

Project Manager
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 12/03/12

Dear Sir or Madam,

ED/2011/6 – A REVISION OF ED/2010/6 REVENUE FROM CONTRACTS WITH CUSTOMERS

We appreciate the opportunity to comment on the boards' re-exposure draft (re-ED) on "Revenue from Contracts with Customers".

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a large part of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter GASC and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

First of all, we want to give the boards great credit for revising the initial ED/2010/6 as a response to the extensive feedback and the constructive comments submitted by constituents from all over the world. From our point of view, the re-ED poses an improvement compared to the original ED/2010/6 as it reacts to some of the needs of preparers of financial statements and implements practice-oriented solutions in some

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cases. However, we also recognize the increased room for discretionary decisions and the need to resort to estimation in various places. Those findings along with further concerns regarding the decision-usefulness of the information (cf. our comments on ED/2010/6) to be provided by the proposed standard leads us to disagree with the approach proposed by the boards.

Therefore, before responding to the specific questions as stated in the re-ED we would like to express our continuing concerns regarding the conceptual basis of the proposed standard and add some general remarks on issues that are not specifically addressed in the section on questions for respondents within the re-ED.

It is common understanding that only an approach to revenue recognition that is capable of depicting the economic substance of a business transaction will be able to result in decision-useful information and thereby justify severe changes to the revenue recognition concept and subsequently to an entity's internal processes and routines. We therefore acknowledge the boards' objective to converge existing guidelines on revenue recognition and to develop a single standard regulating recognition and measurement of revenue from contracts with customers regardless of an entities industry or size. We strongly believe that a meaningful revenue recognition model is an inevitable requirement to fulfil the IASB's objective to promote the use and rigorous application of its standards (preface par. 6(b)). This is due to the fact that reasonable regulations on revenue recognition are a basic prerequisite for large and medium-sized non-publicly listed entities all over Europe deciding to apply IFRSs voluntarily.

Regarding the conceptual basis of the re-ED, we still believe that the proposed revenue recognition model might result in economically misleading information (cf. our comment letter on ED/2010/6). Moreover, we still miss fundamental (academic) in-depth research and a severe methodological discussion of the topic. Without such a discussion and appropriate in-depth research the development of a comprehensive approach to recognising revenue will hardly be possible. Despite the amendments to the initial ED with reference to satisfying performance obligations over time, we still doubt that the revenue recognition model as proposed in the ED and the re-ED would be able to reasonably increase the decision-usefulness of financial statement information. We would therefore recommend the boards to retain the current revenue recognition model for goods and construction contracts in the first place. However, the existing standards at least have to be amended with regard to additional guidance on services and multiple-element arrangements in order to reduce the inconsistencies within the existing IFRSs.

However, if the boards should decide to pursue the proposed approach we would like to add some remarks as related to specific proposals within the re-ED and not addressed in the section on questions for respondents.

- We believe that the proposals on identifying separate performance obligations within a bundle of goods or services as described in par. 27-30 are insufficient. The proposed criteria partially lack specific definitions (highly interrelated, significantly modified etc.) and therefore provide room for discretionary decisions and might lead to a considerable degree of uncertainty on the preparer-side and a severe decrease in comparability of financial statement information. From our point of view, the proposed approach would enable an entity to structure its contracts in a way that it could as well bundle multiple contract elements as unbundle them depending on the terms of the contract even if the elements do not really interrelate or interact.
- Moreover, we are concerned about the excessive increase in disclosure requirements proposed. We noted massive criticism regarding notes disclosures within a large part of the comment letters on the initial ED/2010/6. However, those comments seemingly did not motivate the boards to reduce the proposed disclosure requirements. The boards even added some new requirements. We understand the boards' objective to provide decision-useful information to the users of financial statements and to make them understand the amount, timing and uncertainty of revenue (or cash flows) arising from contracts with customers. However, we do not think that the proposed approach or the disclosure requirements defined will help fulfilling that objective. On the contrary, we believe that the proposed disclosure requirements have been drafted to fix the conceptual shortcomings of the proposals of the (re-)ED and will rather lead to an information overload on the user-side than to an increase in decision-usefulness. Finally, the preparation of that kind of information (which is normally not prepared as part of management reporting) will incur excessive cost.
- We noted that the re-ED includes references to US-GAAP regulations. We would strongly recommend removing such references.
- Although we understand the reasons for proposing retrospective application of the re-ED, we do not agree with that proposal. It is true that especially in the construction business project durations can cover periods of more than 10 years. Retrospective application would in such cases lead to a consistent application of a single accounting model for all existing contracts. However, we believe that this potential increase in comparability cannot justify the excessive costs resulting from retrospective application of the proposed model.

- Applying the new standard would not only have immense effects on financial statement information, it would also lead to substantial adjustments to an entities internal processes (ERP-systems etc.) and routines. Therefore, the effective date of a new standard on revenue recognition should at least be three to five years from the publication date.

In summary, we do not at all identify the additional benefits of the proposed model outweighing the excessive costs resulting from its application. We therefore oppose most of the views as outlined in the re-ED.

Please refer to the appendix to this letter for our detailed answers to the questions asked in the re-ED.

Kind regards,

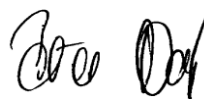
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Appendix:
VMEBF comments on the boards' additional questions

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree that it should be possible to recognise revenue over a period of time if this is in accordance with the economic substance of the transaction. Therefore, we welcome the boards' efforts to amend the ED respectively. However, there are still some open issues to be discussed:

- There should be further practical guidance on an asset having an alternative use to the entity. The guidance provided in par. 35 and 36 of the re-ED does not seem to be sufficient.
- It is not clear whether e.g. a long-term delivery contract would have to be accounted for as several performance obligations satisfied at a point in time each or one performance obligation satisfied over time.
- Moreover, there are still open questions applying the proposed regulations to the transfer of an intangible asset with indefinite useful life to a customer for a limited period of time (licensing). On the one hand, such a licensing transaction might be comparable to a service contract; on the other hand, the license itself might be transferred at a single point in time.
- Further guidance is needed on the accounting treatment of combined transactions, i.e. transactions comprising goods and service components in one single (bundled) performance obligation. This is especially true for such a bundled performance obligation containing a warranty that can separately be acquired by the customer.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We do not agree. Although we believe that the customer's credit risk should not be considered in measuring revenue itself, we also disagree with the proposal to present an impairment loss as a separate line item adjacent to the revenue line. Instead, we would recommend providing this amount in the notes to the financial statements.

From our point of view, the revenue line should comprise the amount agreed with the customer. This would reflect a reasonable measure of the performance obligation satisfied by the entity on completion of the transaction. Additionally, presenting data on collectability in a prominent line of the statement of comprehensive income seems to be exaggerated. Especially in the industry sector such specific information is not of major concern and should rather be provided in the notes to the financial statements.

Moreover, we would recommend a revision of the proposed impairment guidance within IFRS 9 if the standard should be applied for measuring impairment losses of trade receivables.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We principally agree with the proposal to limit variable consideration recognised as revenue to the amount that is reasonably assured. However, we are concerned about the phrase “the entity’s experience is predictive of the amount of consideration to which the entity will be entitled”. Notwithstanding the examples in par. 82, we believe that such a formulation would provide increased room for discretionary decisions and result in unintended structuring opportunities. Moreover, recognising revenue for amounts of variable consideration that is reasonably assured triggers the question of valuating or to a greater degree estimating those amounts. To avoid the above-mentioned structuring opportunities the boards should provide much more sophisticated guidance on how to calculate the amount of revenue to be recognised taking into account the degree of uncertainty that is inherent in the definition of “reasonably assured”. Without clear and unambiguous guidance on those issues we would recommend the boards not to allow revenue recognition for variable consideration until the entity really is entitled to.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

As stated in our comment letter on ED/2010/6, we do not agree with the onerous test being performed on an individual performance obligation level. We doubt the decision-usefulness of a provision being recognised for an individual onerous performance obligation if the overall contract is profitable. Moreover, we consider the rather limited applicability of the residual approach to be problematic. As defined in par. 73(c) of the re-ED, the residual approach can only be applied estimating the stand-alone selling price of one single performance obligation (as it can only be applied if the preparer knows the sum of the observable stand-alone selling prices of the other goods or services promised in the contract). However, especially in multiple-element contracts there might be several separate performance obligations without observable stand-alone selling prices. This could raise the question of how to allocate stand-alone selling prices to several contract elements that do not have an observable stand-alone selling price. This might also be true for the allocation of discounts to a single performance obligation. Such an allocation would at the moment be based on relative stand-alone selling prices and could for example lead to unreasonable outcomes if an entity would instead allow discounts on components with comparatively high margins. By allocating discounts on the basis of relative stand-alone sell-

ing prices onerous contract accounting could be triggered although it would not at all represent the economic substance of the transaction.

We also deem the limitation of the onerous test to performance obligations satisfied over a period of time (> one year) to be rather arbitrary. On the other hand, the re-ED is silent on how – if at all – the onerous contract test should be applied to performance obligations satisfied over a period of time less than one year or performance obligations satisfied at a point in time.

Moreover, we think that guidance on how to perform an onerous contract test in the re-ED is not consistent with IAS 37. According to par. 87 of the re-ED a performance obligation is onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. We believe that the “amount of the transaction price allocated to that performance obligation” should be replaced by the “expected benefits to be received under a contract” (IAS 37.68). Although par. D21 proposes to amend IAS 37 in a way that it should not be applicable to rights and obligations arising from contracts with customers within the scope of the re-ED, we believe that guidance on onerous contract accounting should be part of IAS 37 as such issues are not limited to revenue recognition. Otherwise, the re-ED would need more specific guidance on further issues, e.g. the measurement of a respective provision.

Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- ***The disaggregation of revenue (paragraphs 114 and 115)***
- ***A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)***
- ***An analysis of the entity’s remaining performance obligations (paragraphs 119–121)***
- ***Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)***
- ***A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).***

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We do not agree with the proposed disclosure requirements. The re-ED proposes a severe increase in notes disclosures for interim financial statements. From our point of view, the possible benefits resulting from those interim disclosures (that include a large part of the disclosures required in the annual financial statements) do not outweigh the excessive costs resulting from the preparation of that kind of information. The only disclosure that should indeed be part of the interim financial statements should be disaggregated revenue.

We are principally concerned about the excessive increase in disclosure requirements proposed within the re-ED, even for annual financial statements. We understand the boards' objective to provide decision-useful information to the users of financial statements and to make them understand the amount, timing and uncertainty of revenue (or cash flows) arising from contracts with customers. However, we do not think that the proposed approach or the disclosure requirements defined will help fulfilling that objective. On the contrary, we believe that the proposed disclosure requirements have been drafted to fix the conceptual shortcomings of the proposals of the (re-)ED and will rather lead to an information overload on the user-side than to an increase in decision-usefulness. Finally, the preparation of that kind of information (which is normally not prepared as part of management reporting) will incur excessive cost.

Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of

non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We principally agree that the principles included in the re-ED should (if the proposed approach would be implemented) also be applied to the transfer of a non-financial asset that is not an output of an entity's ordinary activities. However, as we have severe concerns regarding the conceptual basis of the proposed revenue recognition model (cf. our cover letter and the answers to the questions above), we think there should be further re-deliberations on implementing that approach.