

22 October 2010

International Accounting Standards Board
30 Cannon Street
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United Kingdom

Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In response to your request for comments on the IASB's exposure draft on *Revenue from Contracts with Customers*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

In general we support the proposals of the Boards. We believe that the principles included in the proposed guidance are sound and will most likely achieve the Boards' objectives of clarifying the accounting for complex revenue transactions and reducing the diversity of accounting treatments that exist in practice. We also welcome the efforts of the Boards to achieve convergence with United States Generally Accepted Accounting Practice (US GAAP). We draw your attention to the fact that our comments relate to current IFRS standards. Current US GAAP requirements or references to US GAAP contained in the questions for respondents included in this exposure draft were not considered.

We believe that in certain instances the principles set out in the exposure draft are not clearly reflected in the examples included in the application guidance. For example, paragraph 25 sets the principle on when performance obligations are satisfied and paragraph 30 provides indicators on when the customer has obtained control of a good or service, which include: an unconditional obligation to pay, legal title, physical possession and design is customer specific. However, examples 12 and 13 in the application guidance seem to focus on physical delivery and not on the remaining indicators included in the exposure draft.

SPECIFIC COMMENTS

Recognition of revenue (paragraphs 8-33)

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?

Generally we agree with the Boards' proposals above; however, we have some specific concerns that are noted below:

Contract segmentation

There is a concern among constituents that the distinction between segmentation of contracts (2(a) in the proposed standard) and the identification of separate performance obligations within a contract (2(b) in the proposed standard) is not sufficiently clear. We believe that the examples provided in the related application guidance assist in clarifying that distinction, and such distinction only becomes clear after reading such examples. We therefore urge the Boards to provide further clarification of the proposed principle directly in paragraphs 12-19.

In addition, paragraph 15(b) makes reference to a "significant" discount. Concerns were raised regarding the practical determination of a "significant" discount and that the lack of

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guidance regarding the term “significant” under other IFRSs, which has led to a lack of consistent application. Whilst we agree that the determination of what is “significant” will, in practice, be a matter of judgment, we do believe that further guidance could be provided on how this determination should be performed. We recommend that the definitions clarify the term “significant”, including what “significant” would be judged in relation to (i.e. in relation to the contract value, in relation to the stand-alone value of the product, from the perspective of the seller or from the perspective of the buyer). For example, *IFRS 7 – Financial instruments: Disclosures* includes guidance on the meaning of significant in its paragraph 27A. Also, it is not quite clear what the difference between significant and other terms frequently used in IFRS is; for example, the difference between significant and the term “material”, which is frequently used in other IFRSs and which is generally well understood. However, it’s not clear if the term “significant” is a higher hurdle than “material”.

Many constituents also raised concerns regarding the simplicity of the examples provided in the application guidance when viewed in relation to the complexities that occur in practice when applying the principle. Example 1 in the application guidance seems to be too simplistic for the following reasons: 1) The total contract discount for product A, B and C equals the discount that is normally given to product A and B when sold together, hence the example does not deal with the complexities of assessing whether the discount is significant or not; 2) In practice there will be multiple options to bundle the products together. Following the example provided in the application guidance, it is not clear what the application would be if the entity also sold product B and C together as well as product A and B as illustrated. We therefore recommend that more complex and comprehensive examples be included in the related application guidance, including examples where segmentation would not be appropriate.

Finally, paragraph 13 provides a list of indicators where two or more contracts have interdependent prices. It is suggested that the word ‘*and*’ in point (b) be replaced with ‘*or*’ to reinforce the fact that not all of the indicators are required for this purpose.

Contract modifications

Paragraph 19 states that “*an entity shall account for the contract modification together with the existing contract if the prices of the modification and the existing contract are interdependent (paragraph 13).*” We believe it is unlikely that either of the indicators in 13(a) or 13(b) will be relevant to contract modifications as modifications will rarely be entered into at the same time as the initial contract, and will not be negotiated as part of a single package with the initial contract. The Boards should therefore reconsider what the appropriate indicators are in the case of contract modifications. We note that Example 2 in the application guidance illustrates a contract modification and concludes that contracts are price interdependent when a modification is priced at a discount to the market price at the date of modification. Although this is not an indicator of price interdependence in paragraph 13, we believe it is more appropriate than the indicators described in this paragraph.

We therefore recommend clarification of the application of the requirements of paragraph 13 as they relate to contract modifications, as well as the application guidance related to contract modifications.

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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?

Generally we agree with the Boards' proposals above.

However, the majority of our commentators felt that clarification is required as to whether "another entity", referred to in paragraphs 23(a) and 23(b)(i) respectively, relates to another entity operating in a similar market as the entity applying the requirements relating to revenue, or other entities operating in any market. For example, in certain jurisdictions it is possible to get a natural gas installation and connection to the network from one service provider, but consume natural gas on an ongoing basis from a different provider. In other jurisdictions installation and connection to the network can only be obtained from the ongoing service provider. Therefore, an entity assessing this could arrive at different outcomes depending on whether its assessment is based on the market where it operates or in other markets.

Most constituents also felt that it is not apparent from the proposed standard whether the determination of whether a good or service has utility, and therefore a distinct function in terms of paragraph 23(b)(i), should be viewed from the perspective of the customer, the entity, or from a neutral perspective.

We therefore recommend clarification of the term "another entity" as it relates to paragraph 23, as well as clarification of the perspective from which utility of a good or service should be determined.

B47-53 of the Boards' proposals discuss the accounting requirements for the sale and purchase of an asset. B49 clarifies whether the sale and repurchase agreement should be accounted for as a right of use in accordance with IAS 17 – *Leases*, or a financing arrangement. It is unclear how those requirements should be applied where the repurchase price is a market price at the time of repurchase, i.e. the accounting for those types of contracts would only be able to be confirmed retrospectively in terms of the requirements of B49. Further, we recommend that B51 be clarified that the financial liability should be accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) and IFRS 9 – *Financial Instruments* (IFRS 9).

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?

We agree with the Boards' proposal that a good or service is transferred when the customer obtains control of that good or service and note that this is consistent with the definition of an asset. However, whilst we believe that the overall principles relating to the satisfaction of performance obligations are articulated in paragraphs 25-31, we have several comments

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regarding the examples provided in the application guidance, which we have included in our response to question 14.

In addition, concerns were raised regarding whether there is a clear link between the indicators identified in paragraph 30 and the examples provided in paragraphs B44-B73.

For example, an entity enters into a gross settled future contract to supply a commodity, using a futures exchange. The entity's customer becomes unconditionally obligated to pay prior to performance by the entity in terms of the contract (i.e. prior to the physical delivery of goods). Using the indicators in paragraph 30, the fact that the customer has an unconditional obligation to pay may lead an entity to conclude, in such an instance, that the customer has obtained control of the good or service, despite performance not having taken place in terms of the contract. We recommend that paragraph 30 be amended to clarify its requirements and that any related application guidance be revised in order to provide a clear link between the paragraph and its related application guidance.

The distinction between the goods and services in determining which performance obligations arise in a contract should be clarified. For example, assume an entity was contracted to paint a building. The entity receives payment and delivers the paint and equipment to client's premises in advance of the painting service being provided. Analysing the transaction with the indicators included in paragraph 30, one might conclude that revenue can be recognised when the customer takes delivery of the paint because indicators (a) and (c) are met then, and indicators (b) and (d) are not applicable to the transaction. However, we believe that the entity's performance obligation is to provide a painting service. Accordingly, we believe that further guidance should be provided on the distinction between the provision of goods and the provision of services. In applying the exposure draft, it is unclear whether there is a single performance obligation to provide a service (namely to paint premises), or whether there are multiple performance obligations incorporating the delivery of both goods and services (namely, provision of the paint and the act of painting the premises).

It is apparent from the four indicators of when a customer has obtained control of a good or service that such indicators were developed for transfer of goods. This is because not all of the indicators are applicable to transfers of services (i.e. legal title) and therefore, when applying such indicators to revenue transactions that include the transfer of services, it becomes more difficult to determine whether the customer has obtained control. We request the Boards to clarify the propose guidance or to provide additional guidance to determine transfer of control of services.

Measurement of revenue (paragraphs 34-53)

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 reasonably 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?

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We agree with the Boards' proposal that an entity should recognise revenue on the basis of an estimated transaction price, and with the proposed criteria in paragraph 38.

We recommend the following editorial changes to prevent the misinterpretation of paragraph 38(b) and 39 (suggested wording to be added is underlined):

Paragraph 38(b): "*the entity's experience (or the experience of other entities that it has access to) is relevant to the contract because the entity does not expect significant changes in circumstances.*

Paragraph 39: "*Factors that may reduce the relevance of an entity's experience include the following*".

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?

There was broad agreement that the transaction price should reflect the customer's credit risk and that a customer's credit risk should affect how much revenue an entity recognises. However, the following concerns were raised:

- Some of our constituents believe that users of the financial statements need information about initial expectations of credit losses. However, applying the proposed guidance on initial estimates of credit losses will result in those estimates being included in the net revenue figure and therefore not be apparent to users of the financial statements. We also believe that the accounting treatment for initial estimates of credit losses under the revenue standard should mirror the accounting for initial losses under the amortised cost and impairment guidance as interest is in essence revenue for financial institutions. Therefore we suggest that the Boards apply their decisions regarding initial expectations of credit losses consistently.
- Paragraph 43 states that "*once an entity has an unconditional right to consideration (i.e. a receivable as described in paragraph 66), the effects of changes in the assessment of credit risk associated with the right to consideration shall be recognised as income or expense rather than as revenue.*" Many of our constituents felt that a narrow interpretation of this guidance could lead to receivables in such instances being measured at fair value, resulting in a possible conflict with the requirements of IAS 39 and IFRS 9. We therefore recommend that paragraph 43 be clarified in order to align it with the requirement to measure a receivable in accordance with IAS 39 and IFRS 9.
- Paragraph 53 requires that changes in the transaction price be recognised as revenue or a reduction in revenue. As collectability (i.e. the customer's credit risk) is taken into account in determining transaction price, subsequent changes in the customer's credit risk would result in changes in transaction price. However, paragraph 43 requires that the effects of changes in the assessment of credit risk be recognised as income or expense rather than as adjustments to revenue. We understand that it was

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the intention of the Boards to provide guidance in paragraph 53 regarding changes other than changes in the customer's credit risk (since this is specifically dealt with in paragraph 43), but we believe that this might be read as differing requirements that may lead to conflicting results or divergent interpretations. We therefore recommend that paragraphs 43 and 53 be amended in order to clarify that subsequent changes in collectability (customer's credit risk) be recognised in income or expense, while all other changes in the transaction price allocated to satisfied performance obligations be recognised as revenue or a reduction to revenue.

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 Boards' proposal 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). We believe that using materiality as a threshold aligns it with the requirements of both IAS 39 and IFRS 9.

However, many of our constituents felt that paragraphs 44 and 45 should clarify whether materiality should be judged in relation to the entity's financial statements, or in relation to the transaction price of the contract.

We therefore recommend that paragraphs 44 and 45 clarify the materiality requirements.

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 agree with the Boards' proposals above.

Contract costs (paragraphs 57-63)

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?

Generally we agree with the Boards' proposal above. Concerns were however raised that the proposed guidance in paragraphs 57 may result in contract costs that do not relate

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directly and incrementally to a contract being recognised. For example, an entity employs a manager who monitors various construction projects. The manager's salary will be paid regardless of the number of contracts he manages. Applying the indicators in paragraph 57, the entity could capitalise the cost of time allocated to a particular project. We do not believe that this is appropriate. We note that paragraph 58(e) implies that such costs have to be incremental; therefore we recommend that the Boards make this requirement explicit.

We therefore recommend that paragraph 57(a) be amended to read as follows (suggested wording to be added is underlined): “(a) relate directly and incrementally to the contract (or a specific contract under negotiation) as described in paragraph 58;”

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes 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 or exclude and why?

We notice that, when applying the proposed guidance, there could be instances in which an overall profitable contract could include onerous performance obligations on day-one (i.e. due to the mechanics of the allocation of the expected consideration). We wonder if this situation reflects the economics of the transaction since the contract as a whole is profitable. We ask the Boards to reconsider whether this an appropriate answer as the performance obligations are negotiated within a single contract.

Also, we believe that paragraph 58 defines too broadly costs that relate directly to a contract because this could be interpreted as allowing entities to capitalise, for example, costs associated with administrative functions that support the delivery process, for example costs associated with the human resources department.

As a result, we recommend that paragraph 58 be amended to clarify the guidance on costs that relate directly to a contract. We further encourage the Boards to consider the relationship between any such clarification and the current requirements of IAS 2 – *Inventories*, IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets* regarding directly attributable costs eligible for recognition as an asset.

Disclosure (paragraphs 69-83)

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?

We support the Boards' proposals. We believe that the proposed disclosure requirements will meet the Boards' objective, which is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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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?

Generally we agree with the Boards' proposal above. However, we believe that in some instances satisfying these requirements may be burdensome; for instance where entities have a great number of customers with a relatively small value allocated to each contract (for example in the telecommunications industry). We also believe that there will be instances in which the amount of the remaining performance obligations can vary significantly at each reporting date (for example in contracts with variable prices calculated as the weighted-average of all possible outcomes) and will therefore reduce the value of the disclosures provided. In other instances, the expected period of time over which the remaining performance obligations will be satisfied cannot be predicted accurately because they are not satisfied over time, but rather using other methods (i.e. output or input methods) and thus the timing is subject to a high degree of variability. For example, this may be the case where a power utility enters into a contract, with an original expected duration of more than one year, to supply electricity or water. In such an instance, the amount allocated to the remaining performance obligation is difficult to determine as uncertainty would exist regarding the period of the contract, the price to be charged in future, and the quantity of electricity or water to be consumed by the customer.

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?

We support the Boards' proposals.

Effective date and transition (paragraphs 84 and 85)

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (i.e. 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 support the Boards' proposals. We believe that, due to the significance of revenue recognition, entities should be required to present the impact of this change retrospectively.

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Application guidance (paragraphs B1–B96)

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?

As mentioned above, we believe that, in some instances, the examples provided in the application guidance are too simplistic and may not capture the application issues that complex revenue transactions will have in practice. More specifically regarding the guidance on satisfaction of performance obligations:

- We believe that the examples provided in the application guidance do not adequately address more complex issues; and
- In certain instances, focus too heavily on physical delivery of the products.

We therefore recommend that the proposed guidance in paragraphs 25-31 and related application guidance be expanded to address more complex issues from a practical application perspective.

We further recommend that the Boards consider including in the application guidance the illustrative examples currently included in “Example 2 – Awards supplied by a third party” in the illustrative examples to IFRIC 13 – *Customer Loyalty Programmes*, to more comprehensively illustrate the practical application of the principles of this exposure draft.

Also, we believe that the current guidance included in paragraphs 14 to 17 of IFRIC 18 – *Transfer of Assets from Customers* is very useful in identifying separate services and would like the Boards to consider whether such guidance will still be appropriate under the proposed standard.

Other issues identified include:

- Audit fees – The question arises as to whether services transferred in relation to an audit represent services transferred continuously or services transferred at a point in time, particularly because the examples included in the application guidance relating to continuous transfer focus on whether the entity promises to produce, manufacture or construct an asset specifically for the customer.
- Work in progress – We would like the Boards to include an example on the accounting treatment of contract costs that meet the capitalisation criteria included in the proposed standard for construction contracts.

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

- 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.*
- 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*

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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?

We support the Boards' proposals. We note that in practice it is likely that entities will assess the objective of a product warranty as being to provide coverage for latent defects, given the inherent difficulty of determining whether faults occurring during the warranty period relate to latent defects or faults that arise after the product is transferred to the customer.

For example, assume that a car manufacturer offers a 1-year warranty on all the cars it sells. If the gearbox of a car breaks in the 11th month, it could be assumed that such gearbox was faulty from day 1 (i.e. since gearboxes are designed to last for a longer period of time) and therefore the defect was latent.

Therefore, we believe that in practice the differentiating factor for warranties that give rise to a separate performance obligation would be whether such warranties are sold separately from the product or not.

Should the abovementioned application not be the Boards' intention, we recommend that the proposed guidance relating to product warranties be clarified.

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 it 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?

We believe that the application of the proposed pattern of revenue recognition may result in differing accounting treatments for transactions that do not, in substance, differ. For example, an entity may grant exclusive rights in terms of a licence to one customer. In terms of the proposed standard, the entity has a performance obligation that it satisfies continuously during the period over which it permits the customer to use its intellectual property, and would therefore recognise revenue over the life of the contract. However, were the entity to grant the same rights in terms of a licence to several customers (resulting in the rights to use being non-exclusive), then, in terms of the proposed guidance, this would give rise to a single performance obligation that is satisfied when the customer is able to use and benefit from the rights, and would therefore recognise revenue immediately.

The application of this proposed guidance would therefore result in entities operating in the same industry, entering into revenue transactions with substantially similar economic

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characteristics, having to account for revenue differently, mainly as a result of the number of their customers.

We therefore urge the Boards to re-examine and clarify the proposed principles regarding licensing and rights to use. We further encourage the Boards to consider the relationship between any such clarification and the current and proposed future requirements and principles of IAS 17.

Consequential amendments

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 support the Boards' proposals.

Non-public entities

Question 18

[FASB only]: Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?

Not applicable.

OTHER COMMENTS

1. IAS 18 – *Revenue* (IAS 18) currently includes guidance on how to account for *interest* and *dividends*. The Boards' proposed standard does not include specific guidance regarding interest and dividends. For example, there is no guidance in the proposed standard to apply to the accounting for interest income on a financial asset that is in default. We urge the Boards to include specific guidance or carry forward the existing guidance in IAS 18 into the proposed new standard.
2. The Appendix to IAS 18 includes specific guidance as to how to account for *fees that are not an integral part of the effective interest rate of a financial instrument*. We note that the Boards' proposed standard does not include specific guidance regarding these fees, interest and dividends. The majority of our constituents expressed concern that the proposed guidance does not sufficiently clarify the treatment of fees that are not an integral part of the effective interest rate of a financial instrument. We therefore recommend that the Boards clarify the treatment of such fees and the relationship with the requirements of IFRS 9 and IAS 39.

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- 3 Paragraph B12 of Appendix B *Application Guidance* requires an entity to recognise an asset (and a corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability; however, the guidance is not clear as to:
 - a. whether the related asset is a monetary or non-monetary item; and
 - b. whether the asset forms part of an entity's contract position.

Many constituents were also uncertain as to the presentation of the related asset in the statement of financial position; if the recognised asset is a non-monetary asset, whether it would form part of the entity's inventories; if it would meet the definition of an intangible asset in terms of IAS 38 – *Intangible Assets*; or would be presented in a separate category of assets. We therefore urge the Boards to provide clarification around this.

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