutory warranty is not appropriate as it delays the recognition of revenue while the entity is only committed to incur potential additional costs subsequently to the sale of the asset to the customer;
- The proposed requirement to recognise a liability for an onerous performance obligation while the contract is overall profitable does not result in a faithful representation of the economics of the contract.

In addition to the misrepresentation of the performance of entities that may result from the application of these proposals, we consider that these proposals are not robust as:

- As already mentioned above, the proposed "transfer of control" principle for recognizing revenue is not sufficient as no revenue would be recognised for entities that perform under construction-type and service contracts for which the execution of the contract by the entity does not coincide with the transfer of control of the asset to the customer. In addition, the proposed principle is not operational. For example, there is still no clear guidance on the application of the transfer of control for contracts that combine the delivery of a good and of services (to a greater or lesser degree). The number of indicators of transfer of control applicable to service contracts is also in practice reduced to two. Finally another criterion than the transfer of control is used in the case of a sale of a licence;
- The guidance provided is generally simplistic as it assumes "standardised" facts and circumstances and not complex situations;
- The importance of the costs for preparers has not been appropriately weighted against the additional benefits that users will derive from this project. These costs will not only result in changes to information systems that are currently not structured around the transfer of control, or from the ED's requirements in terms of the presentation of the net asset/liability per contract but also in additional costs linked to internal controls and training. We believe that the assessment of the benefits for users by the IASB should also be made in the light of the information that entities are already providing to users through the notes or through other formats of reporting;
- Given the pervasive impacts of these proposals and the changes they represent compared to existing IFRS standards, we consider that in-depth field testing is critical in order to assess the effectiveness of the model and how it provides appropriate and consistent answers to the problems it purports to address.

We remain convinced, that addressing the accounting for contract costs in this ED without overall consideration of the other existing IFRS requirements in this respect is not appropriate. We are also concerned by the due process regarding the accounting for rights of use that are not sales that should have been discussed in the context of the ED Leases and not within this ED.

More generally, we are not aware of major difficulties in existing IFRS in the large majority of cases. The existing IAS 18 and IAS 11 revenue recognition standards have proved to globally work well and provide decision-useful information to users of financial statements by reflecting appropriately the economics of transactions and the performance of entities. Regarding the fact that certain specific issues in IFRS deserve attention, such as multiple-element contracts, we remain convinced, as already mentioned in our comment letter on the DP, that these issues could be fixed through the development of well-targeted guidance.

We believe that the ED does not represent an improvement over the existing revenue recognition standards as it does not provide in all circumstances an appropriate picture of the performance of entities and as is not based on well-established, understandable principles and guidance. Thus, it leads us to believe that these proposals will result in practical implementation and interpretation difficulties well over and above those raised at present by IAS 11 and IAS 18 and in increased diversity of practice. Being a source of increased uncertainty, the ED will impair the decision-usefulness of the information, creating confusion for the users of financial statements while in the meantime imposing the burden of high costs to preparers.

Therefore, we consider that the ED does not represent an effective improvement over the existing revenue recognition standards and as such should not be issued as a standard.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Kind regards,

Jérôme HAAS

Appendix A

Question 1 — Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether: (a) **to combine two or more contracts and account for them as a single contract;** (b) **to segment a single contract and account for it as two or more contracts; and** (c) **to account for a contract modification as a separate contract or as part of the original contract.** **Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?**

We do not believe that proposing a single principle for combining, segmenting or accounting for a contract modification will ever capture the variety of the contracts and reflects the reality of the activities of the entities. As such, we recommend the IASB to develop other principles.
In addition, we have the two following concerns with the price interdependence criterion set out in the ED:

- We consider that the lack of guidance on the notion of "significant discount" will preclude a correct application of the interdependence principle, thus reducing its relevance. In most circumstances the condition set out in 15 (a) (e.g. the fact that the entity, or another entity, regularly sells identical or similar goods or services separately) will be met. The analysis of interdependence will therefore be based on the fact that the second criterion is fulfilled e.g. the notion of "significant discount". Thus, determining what a significant discount is will be essential, particularly when there is a preexisting relationship. The IASB acknowledges this fact (refer to ED.14). However, the ED does not provide any guidance on how this issue can be addressed. In addition, the example 2 "Contract modifications" does not help as it refers only to "market conditions" and not to the price terms and conditions that the entity makes to customers with similar preexisting customer relationship.

- We consider that when it is possible to allocate a part of a contract modification to a specific performance obligation within this contract, it should be required. The outcome of our proposal may be seen as contradictory with the principle of interdependence, but it has the merits of simplicity and will be less burdensome for preparers.

Question 2 — The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

The principle proposed for the identification of performance obligations, based on the notion of "a distinct good or service", does not reflect the effective business model of the entity and as such results in a "arbitrary" picture of the performance of the entity

We note that the proposal to identify the separate performance obligations based on the proposed definition of "a distinct good or service" will result in almost all the goods and services of a contract being considered as performance obligations as, except in rare circumstances, another entity will always sell separately an identical or similar good or service (e.g. in other words, the first criterion of ED.23 will be met in almost all circumstances). The fact that performance obligations need not be separated when an entity transfers promised goods or services to a customer at the same time does not alleviate the concern as in any case, it assumes the performance obligations have been identified beforehand.

Our overall concern with the proposed definition of a "distinct good or service" is that relevance and comparability will not be achieved by this principle as it does not result in a faithful representation of the activities of the entity.

On the contrary, we consider that a good or service should be considered as distinct only if either:

- The entity sells an identical or similar good or service separately;
- The entity could sell the good or service because it meets both of the following conditions:
  - It has a distinct function;
  - It has a distinct margin that is effectively monitored by the management through internal reporting.

We consider that this proposal will result in more decision-useful information as it best reflects the way management is effectively conducting its own activities. So users will be in a situation to compare entities with real similar performance and not entities presenting "artificially imposed" performance.

The proposed measurement for renewal options should be clarified

We are in favor of a separate measurement of options granted to customers for additional goods and services as proposed in the ED. We are opposed to the measurement of such options on a look-through approach (eg. on the same approach as that proposed in the ED Leases). However, we note that the paragraphs 216 to 219 of the basis for conclusions may suggest that the measurement of such options should not be made on a separate basis but on the basis of a look-through approach. We recommend that the IASB clarify this topic and illustrate through an example the discussion made in these paragraphs.

In addition, we believe that the question of renewal options cannot be discussed separately from the notion of "price interdependence". For example, Example 27 and the accompanying Basis for Conclusions do not establish the reasons for which, if the option is a performance obligation of the initial contract, its measurement should take into effect the terms and conditions of the following contracts.

The treatment of sales incentives, marketing costs and discounts should be reconsidered on a comprehensive basis

As mentioned in our comment letter on the DP, we consider that characterising what differentiates sales incentives from a marketing cost, or from a discount granted at the date of the initial transaction is complex. However, this distinction is fundamental because these transactions do not necessarily have the same accounting treatment under IFRS.

The IASB acknowledges that this topic is complex by stating in ED.BC 44 that "the boards also noted that even if a conceptual justification could be found to distinguish goods or services that are marketing incentives from those that give rise to performance obligations, it would be difficult to develop criteria to make that distinction in practice".

We consider that the difficulty to develop criteria to make such a distinction work should not prevent the IASB from reconsidering this issue more thoroughly as it is central for the measure of the performance of certain industries.

Question 3 — Do you think that the proposed guidance in paragraphs 25–31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

The proposed "transfer of control" principle is not appropriate as it does not provide decision-useful information on the performance of entities for some contracts for entities that perform under construction-type and service contracts for which the execution of the contract by the entity does not coincide with the transfer of control of the asset to the customer

We note that no revenue would be recognised for entities that perform under construction-type and service contracts for which the execution of the contract by the entity does not coincide with the transfer of control of the asset to the customer. Such accounting will result in a misrepresentation of the economic activity of the entity as its income statement would portray the same performance as the income statement of another entity that has not signed any contract. We consider that in such contracts, the entity transfers economic resources to the customer and thus, performs on an ongoing basis as the contract is executed. The entity should be considered released from its obligations towards the customer when executing the contract.

The proposed "transfer of control" principle and accompanying guidance for recognising revenue is still not operational

We note that despite providing a definition of what control is and of indicators that may be used in the determination of transfer of control, the ED requires applying another definition of transfer of control when assessing if a contract consists in a sale of a licence or similar intangible asset. We believe that this illustrates that:

- The IASB has still not yet been able to operationalise the application of control for contracts that combine the delivery of goods and of services (to a greater or lesser degree). The illustrating guidance provided in Example 15 is simplistic as it assumes an "all or nothing" approach (eg all the indicators of control are present in the first scenario or none of them is met in the second scenario). As a result, the same issues as those identified in the DP remain unanswered for some industries (for example for IT or consulting service providers who deliver a "physical asset" within their contract) and particularly how to assess if the control has been transferred.
- The IASB has not provided sufficient relevant indicators that the customer has obtained control of a service. In this regard, we note that the IASB acknowledges that two out the four indicators provided may be not relevant for services;
- The IASB proposes to apply another criterion than the transfer of control in the case of a sale of a licence or a similar intangible asset. We believe that this illustrates that a single principle cannot be applied to all contracts; refer to our response to Question 16.

We are therefore convinced that the "transfer of control" notion will not be understood correctly and interpreted in a consistent manner. As such, its application will, in many cases, not improve the comparability and understandability of revenue for users, which is contrary to the overall objective of the ED.

More generally, we consider that the notion of control has not been fully considered and debated in the framework project

The definition of control is fundamental in the accounting model developed by the IASB. The IASB has recently discussed this principle in several IASB projects such as the consolidation project or the derecognition project. On this occasion, this principle has been highly challenged.

Given the importance of the notion of control and its wide-ranging implications within the IASB model, we consider that it deserves a comprehensive debate with constituents and that this debate should take place in the context of the conceptual Framework project and not in the context of the development of new standards.

Question 4 — The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonable estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price. Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

The use of a probability-weighted reasonable estimate for the measurement of variable consideration would not provide decision-useful information about the future cash flows of the entity as it may portray revenue that is unlikely to be the amount that the customer ultimately pays

The IASB considers that, conceptually, uncertainty in the amount of consideration should be reflected in the measurement of the contract asset rather than through recognition (refer to ED BC95). As already mentioned in our comment letter to the ED on IAS 37, we do not consider that it should be systematically the case. In addition, we believe that, if the IASB wishes to change this principle, it should do so via a wider debate under the Conceptual Framework project.

Thus, we disagree with the approach proposed to measure the amount of variable consideration, e.g. a probability-weighted approach coupled with a reasonable estimate threshold in the context of a single contract. We consider that it would not provide decision-useful information about the future cash flows of the entity as it may portray revenue that is unlikely to be the amount that the customer ultimately pays. As such, this proposal will decrease the reliability of the “revenue” line. We are therefore of the view that maintaining the current practice and requesting additional disclosures about the possible outcomes and the nature of uncertainties involved would provide far more decision-useful information to users than the proposed approach.

From a general point of view, we consider that a probability-weighted approach is a less objective measure than a best estimate coupled with a threshold as regards single contracts. This technique requires management to develop complex models involving the identification of both multiple scenarii of future cash outflows and of the probabilities to be assigned to these scenarii. As such, we consider that this measurement lacks relevance and decreases the reliability and predictive nature of information provided to users, in addition to implying a very high degree of subjectivity which increases scope for manipulation.

Question 5 — Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognises when it satisfies a performance obligation rather than *whether* the entity recognises revenue? If not, why?

We do not agree with the proposal except in the circumstances where the credit risk of the customer is priced into the transaction price or when the contract includes a material financing component.

We therefore consider that in most circumstances, the existing accounting treatment should be maintained for corporate entities e.g:

- the customer's credit risk should continue to affect only whether revenue is recognised and not how much revenue is recognised. For further details on our view on the way uncertainty in the amount of consideration should be treated, please refer to our response to Question 4;
- the customer's credit risk credit should continue to be presented as a component of costs and not as a reduction of revenue when the customer's credit risk is not priced in the transaction price or when the contract does not include a material financing component.

Question 6 — Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree with the proposal.

Question 7 — Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate and how should the transaction price be allocated in such cases?

We note that the ED does not provide any detailed guidance on how the stand-alone selling price should be determined. As already mentioned in our comment letter on the DP, we recommend that the IASB provide guidance to clarify how the stand-alone selling price should be determined so as to avoid any differing interpretations and in particular on whether or not the stand-alone selling price should be determined taking into the characteristics of <u>the</u> customer with whom the contract is signed and how this interacts with the requirement to "maximise the use of observable inputs".
Concerning the allocation of a change in the transaction price, refer to our response to Q1.

Question 8 — Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

As mentioned in our comment letter on the DP, we remain convinced, that addressing the accounting for contract costs in this ED without overall consideration of the other existing requirements in this respect (such as IAS 2, IAS 16 or IAS 38) is not appropriate.

Question 9 — Paragraph 58 proposes the costs that relate directly to a contract for the purpose of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include and why?

As mentioned in our response to Question 8, we remain convinced that the accounting treatment of the contract costs should not have been discussed in this ED.

However, we have decided to respond to this question as we consider that we are particularly concerned by this proposal that will result in recognising a loss for each onerous performance obligation of a contract while the contract is overall profitable. We consider that the information provided will not be useful to users as it does not reflect the economics and the performance of the contract. Conversely, we believe that the existing IAS 37 approach, based on an overall approach of the contract (after segmentation/combination), provides relevant information on onerous contracts and thus should be maintained.

We also note that the requirement to recognise a liability for onerous performance obligations is established at the level of a performance obligation and not at the level of the separate performance obligations (in other words at a lower level than the unit of account for identification and measurement of performance obligations). Please note that should this requirement be established at the level of the separate performance obligations, our concern about the lack of usefulness of the information would nevertheless remain the same.

Regarding the requirement to measure the costs for performing the onerous obligation on a probability-weighted approach, please refer to our comments in Question 4 concerning our view on the probability-weighted approach.

Question 10 — The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Question 11 — The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

Question 12 — Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

General comment

We are concerned that there is a general current disclosure overload within IFRS. This overload of information is not only burdensome and costly for entities but also obscures sometimes key information for users. We thus urge the IASB to complete the Disclosure Phase of its Framework project as soon as possible to enable entities to move from a compliance exercise toward a real principles-based disclosure framework focused on key information for users.

Presentation of net contract asset and contract liability

We are not convinced of the relevance of this requirement as we are not sure of understanding its decision-usefulness for users. In addition, this requirement can lead to significant costs for some entities as they will be requested to review and adapt their IT systems to capture the necessary information. We therefore recommend that the IASB reassess this requirement in the light of its benefits for users.

Reconciliation of contract balances

We also question the decision-usefulness of the reconciliation of contract balances for users compared to its costs for preparers.

Question 13 — Do you agree that an entity should apply the proposed requirements retrospectively (that is, as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We agree with the proposed retrospective application. However, we are convinced that this proposal will be really burdensome for some entities. Thus, we urge the IASB to contemplate a sufficiently long lead time to help alleviate some of the concerns due to this proposal.

Question 14 — The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

The guidance provided is generally simplistic as it assumes "standardised" facts and circumstances and not complex situations. The usefulness of this guidance is therefore reduced as it will not help entities to address the most complex transactions. This is contrary to one of the objectives of the ED that was to provide a robust revenue recognition framework to deal with complex transactions.
We believe that as long as complex situations have not been field-tested it is not possible to assess how effective a model is and how it provides appropriate and consistent answers to the problems it purports to address.

To further illustrate our comments, please find hereafter some detailed examples: ,

- Example 2 – Contract modifications – this example does not specify how it is assessed that the discount granted to the customer is material (in the context of the preexisting customer relationship);
- Example 6 – Telecommunication services – this example does not consider the possibility that the fixed monthly fee could be interdependent with the pricing of the additional call minutes or texts (stated otherwise, the fixed monthly fee may also include a significant discount as the customer has been granted the option to buy additional call minutes or texts without a material discount);
- Example 14 – Sale and repurchase of an asset – the put option example illustrates a refund at the initial transaction price. However, in some industries, the refund price is inferior to the transaction price as the length of the contract is significant. It would have been useful to illustrate such a case;
- Example 15 – Manufacturing services versus manufactured equipment – this example is not useful as it assumes in the scenario 1 that almost all the indicators of control are met and the contrary in the scenario 2; so one of the key issues of the ED, e.g. how to assess the transfer of control in transactions that combine goods and services is not addressed;
- Example 16 – Consulting services – this example assumes that the fees are non-refundable which is very rare in practice;
- Example 27 – refer to our answer to question 1.

In addition, we note that:

- the useful guidance previously included in IAS 18 on the financial fees that are earned as services are provided should have been maintained;
- the future accounting treatment of dividends should have been specified.

Question 15 — The Boards propose that an entity should distinguish between the following types of product warranties:

(a) **a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation, but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**

(b) **a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.**

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

Appendix B.15 proposes that if an entity is required to repair defective products in a warranty covering latent defects in the product, the entity does not recognise revenue for the portion of the transaction price attributed to the products' components expected to be replaced in the repair process. Thus, revenue would only be recognised on the "components that are not expected to be replaced". This proposal is inconsistent with the model proposed in the ED which is based on the identification and the allocation of the transaction price to separate performance obligations and not down to the components of separate performance obligations.

More generally, we consider that the proposed accounting treatment for warranties that cannot be sold separately by the entity (as for example, a statutory warranty) is not appropriate as it delays the recognition of revenue while the entity is only committed to incur potential additional costs subsequently to the sale of the asset to the customer. Existing IAS 37 requirements should therefore be maintained. Recognising the liability at the date of the sale of the related product reflects the economics of such warranties that have no standalone value for the customer.

The guidance on the distinction between a quality insurance warranty and an insurance warranty is not sufficiently robust

We are convinced that in many cases it will be difficult for entities to properly distinguish between a quality insurance warranty and an insurance warranty. However, this distinction is important as the changes in estimates would be recognised as an adjustment of revenue in the case of a quality insurance warranty whereas the initial allocation of the transaction price will not be modified in the case of an insurance warranty.

We consider that the IASB has not provided sufficiently robust indicators to help entities make this distinction. For example, the third indicator provided in AppendixB.18 suggests that long–term warranties are generally insurance warranties whereas typically, in some industries, as in real estate, the fact that the coverage period is long does not mean that it is aimed at principally covering faults arising after the transfer of the product.

Question 16 — The boards propose the following if a licence is not considered to be a sale of intellectual property:

(a) **if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and**

(b) **if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and satisfies that obligation when the customer is able to use and benefit from the licence.**

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

The IASB requires applying another criterion than the transfer of control in the case of a sale of a licence or a similar intangible asset. We believe that this illustrates that a single principle cannot be applied to all contracts.

We note that the ED requires applying another definition of transfer of control when assessing if a contract consists in a sale of licence or similar intangible asset (e.g. "when the customers obtains the control of substantially all the rights associated with the entity's intellectual property") without even defining the notion of "substantially all the rights associated". In addition, we note that this proposal is introduced through the guidance to the ED without even justifying it.
We believe that this illustrates that a single principle cannot be applied to all contracts.

The accounting treatment of contracts relating to licences and rights to use that are not sales should have been discussed within the ED Leases

The IASB proposes to exclude the leases of intangible assets from the scope of the future ED Leases based on the following rationale: "Although the boards have identified no conceptual reason why a lease accounting standard should exclude intangible assets, the boards decided that they would not include leases of intangible assets within the scope of the proposed IFRS until they had considered the accounting for intangible assets more broadly». (ED "Leases" BC36).

At the same time, the IASB requests the views of its constituents in the ED Revenue Recognition on the accounting for the granting of intellectual property of the entity.

We disagree with the process followed by the IASB eg to propose to scope out intangible assets from a project aimed at dealing with both lessee and lessor accounting and at the same time to request views on the lessor accounting of some other intangible assets.

We consider that the accounting by the lessor of contract relating to both exclusive and non-exclusive licences and rights to use intellectual property of the entity (that are not sales) should have been discussed within the ED "Leases".

Question 17 — The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We do not agree with this proposal for the same above-mentioned reasons for which we do not agree with the recognition and measurement principles of the proposed revenue model. For further details, please refer to all our other comments.

Moreover, we note the proposed accounting in Question 17 for a sale of an intangible asset (eg based on the transfer of control) is not consistent with the proposed accounting in Question 16 for the sale of an entity's intellectual property (e.g. when substantially all the rights have been transferred) even though the latter are also intangible assets.

Question 18 – Other questions

Contract asset versus receivable

ED.BC101 states that a contract asset becomes a receivable on the point in time at which the entity has an unconditional right to consideration. We note that the definition of a receivable within IAS 32 does not require the right to consideration to be unconditional. We are generally not in favor of the use of different definitions within IFRS. In any case, we believe that the Board should clarify the impact of this difference, if any.

In addition, we believe that more guidance should be provided to help entities to determine the point in time at which a contract asset becomes a receivable.