

23 March 2012

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Mr Hoogervorst

IASB Exposure Draft ED/2011/6 – Revenue from Contracts with Customers

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB Exposure Draft ED/2011/06 – Revenue from Contracts with Customers (ED).

Generally, we support the proposals in the ED. We do, however, have several matters on which we urge further consideration. These are briefly set out below, and further elaborated in our responses to the relevant questions in the Appendix to this letter:

- (a) Paragraph 35 (b) (ii) sets out one of the acceptable criteria by which performance obligations can be considered to be satisfied over time, i.e. that another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer. BC 98 provides the relevant basis for conclusion.

We believe that there is scope to simplify paragraph 35 (b) (ii) and BC98 to allow for better understanding, through a more direct reference to the entity making the assumption that the benefits of any assets related to the contract would become controlled by the customer to enable that other entity to fulfil the remainder of the contract.

Please see our response to Question 1 in the appendix to this letter for further elaboration.

(b) We are concerned with the extent of disclosure requirements proposed (as raised in our previous comment letter), and further, the proposal to amend IAS 34 *Interim Financial Reporting* towards further detailed disclosures. The disclosures have the potential to be overly detailed, with the resulting volume of information thereby obscuring other useful information within the financial statements. In addition, we are of the view that some of the proposed disclosures will not be consistent with condensed interim financial statements, where such is the framework, and that the reconciliations will not provide commensurate benefit to the users of interim financial reports.

Please see our response to Question 5 in the appendix to this letter for further elaboration.

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

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree with the proposals in paragraphs 35 and 36. We do, however, have a concern that paragraph 35 (b) (ii) is expressed in an unduly complex manner.

Paragraph 35 (b) (ii) sets out one of the acceptable criteria by which performance obligations can be considered to be satisfied over time, i.e. that another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer. The paragraph then elaborates that in evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset presently controlled by the entity.

The relevant basis for conclusions in BC 98 states that in evaluating whether another entity would need to re-perform any work, it is important to disregard the benefit of any asset related to the contract that is controlled by the entity.

We believe that there is scope to simplify paragraph 35 (b) (ii) and BC98 to be better understood, particularly with respect to the references made to benefits of any assets. We believe the point to make is that in evaluating whether another entity would need to re-perform any work, the entity may make the assumption that the benefits of any assets related to the contract would become controlled by the customer so as to enable that other entity to fulfil the remainder of the contract.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We agree with the proposals but believe that elements relating to initial credit loss adjustments on contracts entered into during a financial year and subsequent impairments on other contracts entered into in prior financial years should be separately presented. This would allow for better comparability and analysis.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the proposal but suggest clarity on whether the threshold of 'reasonably assured' is similar to 'probable' as used in existing IFRSs. For example, paragraph 14(d) of IAS 18 *Revenue* requires a probability test for revenue recognition.

Paragraph 85

We also challenge the need to particularly address intellectual property licences as done in paragraph 85. While better clarity is appreciated, IFRSs are meant to be principle-based and hence we urge the IASB to provide the principle to the proposed exception.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We agree with the proposal.

Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We are concerned with the volume of disclosures proposed and the proposal to amend IAS 34.

We are of the view that the disclosures have the potential to be overly detailed with the resulting volume of information thereby obscuring other useful information within the financial statements. Furthermore the additional level of disclosures will entail a significantly higher level of costs, including investments in IT systems, associated with preparing the information for the disclosures, threatening the cost-benefit equation.

There is also an apparent conflict with the principle in IAS 34 that interim financial statements provide a general, and not detailed, update on the latest annual financial statements. In addition, we are of the view that detailed disclosures in the form of tabular reconciliations are not consistent with condensed interim financial statements where such is the framework, and that the reconciliations will not provide commensurate benefit to the users of interim financial reports.

Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We agree with the proposals. In addition we believe the proposal should also apply to IAS 38 *Intangible Assets*.