

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
Square de Meeûs 35
1000 B-Brussels
BELGIUM
commentletter@efrag.org

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Re: Draft comment letter on the IASB Exposure Draft Revenue from Contracts with Customers

Dear Sir/Madam,

we are pleased to have the opportunity to comment on your Draft Comment letter on the IASB revised Exposure Draft Revenue from Contracts with Customers (ED).

We recognize that the last proposals improve the previous exposure draft on revenue recognition. Nevertheless, some issues still create concern. Specifically, we disagree with:

- the role of the indicator “*right to consideration*” in determining the recognition of revenue;
- the way to perform the onerous test described in the exposure draft;
- the way to present uncollectible amounts.

The evidence collected through the field-tests performed with Italian companies, suggests that it should be clarified the guidance on:

- how to allocate the transaction price and contingent amounts of consideration to distinct performance obligations;
- how to apply the time value approach in case of contracts with performance obligations satisfied over time.

Furthermore, it appears that the burden deriving from the information to be disclosed accordingly to the exposure draft is significant from preparers’ point of view.

The appendix describes the result of OIC’s field-tests collected to date.

Transfer of control (question 1 of ED)

As already expresses in the previous consultations, we think that the right to payment is a necessary condition that should be considered together with the first condition stated in paragraph 35 in order to recognise revenue (*the entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced*). Only in presence of a right to payment an asset and the corresponding revenue should be recognised.

With reference to EFRAG position exposed in paragraph 15 of the comment letter, we do not think that in all cases where the entity has not a right to consideration but is allowed to recognise revenue it is possible to apply the rules of contingent consideration (which state that the cumulative amount of revenue recognised must not exceed the amount to which the entity is reasonably assured to be entitled), as the uncertainty about the existence of a right of payment is not always due to a future event that could occur or not.

Furthermore, it is still not clear to us why the *alternative use* is considered a driver in order to determine in which case revenue should be recognised. If the will is to distinguish between assets to be treated as inventories and assets on which recognise revenue the discriminant should be the existence of a contract, plus the conditions defined before (activity performed and right to payment).

Accounting for the effects of customers' credit risk

Question to constituents

EFRAG is asking constituents for their view on the following:

- (a) in which standard(s) do you think guidance for impairment of conditional and unconditional rights to consideration should be provided?**
- (b) Should specific guidance be developed for how to present uncollectible amounts or should the general guidance of IAS 1 be applied?**
- (c) If you think specific guidance should be provided:**
 - a. Should this guidance be included in the standard on revenue recognition or in IAS 1?**
 - b. How should uncollectible amounts be presented in the statement of comprehensive income initially?**
 - c. How should subsequent changes in the estimates of uncollectible amounts be presented in the statement of comprehensive income?**

The impairment model to apply to receivables and contract assets, in our opinion, has to be the same. The guidance on how to perform the impairment should be provided in IAS 39/IFRS 9.

We disagree with the proposal on how to present uncollectible amounts in the statement of comprehensive income. We believe that in the line of *contra-revenue* should be included only the losses attributable to the revenue recognised in the year. The other losses should be presented in a separate line.

It could be useful to clarify the classification approach in IAS 1.

Variable consideration

We agree with EFRAG comment.

Onerous test

We agree with EFRAG comment.

Furthermore, we point out that the *lowest cost of settling the performance obligation* should be the most likely to occur, instead of the lowest, between the costs that relate directly to satisfying the performance obligation and the amount that the entity would pay to exit the performance obligation.

Disclosure

We agree with EFRAG comment.

Transfer of non-financial assets out of the entity's ordinary activity

We agree with EFRAG comment.

Time value

Question to constituents

Do you think a practical expedient regarding the time value of money should be included in the ED (see paragraph 10 – 13 above)? If so, what should be included in its scope?

We agree with EFRAG comment. We think that could be useful to include such an expedient, whose scope should include all contracts with performance obligations satisfied over time where the time value effect is significant.

Right of return

Questions to constituents

Are you concerned that in practice it will often be difficult to distinguish between the different situations listed in paragraph 25 above where a customer has not irrevocably taken control of assets provided by the entity?

We find difficult to distinguish between an acceptance clause and a return right as defined in the ED.

Do you think the three situations listed in paragraph 25 above differ economically? If so, how and in what circumstances would it be important to distinguish between the three circumstances?

We agree with EFRAG that, from an economic point of view, there is no substantive difference between an acceptance clause and a return right.

Do you think there are situations where a customer has a significant economic incentive in exercising a return right, but the transaction should not be accounted for as a lease?

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How do you think the three situations listed in paragraph 25 above should be accounted for?

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Disclosure

Question to constituents

EFRAG would welcome comments regarding the usefulness and the cost of preparing the disclosure required by the ED and an assessment of whether an acceptable trade-off between cost and benefits is met.

The evidence collected through the field-test indicates that the disclosure is significantly costly. We are still not able to make an analysis of the usefulness of this disclosure for the users.

Early application and effective date

Question to constituents

EFRAG has discussed whether early adoption should be allowed for existing IFRS reporters. Permitting early adoption by existing IFRS reporters would reduce comparability between companies, but it would allow them to move to the improved standard sooner.

Do you think early application of the new standard on revenue recognition should be allowed for entities already reporting under IFRS?

As already expressed in past consultations, we do not think that early adoption would be appropriate as it creates significant concerns about the comparability of the financial statements in different entities.

Contract boundaries

Question to constituents

Do you share the concern expressed by some in relation to the boundaries of a contract?

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Do you have additional concerns in relation to the clarity of the requirements and to whether the proposed requirements can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers? If so, could you describe in details the issue and the reason for your concern?

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Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

Appendix

Summary of feedback received from field-testing activity

We have performed a field-testing activity of the proposals included in the ED in cooperation with EFRAG.

We have contacted a sample of companies and 45% of the questionnaires have been returned, related to the following industries:

- 3 utilities,
- 3 constructions,
- 2 telecommunications,
- 1 services,
- 1 pharmaceuticals.

The majority of the companies appreciates that the new ED is clearer than the previous one and it solves many issues they had when looking at the previous ED. It also contains more illustrative examples and detailed paragraphs. However, they have some concerns about some practical implications of the ED:

- a) the allocation of the transaction price to separate performance obligations;
- b) the time value approach applied to contracts with performance obligations satisfied over time;
- c) timing of revenue recognition;
- d) disclosure requirements;
- e) warranties and licenses.

OIC would expect that the results of Italian field test will form part of the more comprehensive field test performed in Europe by EFRAG.