

European Financial Reporting Advisory Group ■

Revenue from Contracts with Customers  
*Feedback statement from comment letters  
and outreach activities*

July 2012

# Introduction and summary of contents

## Objective of the feedback statement

EFRAG published its final comment letter on the IASB Exposure Draft Revenue from Contracts with Customers on 25 April 2012. This feedback statement describes the main comments that it received and describes how those comments were considered by EFRAG during its technical discussions.

## Background

In 2011 the IASB and FASB concluded their redeliberations of the revenue recognition project and in November 2011 they published a revised Exposure Draft for comments. In January 2012, EFRAG issued its draft comment letter with a comment period of 49 days and received a total of 21 comment letters. The comment letters received came from national standard setters, European companies, business associations, professional organisations, International organisations and EU authorities. A list of respondents is presented in the appendix to this feedback statement.

## Information to be considered together with this document

To view information related to this project please access EFRAG's project webpage on Revenue from Contracts with Customers by clicking [here](#).

## Summary of contents

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# Feedback received

## 1. General

### Respondents' comments

#### *A new revenue recognition standard*

EFRAG received a number of comment letters generally supportive of the IASB's proposals for a new revenue recognition standard, disagreeing only on some specific issues.

A few respondents specifically noted that it is desirable to achieve international convergence and have a revenue standard based on robust principles.

However, EFRAG received as well a number of comment letters not supporting the approach of developing a new standard on revenue recognition.

The respondents opposing a new revenue recognition standard had several different arguments, namely it was considered that there were no major flaws in the current IAS 18 and IAS 11; the proposals did not represent a meaningful improvement to the existing requirements; there should be more alignment between the revenue model and the business model; a conceptual debate of what revenue should represent was not complete; and the concept of control had not been fully considered and debated in the framework project.

Some suggested that the current existing issues could be fixed through the development of well-targeted guidance.

### Our response

#### *A new revenue recognition standard*

EFRAG considered the position of those who did not support the approach of developing a new standard during its discussions. EFRAG acknowledges that revenue recognition gives rise to diversity in practice today and that some practical application questions remain unanswered on important topics such as revenue recognition for multiple-element arrangements. Therefore, EFRAG has supported the Boards' efforts to clarify the principles for recognising revenue and develop a single standard. EFRAG acknowledges that IASB's latest proposals would not lead to a fully principle-based standard and that reliance on more detailed requirements or application guidance will be necessary. To be as constructive as possible, EFRAG decided not to repeat arguments made in response to the IASB's discussion paper and first exposure draft. Instead, EFRAG focused its assessment on whether the Board's latest proposals would lead to meaningful reporting of revenue without causing implementation difficulties. EFRAG's field-test and workshops have supported this.

Hence, we have identified that improvements are in fact still needed, and consider that prior to issuing a final standard the IASB should consider EFRAG's recommendations stated in its comment letter. Mainly, EFRAG thinks that it must be clear that revenue should be always limited to the amount to which the entity is reasonably assured to be entitled; disagrees with a number of requirements (e.g. onerous performance obligations); and believes the current proposals still need to be further simplified and clarified in order to obtain adequate guidance for consistent application.

# Feedback received

## 1. General

### Respondents' comments

#### *A new revenue recognition standard (cont.)*

In addition, EFRAG received many comment letters from constituents that were concerned that the current proposals could be difficult to apply consistently across industries and that the final outcome might not always represent faithfully the economic substance of the phenomena it purports to represent. More specifically, EFRAG received a few comment letters from national standard setters expressing concerns about applying the current proposals across all industries and a number of comment letters from European telecommunication companies concerned about the process and outcome when applying the current proposals to their industry.

These national standard setters emphasised that when applying the current proposals the final outcome will not always appropriately reflect the underlying economic activity and performance of the entity, providing the example of the telecommunication companies; and the proposed model will be complex and costly to apply to mass-market industries, encouraging the IASB to develop a practical expedient for contracts with multiple performance obligations in mass-market industries.

The majority of the respondents within the telecom industry expressed concerns on whether the current proposals will in fact provide useful financial information to the users, and consequently doubt whether the proposals ultimately improve the quality of information provided in financial statements of telecom operators.

### Our response

#### *A new revenue recognition standard (cont.)*

While EFRAG is not in favour of industry exemptions (as they would be a source of complexity and cause boundary and comparability problems), we noted the concerns raised in certain industries, namely the concerns that relevant information is not necessarily available to apply the proposals and that applying some of the IASB's proposals (e.g. allocating the transaction price) would result in information not aligned with users' needs.

EFRAG has encouraged the IASB to solve the difficulties identified and include practical expedients, so that the final standard leads to relevant reporting of revenue at a reasonable cost in all circumstances.

EFRAG has also expressed in its comment letter that it may be necessary to include some guidance to address specific issues, as it already does in paragraph 85 of the ED.

# Feedback received

## 1. General

### Respondents' comments

#### *Implementation concerns and application costs*

Many respondents and participants of EFRAG's field-tests, including those who agreed that a new standard should be developed, indicated that the board needed to clarify the proposals further to make them more operational.

EFRAG received a number of comment letters expressing concerns that the **proposals were often difficult to understand**, such that it was often necessary to refer to the basis for conclusions to understand the proposals properly. These respondents suggested that clear principles and adequate details be included in the future standard in order to make it operational and avoid divergent interpretations. EFRAG's field-tests participants expressed similar concerns.

Many considered the proposals on **identifying separate performance obligations** unclear and difficult to apply. For example, a national standard setter considered it unclear whether under paragraphs 28 and 29 a company that has a contract to construct a number of identical units would have to identify the production of each unit as a separate performance obligation, when the production costs are higher for the production of the first units than for the last ones. Similarly, the terms applied in the criteria in paragraph 29 for when an entity should not separate performance obligations ('highly interrelated', 'significant integration service' and 'significantly modified or customised'), were considered not clearly defined. There was the concern that too many performance obligations would be bundled as most components in a contract are related in some way.

### Our response

#### *Implementation concerns and application costs*

During its meetings EFRAG discussed the comments received and the main conclusions from the field-testing. EFRAG concluded that the proposed requirements remain difficult to understand and there is still a lack of clarity, which is essential for consistent application.

Therefore, EFRAG has expressed the view in its comment letter that the IASB **should clarify the proposals in a number of issues**, including the constraint on the cumulative amount of revenue recognised; the distinction between contracts covered by paragraph 85 and those that are scoped out in the ED because the counterparty is not a customer but a collaborator or a partner, according to paragraph 10 of the ED; and other detailed comments that were included in Appendix 3 to the comment letter.

More specifically, considering the comments on **identifying separate performance obligations**, EFRAG acknowledged and shared these concerns and a list of requirements related to the definition of separate performance obligations that should be clarified was included in this Appendix 3 to the comment letter.

# Feedback received

## 1. General

### Respondents' comments

#### *Implementation concerns and application costs (cont.)*

In addition, respondents who commented that there was a need to clarify the **criteria to determine when a good or service is transferred over time** referred to the use of unclear wording or absence of guidance to assist an entity in applying the principles, a view shared by field-test's participants, particularly when dealing with the proposals in paragraph 35 (e.g. definition and application of the "alternative use" concept; and determining the existence of a "right to payment").

Furthermore, some respondents believed that it was not clear under the new requirements how the calculation should be performed for **time value of money when there is a transfer over time**. One respondent considered it complex to apply the model when a performance obligation was satisfied over time and there were frequent adjustments between the work performance to date and the cash received. Another respondent believed that the calculations should be based on cash flows and a simplified estimate of interest.

Finally, European respondents from the **telecommunications industry** expressed the view that the proposed model would be very difficult and costly to apply. The arguments supporting this view were 'the tremendous volume of transactions'; the existence of a large number of contracts that are individually small and with a broad range of pricing plans and options; the application of a portfolio approach was not assessed to be useful; and complexity of the accounting model that was difficult to implement technologically.

### Our response

#### *Implementation concerns and application costs (cont.)*

EFRAG considered the concerns of the respondents about the clarity of the **criteria for determining when a good or service is transferred over time** and decided to address those issues in Appendix 3 to its comment letter.

EFRAG also noted in its comment letter that the IASB should clarify how to allocate different payments to various transfers of promised goods or services when accounting for the **time value of money for performance obligations satisfied over time**.

In addition, EFRAG has considered whether calculations should be based on cash flows. During its discussions EFRAG considered this approach not pragmatic and very difficult to operationalise in certain situations. Therefore, EFRAG decided not to recommend this approach.

EFRAG is aware that constituents in the **telecommunications industry**, as others, believe that the current proposals are costly to apply and that some users indicated that they preferred the existing requirements. Considering the feedback obtained in the field-tests and comment letters, EFRAG has encouraged the IASB to develop a pragmatic approach that would result in information that is relevant to users without resulting in disproportionately high costs for preparers.



# Feedback received

## 2. Determining transaction price: Time value of money

### Respondents' comments

#### *Practical expedient*

In its draft comment letter, EFRAG asked constituents whether the practical expedient regarding time value of money should be included in the ED.

The majority of the respondents expressed the view that the practical expedient should be removed.

It is argued that the practical expedient, whilst pragmatic, can have unintended consequences in cases where the time value of money is material as a result of high implicit rates. To assess whether a financing component is significant, the guidance provided in the 2011 ED and general notion of materiality would be sufficient in their view.

However, EFRAG received also a number of comment letters supporting a practical expedient.

Some of those respondents thought that an entity should be able to apply the practical expedient unless there was clear evidence that a financing component was significant.

One argued that in most cases where normal commercial credit terms are observed, the time value of money is likely to be immaterial. They supported the practical expedient as it would ease the application of the proposals.

### Our response

#### *Practical expedient*

EFRAG agrees with the majority that the transaction price should be adjusted to reflect the time value of money of contracts that include a financing component that is significant to the contract.

EFRAG agrees also with those who request for the practical expedient in order to ease the application of the standard and achieve an appropriate balance between costs and benefits.

Therefore, EFRAG believes that an entity should not be allowed to apply the practical expedient in cases where there is evidence that the time value of money is significant to the contract, as expressed in its final comment letter.

# Feedback received

## 3. Collectability

### Respondents' comments

#### *Separate line adjacent to the revenue*

In its draft comment letter, EFRAG asked constituents how uncollectible amounts should be presented as different views were under EFRAG's consideration.

The majority of the respondents did not support that a standard on revenue should explicitly require impairment losses on contract assets and trade receivables to be presented in a separate line item adjacent to the revenue line item.

Some of those respondents argued that the current general guidance of IAS 1 Presentation of Financial Statements was sufficient for presenting uncollectible amounts and further guidance was not necessary. A few respondents did not agree with the ED as the separate line could not be related to reported revenue – the distinction between initial and subsequent impairment losses would become 'clouded'. However, one respondent believed that if a separate line would be included, then it should only encompass the losses attributable to the revenue recognised in the year.

In contrast, EFRAG received several comment letters supportive of the proposed requirements as the final outcome would provide investors with relevant information. One of those respondents believed that the impairment losses – included in the separate line item adjacent to revenue – related to uncollectible consideration that was recognised as revenue in previous reporting periods, should be disclosed separately in the notes, if material.

### Our response

#### *Separate line adjacent to the revenue*

During its discussions EFRAG considered the proposed requirements overly prescriptive and concluded that paragraphs 85 and 86 of IAS 1, requiring an entity to present additional line items when such a presentation is relevant to an understanding of the entity's financial performance, were appropriate.

Therefore, EFRAG supported the view of the majority of the respondents and decided to reflect this position in its comment letter to the IASB.

In addition, EFRAG disagreed with the proposal to include material subsequent changes in estimated credit losses in a line item adjacent to revenue as this could distort performance indicators such as gross margin.

EFRAG considered it more appropriate to require separate disclosure of initially estimated credit losses and subsequent changes to these estimates, to the extent they were material to the understanding of the portion of reported revenue that was expected to result in cash inflows (i.e. understanding of the link between reported revenue and credit losses).



# Feedback received

## 3. Collectability

### Respondents' comments

#### *Accounting for impairment on contract assets and trade receivables*

In its draft comment letter, EFRAG asked constituents for their views on how amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk should be accounted for.

In response to the question on whether impairment of contract assets should be accounted for differently from receivables, a majority of the respondents answered that they should not.

A European company from the telecommunication industry observed that making a distinction in the income statement presentation for impairment losses between those two categories (contract assets and trade receivables) would be arbitrary from an economic point of view. However, another respondent believed the effects of credit risk in a contract asset should be considered further by the board. A national standard setter considered that future guidance on impairment, in particular the three-bucket approach currently being discussed, would not be appropriate for trade receivables. Therefore, they would favour a simplified approach for measuring impairment losses of trade receivables. A business association provided a similar suggestion requesting that the revenue standard clearly state what the measurement objective was for customer receivables.

Finally, one respondent commented that it was difficult to comment on the reference to IFRS 9, as it was not clear what direction the IASB would follow on the impairment of financial assets.

### Our response

#### *Accounting for impairment on contract assets and trade receivables*

During its discussions EFRAG supported the view of the majority and decided that a comment should be made recommending that amounts of promised consideration that the entity assesses to be uncollectible because of the customer's credit risk, should be accounted in the same manner no matter whether the credit loss is related to a receivable or a contract asset.

When considering the comment letters received, EFRAG concluded that it could not express an opinion on whether the requirements of IFRS 9 would be suitable for the impairment of contract assets and receivable, as it was unclear what direction the IASB would follow on this issue.

However, EFRAG stressed the importance of the proportionality principle. In other words, the IASB should avoid requiring the use of complex techniques for determining impairment losses that were not material and not a part of the pricing decisions. Therefore, the IASB should develop specific and simplified guidance for the impairment of trade receivables that should also be applied to contract assets.

# Feedback received

## 4. Performance obligations satisfied over time

### Respondents' comments

#### *Criteria to determine when a good or service is transferred over time*

Many respondents were concerned about the criteria to determine whether a good or service was transferred over time. Some disagreed with the proposals; while others agreed but had concerns about its application or considered the proposals unclear.

European telecommunication companies proposed that a two principles model for the transfer of control of goods and for services be provided, accompanied by a clear distinction as to what a good and what a service was; as well as guidance on continuous transfer of control for both.

The same view was presented by a national standard setter expressing that there should be more guidance on the distinction between the terms 'good' and 'service', therefore, it encouraged the board to develop a clear definition when a transferred asset is a good and when it is a service.

Other national standard setters considered that not having an alternative use by itself should be sufficient for recognising revenue over time, and similarly that if a contract met just one of the criteria mentioned in paragraphs 35(b)(i) to (iii) to consider that an entity transfers control of a good or service over time.

Finally, another national standard setter considered that "only in the presence of a right to payment an asset and corresponding revenue should be recognised".

### Our response

#### *Criteria to determine when a good or service is transferred over time*

In its draft comment letter EFRAG welcomed the new guidance for determining when a performance obligation was satisfied over time. In addition, when discussing the 2010 ED, EFRAG indicated that one of its main concerns was that revenue could be recognised without an entity having an irrevocable right to consideration. Therefore, we have also welcomed that one criterion for recognising revenue over time in the ED considers that the entity has to have a right to payment for performance completed to date (paragraph 35(b)(iii) of the ED).

Nevertheless, EFRAG noted that in certain circumstances revenue could be recognised over time even when the entity does not have a right to consideration. Therefore, EFRAG indicated that revenue should generally be limited to the amount to which the entity is reasonably assured to be entitled, particularly in those cases where the right to consideration is contingent on future events.

EFRAG considered the reasoning provided by those who favoured separate guidance for 'goods' and for 'services', but was not in favour of the two principles model for the transfer of control, as it would require the IASB to develop guidance on how to distinguish between a service and a good. The difficulty of the distinction in practice between goods and services is one of the reasons why current IFRS requirements trigger diversity in practice. Moreover, EFRAG did not think that the distinction would help depict different economic underlyings that would be relevant to the reporting of revenue.

# Feedback received

## 5. Constraining the cumulative amount of revenue recognised

### Respondents' comments

#### *Indicators listed in paragraph 82 of the ED*

EFRAG expressed concerns in its draft comment letter about the indicator in paragraph 82(b), as we did not think the time it takes to resolve an uncertainty influences whether or not an entity's experience (or other evidence) was predictive of the amount of consideration to which the entity would be entitled.

Some of the respondents were also concerned about the list of indicators in paragraph 82. One considered that the indicators included in paragraph 82 and 83 were not decisive and needed a lot of management judgement. Another noted that there were a number of factors that are outside an entity's influence that were, in fact predictable. It therefore considered that there was a risk of variability in appreciation of what is "highly susceptible to factors outside an entity's influence" and not predictable.

However, several other constituents disagreed with EFRAG's position and considered paragraph 82(b) a reasonable indicator.

### Our response

#### *Indicators listed in paragraph 82 of the ED*

EFRAG discussed these points during its meetings and changed its initial position as it was considered that paragraph 83 of the ED clearly explains that the presence any one of the indicators listed in paragraph 82 does not necessarily mean that the entity is not reasonably assured to be entitled to an amount of consideration.

These are merely indicators and "an entity should consider all facts and circumstances when evaluating whether the entity's experience is predictive of the amount of consideration to which it will be entitled", i.e. the time it takes to resolve an uncertainty does not automatically mean that an entity's experience is not predictive of the amount of consideration to which it will be entitled.

EFRAG also understood that significant judgements might be needed from management, but if so, EFRAG believes that an entity would have to disclose all the judgements, and changes in the judgements made that significantly affect the determination of the amount and timing of revenue, as required in the proposals.

# Feedback received

## 5. Constraining the cumulative amount of revenue recognised

### Respondents' comments

#### *Proposed constraint on the amount of revenue recognised*

Many respondents agreed with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations. Nevertheless, some respondents were concerned that the board's proposals would allow revenue to be recognised without an entity being reasonably assured to be entitled to consideration. Particularly, some considered that it was not clear why the constraint only applied to variable amounts of consideration.

European respondents from the telecommunication's industry thought that not only variable consideration but also fixed consideration should be subject to the 'reasonably assured' criterion. In addition, these respondents, as others considered that paragraph 53 did not provide a consistent guidance of what is considered variable consideration, namely when dealing with the term "contingencies".

Similarly, a national standard setter thought that only amounts to which an entity is reasonably assured should be included in the transaction price. It was against first determining the transaction price, for variable consideration, based on the most likely or expected amount and then afterwards limiting the amount of revenue to be recognised.

EFRAG also received the comment that although agreeing with the constraint the board needed to clarify how to apply it (e.g. when consideration is both fixed and variable).

### Our response

#### *Proposed constraint on the amount of revenue recognised*

In its draft comment letter EFRAG believed that the proposed constraint on the amount of revenue recognised appropriately limited the revenue figures to amounts that the entity was sufficiently certain to be entitled and that this would result in an outcome similar to EFRAG's proposals on measuring revenue.

However, in its discussions of the comment letters received, EFRAG concluded that the ED is in fact unclear on whether or not recognition of revenue is always limited to amounts to which an entity is reasonably assured to be entitled. Particularly, when contracts with customers included 'contingencies', the meaning of which was unclear, and it was uncertain whether or not revenue should be limited to amounts to which an entity is reasonably assured to be entitled.

Therefore, EFRAG reaffirmed in its comment letter that requirements on limiting the amount of revenue recognised to the amount to which the entity is reasonably assured to be entitled should apply in all circumstances and that the IASB should make that clear.

# Feedback received

## 5. Constraining the cumulative amount of revenue recognised

### Respondents' comments

#### *Licences of intellectual property – paragraph 85*

Similarly to EFRAG's initial position, most respondents agreed with the board's proposal in paragraph 85, but requested further improvement and clarification on the scope and clear wording.

EFRAG's comments about including only sales-based variable consideration in the scope of paragraph 85 of the ED were supported by some respondents. In addition, a few of those respondents considered also that the wording should reflect "both fixed and variable consideration and a combination of both".

A few respondents disagreed with paragraph 85, as the exception approach was not the correct one, or deals with what can be considered as a "right to use", being in substance a leasing agreement.

Finally, a respondent agreed with the outcome, but was concerned that to achieve this outcome an exception to the general principle had to be introduced. It considers this to be an indication that the model was based on the wrong principle.

### Our response

#### *Licences of intellectual property – paragraph 85*

In its draft comment letter EFRAG agreed with the decision of the IASB to include an exception to the general requirements; considered that the scope in paragraph 85 should be clarified and broadened to include, for example, production-based variable consideration; and thought paragraph 85 should be amended to apply to contracts that do not contain a fixed part.

EFRAG acknowledged the concern that paragraph 85 was an exception to the general principle, and that, consequently, one might question whether the objective of having a consistent principles-based standard was achieved. However, it is EFRAG's understanding that neither users nor preparers considered it useful to apply the general requirements in the situations covered by paragraph 85 of the ED.

EFRAG, therefore, retained its initial position and agreed with the decision of the IASB to include an exception to the general requirements in order to make the information provided useful.

Nevertheless, EFRAG asked the IASB to provide a more robust conceptual argument for the scope exception in paragraph 85.

# Feedback received

## 6. Disclosures

### Respondents' comments

#### *Usefulness and the cost of preparing the disclosures*

In general, the respondents considered that the information required by the ED might result in disclosure overload and have significant doubts whether the benefits of the disclosures proposed outweighed their cost.

A number of respondents expressed concerns about the extensive disclosure requirements and considered that for many required disclosures the costs exceeded the benefits.

Some of those respondents encouraged the IASB to discuss a disclosure framework, under which disclosure requirements would be acceptable to both users of financial statements and preparers. Another respondent would favour further assessments from the IASB to correctly determine the cost/benefit ratio. In addition, another respondent thought that the extent of the disclosure requirements should be clarified, i.e. whether or not each individual element is required or merely suggested. Finally, some of the respondents noted that they did not consider the reconciliation of opening and closing balances very useful and questioned whether this information would really satisfy user's needs.

However, EFRAG also received letters supportive of the proposals. One constituent observed that investors were dissatisfied with the quality and amount of disclosures that were provided and the proposed disclosures had been considered key to understanding the revenue recognition pattern.

### Our response

#### *Usefulness and the cost of preparing the disclosures*

EFRAG believed that the IASB had identified the disclosures that might be necessary to provide users with relevant information. EFRAG was, however, concerned about the costs of providing the information. Therefore, EFRAG decided to ask to its constituents whether an acceptable trade-off between costs and benefits was met.

Considering the feedback received in the comment letters, EFRAG urged the board to ensure that the requirements were such that disclosures were only required when relevant and cost effective.

For example, this could be assessed by identifying industries where preparers considered it would be most costly, and get those preparers and users together to assess for which disclosures the benefits would exceed the costs.



# Feedback received

## 7. Application guidance (Appendix B of the ED)

### Respondents' comments

#### *Right of return*

In its draft comment letter EFRAG was concerned that it was difficult to distinguish between a sale with a right of return, customer acceptance clauses and repurchase agreements. The guidance could, therefore, result in economically similar transactions to be accounted for differently. EFRAG also decided to ask its constituents their opinion on this issue.

EFRAG received several comment letters supporting EFRAG's concerns and several others supporting the IASB's proposals.

One respondent noted that the IASB should consider looking into defining the three situations more narrowly and provide further examples of transactions.

Another respondent noted that from a risk and rewards perspective, the situations seemed similar. However, from a transfer of control perspective, they are different and these situations should be accounted for as suggested in the ED. The contractual agreements and business practice may result in difficulty of applying the principle in practice.

Finally, one respondent shared the concern that the proposed distinction would raise difficulties in practice and the application of the proposals will result in different accounting for transactions with similar economic substance.

### Our response

#### *Right of return*

Based on the comments received, EFRAG acknowledged that a right of return, customer acceptance clauses, and repurchase agreement from a transfer perspective represent different economic situations.

However, EFRAG concluded that it might be difficult to determine whether a contract included a customer acceptance clause, a return right or a put option.

One of the examples that EFRAG used in its discussions was the order of goods made on the internet. It was not considered clear whether goods order on the internet were subject to customer acceptance or a right of return, if the customer could return the product and was not obliged to pay.

EFRAG stated in its comment letter that it was necessary for the IASB to address the operability concerns by clarifying when something should be considered a return right, an acceptance clause, or a put option.

# Feedback received

## 8. Effective date and transition (Appendix C of the ED)

### Respondents' comments

In its draft comment letter EFRAG favoured that the effective date should not be earlier than 1 January following three years from the publication of the standard and that the standard should be applied retrospectively. It also decided to ask its constituents whether early adoption should be allowed.

On the **effective date**, some European companies in the telecommunications industry considered that the proposed timetable did not allow reasonable time for them to implement the new standard. EFRAG also received a number of comment letters agreeing with EFRAG's view that the effective date should be three years after the publication of the standard.

EFRAG received a number of comment letters supporting that **early application** should be permitted. In contrast, some respondents did not support an option to early adopt the standard. Some of the respondents that supported the early adoption argued that given that the new proposals represent an improvement over current practice it is not desirable to prevent entities from implementing the new standard as soon as it becomes available. The respondents that did not support the proposals argued that the option to adopt early would reduce comparability.

On **transition guidance** several respondents agreed with retrospective application; but others did not support it since it would be impracticable in some cases (e.g. long term contract industries; telecoms). Suggested alternatives included modifying the proposed revenue model, applying a modified retrospective approach or adding further reliefs.

### Our response

On the **effective date**, EFRAG shared the concerns of the respondents and thought that the effective date should not be earlier than the beginning of the first annual period starting three years after the publication of the standard. However, after discussing the comment letters received, EFRAG decided to add to its comment letter that several factors would still have to be considered, namely the finalisation of other standards (particularly the leases project), before EFRAG could provide its final view on the effective date.

Although many respondents agreed with **early adoption**, EFRAG was not in favour of the proposals as this could lead to an extended period during which comparability of financial information would be considerably reduced. In addition, as we noted in our response to the IASB's Request for Views *Effective Dates and Transition Method*, permitting early adoption of the revenue recognition standard for an extended period would result in standard setting complexities in connection with overlapping consequential amendments and conflicting scope requirements.

On **transition guidance**, EFRAG considered the feedback received and agreed that it would be difficult for entities to apply the proposals retrospectively and there was a considerable risk that entities might apply hindsight when making estimates related to past periods. Therefore, EFRAG decided to address this issue in its comment letter by recommending a modified form of retrospective application.

# Feedback received

## 9. Transfer of a non-financial asset that is not an output of an entity's ordinary activities

### Respondents' comments

EFRAG received several comment letters expressing support for the requirements of the ED and the board's efforts to ensure consistency between different standards.

However, some respondents shared EFRAG's concerns on the wording on the transfer of a non-financial asset that is not an output of an entity's ordinary activities (e.g. amendments to IAS 16, IAS 38 and IAS 40 limit the recognition of income to the amount to which the entity is reasonably assured. When accounting for transfers in connection with an entity's ordinary activities the constraint only applies when the amount of consideration is variable; this was considered inconsistent).

In contrast, a national standard setter did not support the proposal to amend other standards as regards transfers of non-financial assets that were not an output of an entity's ordinary activities, as it disagreed with the general model of transfer of control.

Finally, another national standard setter and a professional organisation agreed with the principles of the proposal, but had some doubts as to whether the consequences of the proposed amendments had been fully evaluated.

### Our response

In its draft comment letter EFRAG agreed that the proposals should be applied to the transfer of non-financial assets that were not an output of an entity's ordinary activities, as this was consistent with the current approach under IFRS.

However, EFRAG shared the concern of two of the respondents on whether the consequences of the proposed amendments had been considered in sufficient detail.

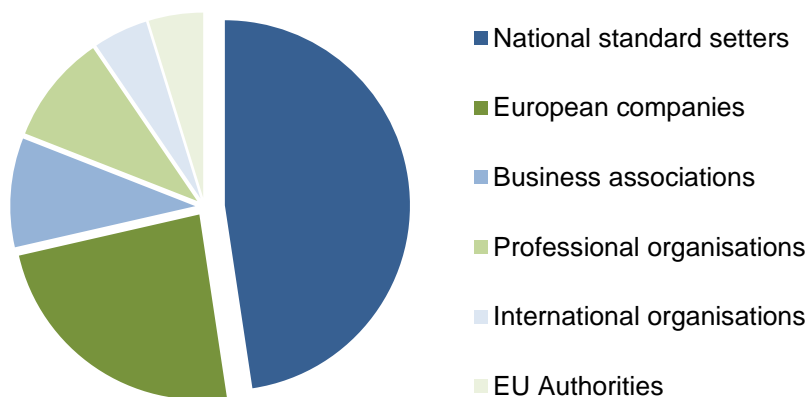
EFRAG, therefore, recommended that the IASB analyse how the proposals would change practice before applying these requirements.

# Appendix 1 – Comment letters received

## Comment letters received

EFRAG received 21 comment letters to the draft comment letter.

The comment letters received came from national standard-setters, European companies, business associations, professional organisations and EU authorities.



All comment letters are available on EFRAG's webpage. To view comment letters received please click [here](#).

### **National standard setters**

- . The UK Accounting Standards Board (ASB)
- . Autorite des normes comptables (ANC)
- . Comissao de Normalizacao Contabilistica (CNC)
- . The Swedish Financial Reporting Board (SFRB)
- . The Norwegian Accounting Standards Board (NASB)
- . Dutch Accounting Standards Board (DASB)
- . Instituto de Contabilidad y Auditoria de Cuentas (ICAC)
- . Danish Accounting Standards Committee set up by FSR–Danske Revisorer
- . Accounting Standards Committee of Germany (ASCG)
- . Organismo Italiano di Contabilita (OIC)

### **European companies**

- . Deutsche Telekom AG
- . Telefonica
- . Telecom Italia
- . Vodafone
- . Orange

### **International organisations**

- . Mazars

### **Business associations**

- . Danish Insurance Association
- . BusinessEurope

### **Professional organisations**

- . The Institute of Chartered Accountants in England and Wales (ICAEW)
- . Federation of European Accountants

### **EU authorities**

- . European Securities and Markets Authority (ESMA)