

26 June 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

**IASB DISCUSSION PAPER: PRELIMINARY VIEWS ON REVENUE RECOGNITION IN
CONTRACTS WITH CUSTOMERS**

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers. We appreciate the IASB's commitment to develop a single contract based revenue recognition model to provide clearer guidance on when an entity should recognise revenue. The desire to provide users of financial statements with consistent, comparable and understandable information is a constant challenge that our Board shares with the IASB.

We support the proposed control model to be applied to determine whether a promised good or service is transferred.

We also believe that the element of risks and rewards should be an input in applying the control model in the assessment of whether a promised good or service is transferred. This would be consistent with, and would provide additional clarity to support, the proposed revenue recognition principle. And it would, we believe, support consideration of the economic substance of a transaction.

In long term contracts where the "economic delivery" may differ from the pattern of economic activity, application of the control model may not adequately reflect the pattern by which revenue is progressively earned. That would particularly be the case where indicators of 'delivery' may rely on mechanisms actually established for other purposes such as technical testing or progress billing milestones. We therefore urge the boards to consider the matter of long term contracts and whether these should be an additional exception to the economic delivery principle.

Please refer to the Appendix of this letter for the detailed responses to the questions raised in the discussion paper.

If you need further clarification, please contact Ms Tan Bee Leng at +603 2240 9200 or by email at beeleng@masb.org.my.

Thank you.

Yours sincerely,



Mohammad Faiz Azmi
Chairman

Question 1

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We agree with the proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability. The proposed approach aligns the revenue recognition process to that articulated in the Framework.

The focus on changes in assets and liabilities will also address inconsistencies in existing standards that arise from having different revenue recognition principles. As a result, users of financial statements should benefit because economically similar transactions would be reported similarly.

Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

We appreciate that despite the IASB's proposal to base a single model for revenue recognition, there will continue to be scope exclusions for certain types of contracts.

Financial instruments due to their different nature compared to other commercial contracts, warrant a different revenue recognition model. The existing scope exclusion of financial instruments from IAS 18 *Revenue* should be maintained. If financial instruments are excluded, accounting for interests and dividends, currently in IAS 18, should also be excluded and covered by IAS 39 *Financial Instruments: Recognition and Measurement*. This should not, however, preclude the related income of financial instruments contracts from being classified as revenue, where appropriate.

Insurance contracts, generally should be excluded. However, certain types of "short-tail" insurance are similar to contracts currently included in the DP (eg warranty obligations), and therefore to exclude such insurance contracts would not be appropriate.

In long term contracts where the "economic delivery" may differ from the pattern of economic activity, application of the control model may not adequately reflect the pattern by which revenue is progressively earned. That would particularly be the case where indicators of 'delivery' may rely on mechanisms actually established for other purposes such as technical testing or progress billing milestones. We therefore urge the boards to consider the matter of long term contracts and whether these should be an additional exception to the economic delivery principle.

While it may be seen to be a justifiable decision by the boards to defer consideration of lessor accounting to concentrate on developing an improved lessee accounting model, we have a concern that potential discrepancies may arise. We urge therefore that lessor accounting be considered concurrently with this project.

We also believe gains that do not arise from contracts (eg increases in value of biological assets) should not be included within revenue.

Question 3

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree with the boards' definition of a contract except that clarification should be provided on the similarity, or otherwise, between "implicit obligation" and "constructive obligation" (as set out in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Question 4

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We agree that the use of performance obligations in a contract, as defined, will help entities to identify consistently the deliverables in a contract especially when the promise underpinning a performance obligation is explicit in the terms of the contract. For terms implicit in a contract, further clarification is required as mentioned in Question 3.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

Unless the performance obligations are to be satisfied simultaneously, performance obligations in a contract should be separated based on when an entity transfers the promised asset to the customer.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

We believe that an entity's promise to accept returns is a performance obligation. Customers often are willing to pay a premium for a return right and therefore it is appropriate to defer some revenue until this service is performed (ie good is returned or the return rights expire).

We suggest the boards' gives further guidance to ensure the requirement is consistently applied by reporting entities and that the accounting reflects the economics of the transaction. Although most entities can be expected to estimate returns or refunds based on past trends, guidance may be required in cases where returns are typically very high, or where it is a new product with no history.

Question 7

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Yes, we are of the view that sales incentives give rise to performance obligations because they represent discounts or privileges promised to customers in the future. This is similar to the concept in IFRIC 13 *Customer Loyalty Programmes*.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We support application of the 'principle based' control model to determine whether a promised good or service is transferred.

We also believe that the element of risks and rewards should be an input in applying the control model in the assessment of whether a promised good or service is transferred. This would be consistent with, and would provide additional clarity to support, the proposed revenue recognition principle. And it would, we believe, support consideration of the economic substance of a transaction.

Question 9

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

As mentioned in Question 2, whilst we agree with the IASB's proposal to base a single model for revenue recognition we strongly recommend that the boards consider an additional exception for long-term contracts.

Question 10

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Revenue should be measured initially at the transaction price in view of inherent problems associated with the use of current exit price as articulated in the DP, in particular the complexity and difficulty in verifying the exit price which is rarely observable at inception and the susceptibility to risk of error in trying to do so.

- (b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

A liability should be recorded when the entity has a contractual obligation to provide goods or services where the expected cost exceeds the cost of the performance obligation.

We are in favour of remeasurement using the "cost test" approach as it is similar to requirements of current standards such as IAS 11 *Construction Contracts* and IAS 37.

- (c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

We do not believe the proposed measurement approach would not provide decision-useful information at each financial statement date except for long term contracts as referred to in our response to Question 2.

- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

We do not believe another measurement approach is required except for long term contracts, as referred to in our response to Question 2.

Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

We agree that the amount an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations.

- (b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Contract origination cost should be expensed unless they result in an increase in the value of an asset under other standards. We suggest that the boards give guidance on capitalisation of customer acquisition costs to ensure consistent application of the requirements.

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations because it would be possible to make a reasoned estimate of selling prices of assets sold by profit-making entities, however packaged to the customer.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

We agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price and disclose the basis of assumptions made, as appropriate.