



The Hundred Group
of Finance Directors

Financial Reporting Committee

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

28 October 2010

Dear Sir David

Exposure Draft – Revenue from Contracts with Customers

We are pleased to submit our comments on the above proposals.

Who we are

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. The views expressed in this letter are not necessarily those of all of our individual members or of their respective employers.

Summary

We set out our responses to the Board's specific questions in the Appendix to this letter.

We are supportive of the Board's desire to bring together the accounting guidance for revenue in one complete standard to address some of the current divergences in practice and guidance needs as well as the joint issuance of the Exposure Draft by the IASB and the FASB. Revenue recognition is one of the fundamental aspects of financial reporting and we appreciate the associated level of importance that has been applied to the development of the ED to date.

Whilst we understand the principles behind the Board's current proposals, we do have significant concerns in some areas. In particular we highlight the following areas of our response to the Exposure Draft:


- We are not convinced that the case has been made for the transfer of control to be used as the key driver of revenue recognition. We are of the opinion that this principle creates significant difficulties, particularly with respect to the delivery of services, and may result in revenue being recognised earlier for some entities and deferred to later periods for other entities. We understand that the IASB did not intend to change entities practices regarding recognition in this area. However, if the basis of control is to be utilised, we strongly believe that the definition of control must be made within the conceptual framework and be consistently applied throughout the financial reporting standards set by the Board.

- We are of the opinion that separate performance obligations should be assessed based only on the business model employed by the entity in question, and not with reference to goods or services sold by another entity. We believe that applying a third party's business model to an entity does not reflect the substance of the transaction and could result in financial reporting which does not reflect commercial reality.
- We are of the opinion that the assessment of whether or not a contract is onerous must be made at the contract level, rather than at the performance obligation level in order to reflect the commercial reality of the transaction. Associated with this we raise in our detailed comments a proposed amendment to the allocation of the transaction price to separate performance allocations.
- We strongly disagree with the principle of recognising credit risk within revenue for entities for which financing is not part of the business model. We are of the opinion that any concerns about recoverability of receivables should be accounted for as a bad debt provision within operating profits. This also appears to be at variance with the IASB's probability approach to the impairment of financial instruments where impairment and interest are being "de-coupled".
- We feel that some of the proposed disclosures will lead to lengthy, complex disclosures which could serve to confuse rather than clarify. In addition the more commercially sensitive aspects are likely to drive boilerplate disclosure rather than insightful analysis.
- We also have a number of concerns regarding the practical implications of retrospective adoption including the effort and cost involved in implementing these proposals. Consequently we have recommended a longer than normal implementation date for the proposals.

Finally we would like to note and applaud the significant outreach activities that have been established by the Board to debate and consider these proposals. Our membership covers a broad range of industries, and we note here our appreciation of the level of commitment and open discussion held with our members through various formal and informal roundtable discussions and debates through the consultation period.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely



Chris Lucas
Chairman
The Hundred Group - Financial Reporting Committee

Q1: 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 the principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We agree with the principle of interdependence as set out in paragraph 13 of the ED. However we believe the concept of price independence warrants more clarification and its application could be better illustrated with more complex and practical examples.

It may be particularly difficult to assess interdependence in the case of loss making contracts. If a company decides to enter into a contract which it knows at inception to be loss-making it is highly likely that there is a commercial rationale underlying this decision, and an expectation that the loss will be subsequently recouped. This does not however mean that the two contracts should necessarily be considered as interdependent.

However, we do not agree with the approach proposed in respect of modifications. Although the proposals will result in appropriate accounting where a modified contract is judged to be independent of the original, where this is not the case the proposals may lead to inappropriate accounting. For example, it is possible that, some years into a multi-year contract, there may be a significant change (up or down) in the seller's direct costs, and the seller and customer may agree to amend the contract price to reflect this, but without rebasing the contract to market price. In these circumstances we believe the contract price adjustment should be allocated across the remaining years under the contract – but the ED would allocate the adjustment across all years, resulting in super-profits for some years and possibly losses for others. We are of the opinion that this does not reflect the commercial reality of the original contract. Contracts are predominantly entered in to in good faith, based on current commercial terms. Future modifications will by definition be made on an updated commercial basis. Consequently we support prospective adjustments for all modifications.

Q2: 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?

We agree in general with the principle in paragraph 23 of the ED for determining when a good or service is distinct.

One of the consequences of the approach proposed is that it may be possible to unbundle an extremely large number of performance obligations in a particular contract. Although this might be theoretically sound, this may involve a great deal of accounting effort for relatively little benefit, particularly in estimating standalone selling prices for stages that are not sold separately in practice. We suggest, therefore, that the Board makes clear that an entity need only account for performance obligations separately to the extent that this will materially affect how revenue is reported.

Our major concern, however, is that by taking the approach outlined by the Exposure Draft this could produce circumstances where a single, profitable contract is accounted for separately, giving rise to current period losses for onerous goods or services which are

subsequently recouped through profitable goods or services. In our opinion this does not reflect commercial reality, provide decision relevant information to investors nor reflect the way in which business are managed. We further address this in our response to Question 7.

We suggest that the guidance in paragraph 23 (b) (i) should be altered so that entities consider services ‘that the customer has acquired from the entity or are sold separately by the entity’ but excludes services sold separately by another entity. In this way the accounting will reflect the entity’s own normal business practices rather than the business practices of another entity when determining revenue recognition. This provides investors with a more appropriate reflection of the business model of the entity used to generate revenue. It would appear to us that imposing an external business model of a third party which could consequently generate onerous goods or services being accounted for is fundamentally against the principles of financial reporting reflecting the substance of transactions as set out in paragraph 35 of the Framework.

In addition we have some concerns regarding the application guidance of these principles. In particular Example 7 concludes that the upfront fee charged by a payroll provider to set up the payroll system is not a separate performance obligation and this revenue is therefore spread over the expected service period; paragraph B30 then appears to indicate that the costs incurred by the payroll provider might be expensed as incurred. Given that the upfront fee is charged to compensate for these costs we believe that it is inequitable not to match the costs and revenues associated with this activity.

Q3: 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?

No; we are concerned that the guidance in paragraphs 25-31 is not sufficiently developed, and not sufficiently clearly expressed, to allow an adequate assessment of when control has passed. Nor are we convinced that ‘control’ is the appropriate measure for recognition of revenue.

We agree that revenue should be recognised on the satisfaction of performance obligations, and agree that a robust principle for the identification of when these obligations are satisfied is imperative. We further acknowledge that, in developing its thinking, the Board may wish to consider the concept of control for this purpose, because of its role in the *Framework for the Preparation and Presentation of Financial Statements*. However, we do not believe that it is helpful for the proposed standard to be drafted in terms of ‘control’ as a concept.

We believe the use of an activity-based model which takes into account the risks and rewards approach and the fulfilment of performance obligations would provide more decision-useful information to users. We believe an activity -based revenue recognition model takes into account the fact that an entity engaged in the provision of services to a customer (especially in construction related contracts), satisfies its performance obligation to provide services over a period of time. During this period of performance, “control” of the ensuing asset may not necessarily transfer to the customer until completion. However, the entity, in satisfying its obligation to provide a service, generates an asset at the customer’s request and thus, should be able to recognise some revenue in compensation for the asset generated on behalf of the customer by virtue of the contractual relationship that exists between the parties. To facilitate the recognition of revenue, we believe that, where the seller acquires a clear and incontrovertible right to a payment, e.g. by meeting a milestone, the entity should recognise as revenue at that point, the value of work carried out up to that point.

In circumstances where the asset generated by the entity is tailored primarily to the request of the customer and thus, may not be transferable to another, we believe an entity should be able to recognise revenue based on the activity already undertaken in the process of generating the asset required although this must take regard also to the certainty of payment.

However, if the Board continues to reference 'control' as the driver of revenue recognition, we would urge, once again, a consistent definition of control within the financial reporting standards, incorporated within the conceptual framework. Currently the control concept applied in the ED is very different from the control model applied in IAS 27 and SIC 12. We also note that the term "right to use" as applied in this ED - article 27 does not necessarily trigger the same accounting considerations / implications of the same term in the Leasing ED.

We also have concerns over the practical implementation of the control concept. Paragraph 30 of the ED lists 4 indicators of control but does not consider this list to be exclusive; neither does it consider one of these indicators in isolation to be sufficient nor even suggestive in concluding upon the transfer of control. In particular in the context of say a construction contract or a contract for the delivery of services, control can be an imprecise and problematic concept and there is a danger that without improvement, the guidance may be interpreted in some circumstances in a way that appears inconsistent with the underlying economic substance of the transactions to which it is applied. We note that for entirely bespoke services such as consultancy services or production of bespoke software, criteria 30a (unconditional obligation to pay), 30b (legal title), or 30c (physical possession) are unlikely to be satisfied until the resulting report or software is delivered to the client.

We believe it is important that a final standard should provide considerably more clarity on how the indicators relate to the control principle, and what to do when some of the indicators are present but others are not. In practice the relevant factors are often not indicators *per se* but rather circumstances that accompany the transfer of control. As currently drafted there is a danger that readers may focus exclusively on the indicators, using them almost as a checklist, which would be inappropriate, particularly as indicators other than the four listed will sometimes be relevant. Therefore further development in this area would be welcomed.

Q4: 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?

We agree that revenue should only be recognised where the transaction price can be reasonably estimated. However in the absence of clear guidance on when this point is reached, it is possible that different entities will take different views on essentially similar transactions and this will potentially lead to less comparability and consistency of reporting rather than more.

However we do not support the proposals to estimate the price of single item transactions or items that have a stand-alone value which can be estimated reliably based on normal business activity and experience, on a probability-weighted basis. In our view, this would neither necessarily provide transparent reporting to users nor provide materially superior information to the best estimate approach currently applied in practice.

The requirement that the transaction price to be calculated as the 'probability-weighted amount of consideration' follows that proposed in the recent consultation on IAS 37 *Provisions, contingent liabilities and contingent assets*. In our response to that consultation we expressed strong reservations with this approach. While we accepted that a reasonable approximation to actual eventual cash-flows could be made for large, homogenous populations, we felt that for smaller populations, particularly those with a high degree of variability, the expected value calculated does not reflect any possible actual outcome.

These concerns are equally applicable to the current ED. Therefore we consider that valuing the consideration by reference to an outcome that is actually possible is most likely to meet the reliable estimation requirement of paragraph 38.

A further concern with the approach proposed is that we do not believe it is appropriate for a seller to recognise revenue for amounts that a customer is not yet obliged to pay. An example would be royalties payable on a licence based on the level of future sales. It may be possible to estimate sufficiently reliably the likely royalties receivable in the future, but the amount is not virtually certain until the underlying sales have been made. It is possible for the licence holder to avoid having to pay the royalties by ceasing to sell the licensed product, or indeed for the product to have to be withdrawn from the market under the direction of a regulator. By recognising revenue in advance in such a situation a contract asset would also have to be recognised. It appears to us that such a contract asset would be a contingent asset, the recognition of which would therefore conflict with IAS 37.

With regards to accounting for sales returns, as detailed in paragraph 37, we urge the Board to consider including in any proposed IFRS, the use of historical sales returns experience (when readily available) as a basis for attributing value to potential sales returns. This concept is currently used by most organisations offering sales returns and is proven to be an accurate reflection of real business experiences.

Q5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We agree with the treatment in paragraph 43 of the ED in circumstances where credit risk is sufficient to influence the transaction price. A reduction of revenue in these circumstances to reflect credit risk would be consistent with the economic substance of the transaction. Where a business routinely adjusts its pricing to allow for the credit risk of a customer the provision of credit is likely to be an important part of its business model. In such a business the size and relative homogeneity of the population would commonly allow expected losses to be modelled to a reasonable degree of accuracy. Indeed, to most credit provision businesses the accurate assessment of expected loss is central to profitability.

We do not agree however that the transaction price should be adjusted for credit risk in situations where it has a negligible or nil effect on pricing. Such situations would encompass the majority of transactions on normal commercial credit terms. We do not believe that credit losses should be recognised through revenue for entities where financing is not part of the business model. Where the creation of financial instruments (i.e. receivables) are, instead, a consequence of a business' trading activities, rather than a revenue generating activity in their own right, we believe that credit losses should continue to be reflected in operating costs of the business and not adjusted through revenue.

We believe the disclosure requirements as per IFRS 7 provide ample information about customer credit risk and thus adjusting the revenue number would not improve the quality of reporting nor provide decision useful information.

Q6: 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 that an adjustment for the time value of money is appropriate in circumstances where payment is made significantly in advance or deferred for a period beyond normal credit terms and when this adjustment is material.

Whilst we agree with the expectation that the time value of money is unlikely to be material to many contracts individually, we are concerned that a standard 60 day selling term could translate to a 1% revenue value when discounted with an appropriate credit rate. We do not believe that it would be appropriate for a 60 day business term to be considered as a material financing component, however we note that a group adjustment of this level would fall under the consideration of a quantitative benchmark of materiality set at 0.5% of revenue.

Q7: 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?

The principle in paragraph 50 of the ED may be applied usefully as guidance in situations where such an allocation is consistent with the underlying economic substance of the transaction. However, this is not the case for all transactions.

In many situations certain items are more commonly sold as a package than individually. The margins made on the individual items may vary considerably from item to item, and when they are packaged together the seller may be much more likely to grant significant discounts on the high-margin items than on the low-margin items. The bundling of a high-margin software licence with lower-margin services is a common example of this. Allocation in proportion to stand-alone selling prices in these circumstances may be simple to apply but would not reflect underlying commercial substance. Allocation in this way could even lead in some cases to an artificial loss being recognised at certain stages of a project, because too large a discount had mechanically been allocated to low margin items; this would be misleading. Therefore we would propose that, if the board considers it appropriate to require allocation on a consistent basis, this basis should be with regards to the stand alone profit-margin of each good or service, as opposed to the selling price.

However, our preference would be for the proposed standard not to mandate how discounts should be allocated between items. Instead, we would require standalone profit-margin to be a rebuttable presumption for allocating revenue to an item, with any deviations requiring appropriate disclosure.

Our over-riding concern is that we believe it is more appropriate to test for onerous contracts at the contract level than at the performance obligation level in order to faithfully reflect the economic substance of the contract as a whole.

We note that in paragraph 13, where contracts are negotiated as a package with a single commercial objective this is one of the indicators used to determine whether the pricing of the contracts is interdependent, and hence the contracts should be combined for the

purposes of determining the amount and timing of revenue. We believe that a similar consideration applies to performance obligations, so that one performance obligation should not be regarded as onerous if the contract as a whole is expected to be profitable.

Q8: 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 380; 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?

We support the proposed treatment in paragraph 57 of the ED. We believe that the criteria are appropriate in that they enable an asset to be recognised where it is clear that future economic benefits will be generated while being restrictive enough to prevent over-capitalisation.

Q9: 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 agree with the costs specified, provided that they relate to costs which are incurred irrespective of whether the contract is won or not.

In our view, however, paragraph 58 (c) could be further clarified. The paragraph attempts to draw a distinction between general overheads and shared costs that may be directly attributed to the contract. In practice the distinction is often ambiguous. An example is given of 'contract management costs' however in practice this commonly includes a wide range of items. Similarly the example is given of 'depreciation of tools and equipment used in fulfilling the contract', in this case a parallel could reasonably be drawn with the costs of leasing a building within which the contract is to be developed.

Q10: 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 agree that users are likely to welcome the enhanced disclosure requirements contained in paragraphs 69-83 to the extent that these facilitate a better understanding of revenue related risk. In particular we support the objective set out in paragraph 70 to provide disclosures that are 'not obscured by the inclusion of a large amount of insignificant detail', however we are not convinced that the proposed disclosures support this in practice.

Some aspects of the proposed disclosures are inherently subjective and therefore may not provide useful information to users and requiring significant further explanation in order to be meaningful. Furthermore, some of the information required will be onerous to collect across large groups, difficult to summarise meaningfully and will contain information that is commercially sensitive.

We are concerned that the volume and nature of the proposed disclosures will lead to excessive information which will confuse and obscure understanding, and that commercial sensitivity could lead to boilerplate disclosures, which are unhelpful to users.

Given the wide spectrum of industries that would be covered by this standard, we would propose the Board reconsider the disclosures, with the suggestion that an approach currently

adopted by with the disclosure requirements of IFRS 8 *Operating Segments* and would provide users with information which aligns with the information the Chief Operating Decision Maker uses to manage the business. We would be supportive of an approach outlining the principles of the disclosures to be made with appropriate associated guidance.

Q11: 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 the proposed disclosure requirement? If not, what if any, information do you think an entity should disclose about its remaining performance obligations?

We agree that the disclosure proposed in paragraph 78 would provide useful information for users. We agree that such information should be disclosed in numerical form in the interests of comparability. However, we believe that application will be problematic for those companies with a large number of small contracts.

It should be noted that this information is forward looking and therefore may not be contained within financial systems. In some cases it may prove extremely difficult, and costly, to gather the information required for the disclosure. Auditability is also a concern. To simplify the disclosure and to provide more useful information to users, we suggest limiting disclosure to those contracts expected to continue for more than 12 months after the balance sheet date.

In our opinion, example 31 implies that the disclosures envisaged by the Board may be appropriate for a simple entity with few contracts, but are significantly too detailed for a complex and diverse business. We would therefore urge the Board to reconsider the impact of the current requirements.

Q12: 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 do not agree with this proposal. In practise the satisfaction of this proposal will be highly judgemental for a business with a wide range of revenue streams. The reaction of revenue and cash flows to changes in economic factors could, in many cases, be contract specific which could make this categorisation of revenue very difficult to satisfy. Therefore the resulting information is unlikely to aid comparison between different companies and possibly between different reporting periods in the same reporting entity.

We note that the provision of segmental information is addressed in IFRS 8 *Operating Segments*, and would not welcome duplication or unnecessary expansion of the requirements of this standard. We suggest that a stronger link be established between the two standards.

Q13: Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting period presented)? If not, why?

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

We agree that the requirements should apply retrospectively, otherwise comparability will be impaired during the transition period. However, the practicality of retrospective application will depend upon the profile of contracts that a company has. For those companies with contracts that span several years, the re-examination of these contracts to determine the effects of adoption is likely to be an extensive exercise.

Consequently we propose that there should be a minimum of two clear calendar years between issuing the standard and the date it is effective to allow for the considerable systems reconfiguration and analysis required for implementation.

Q14: 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?

In comparison to other IFRSs, the ED does contain an extensive amount of application guidance. However, we are mindful that in the context of US GAAP the ED represents a considerable condensation. We also note that the complex nature of the subject is likely to necessitate detailed guidance. Therefore we are generally comfortable with the scope of the additional guidance provided. However, we are conscious that given the complex nature of the subject there are some areas where further guidance would be helpful. In particular we consider that the guidance should be strengthened to include an example of the practical implications for long term contracts which are likely to be particularly complex. We would urge the Board to consider adapting one of the current illustrative examples from IAS 11 *Construction contracts* in order to aid consistent application of the standard.

Q15: The boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**
- (b) A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.**

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

We are of the opinion that, in practice, it will not be straightforward to apply the distinction outlined in the ED. Although, at the extremes, there will be some defects that are clearly latent and others that clearly arise after product transfer, many defects in between will be difficult to categorise.

For both types of warranty, we agree with the ED that revenue should be deferred. In both cases, it seems to us that there is an outstanding performance obligation to be satisfied. Accordingly, if the distinction between the types of warranty is in practice unnecessary, we encourage the boards to remove it, so that preparers do not incur unnecessary time and costs in classifying warranties.

Q16: 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 terms 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 do not agree that exclusivity is the correct criterion for determining the pattern of revenue recognition. Exclusivity represents a distinction that may not be reflective of the performance obligation pattern of the underlying contract. Further, criterion (a) appears to be artificial. A supplier may or may not have an ongoing performance obligation, but does not necessarily have one just because an exclusive licence has been supplied.

An appropriate solution, in our view, would be to align the accounting with the pattern of obligations the supplier has in relation to the licence. Where it merely needs to be supplied at a discrete point in time with no further support, maintenance or other requirement, then all performance obligations may be deemed to have been met on supply. However, where the vendor retains ongoing responsibilities, it would be appropriate to recognise these as separate performance obligations and to defer revenue accordingly.

Q17: 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 agree. The proposed revenue recognition model should be equally applied to the sale of those non-financial assets covered by other IFRSs. The cross references in IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible Assets* currently to the sale of goods could effectively be updated as a consequential amendment arising from adoption of revenue recognition standard.