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Exposure Draft ED/2011/6

A revision of ED/2010/6 *Revenue from Contracts with Customers*

Revenue from Contracts with Customers

Comments to be received by 13 March 2012

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with Customers

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Introduction and questions for respondents

Why is the IASB publishing this exposure draft?

- IN1 Revenue is a crucial number to users of financial statements in assessing an entity's financial performance and position. However, revenue recognition requirements in US generally accepted accounting principles (GAAP) differ from those in International Financial Reporting Standards (IFRSs) and both sets of requirements need improvement. US GAAP comprises broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions. Although IFRSs have fewer requirements on revenue recognition, the two main revenue recognition standards, IAS 18 *Revenue* and IAS 11 *Construction Contracts*, can be difficult to understand and apply. In addition, IAS 18 provides limited guidance on important topics such as revenue recognition for multiple-element arrangements.
- IN2 Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognising revenue and to develop a common revenue standard for IFRSs and US GAAP that would:
- (a) remove inconsistencies and weaknesses in existing revenue requirements;
 - (b) provide a more robust framework for addressing revenue issues;
 - (c) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;
 - (d) provide more useful information to users of financial statements through improved disclosure requirements; and
 - (e) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.
- IN3 To meet those objectives, the IASB and the FASB are proposing amendments to IFRSs and to the *FASB Accounting Standards Codification*[®] (ASC), respectively.

- IN4 In December 2008, the boards published the discussion paper *Preliminary Views on Revenue Recognition in Contracts with Customers*. The discussion paper explained the boards' initial views on revenue, including some of the principles that they proposed as the basis of a future standard. After considering feedback received on the discussion paper, the boards developed those principles into a draft standard.
- IN5 In June 2010, the boards published the exposure draft *Revenue from Contracts with Customers*. (The FASB's version was a proposed Accounting Standards Update.) The boards received nearly 1,000 comment letters on the 2010 exposure draft and, in response, have revised various aspects of the June 2010 proposals. (The appendix to the Basis for Conclusions for this exposure draft summarises those revisions.) Although those revisions did not necessitate re-exposure for public comment in accordance with the boards' due process procedures, the boards decided to re-expose the proposals because of the importance to all entities of the financial reporting of revenue and the desire to avoid unintended consequences of the final standard.

Who would be affected by the proposals?

- IN6 The proposed requirements would affect any entity that enters into contracts with customers unless those contracts are in the scope of other standards (for example, insurance contracts or lease contracts).
- IN7 In IFRSs, the proposed requirements in this exposure draft would supersede IASs 11 and 18 (and related Interpretations). In US GAAP, the proposed requirements in this exposure draft would supersede most of the revenue recognition requirements in ASC Topic 605 (and related guidance).
- IN8 In addition, the existing requirements for the recognition of a gain or loss on the transfer of some non-financial assets that are not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 *Property, Plant and Equipment*, IAS 40 *Investment Property* or ASC Topic 360) would be amended to be consistent with the proposed recognition and measurement requirements.

What are the main proposals?

IN9 The core principle of these proposed requirements is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IN10 To achieve that core principle, an entity would apply all of the following steps:

Step 1—Identify the contract with a customer.

Step 2—Identify the separate performance obligations in the contract.

Step 3—Determine the transaction price.

Step 4—Allocate the transaction price to the separate performance obligations in the contract.

Step 5—Recognise revenue when (or as) the entity satisfies a performance obligation.

Step 1: Identify the contract with a customer

IN11 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by an entity's customary business practices. An entity would apply the proposed revenue requirements to each contract with a customer unless specified criteria are met for the combination of contracts.

Step 2: Identify the separate performance obligations in the contract

IN12 A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. If an entity promises to transfer more than one good or service, the entity would account for each promised good or service as a separate performance obligation only if it is distinct. If a promised good or service is not distinct, an entity would combine that good or service with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in an entity accounting for all the goods or services promised in a contract as a single performance obligation.

- IN13 A good or service is distinct if either of the following criteria is met:
- (a) the entity regularly sells the good or service separately; or
 - (b) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.
- IN14 Notwithstanding those criteria, a good or service in a bundle of promised goods or services is not distinct and, therefore, the entity would account for the bundle as a single performance obligation, if both of the following criteria are met:
- (a) the goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has contracted; and
 - (b) the bundle of goods or services is significantly modified or customised to fulfil the contract.
- IN15 The proposed requirements also include application guidance to help an entity to appropriately identify the performance obligations in specified situations (for example, when other parties are involved in providing goods to an entity's customer and the entity must determine whether its performance obligation is to provide the goods, by acting as a principal, or to provide the service of arranging for another party to provide the goods by acting as an agent).

Step 3: Determine the transaction price

- IN16 The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). When determining the transaction price, an entity would consider the effects of all of the following:
- (a) Variable consideration—if the promised amount of consideration in a contract is variable, an entity would estimate the transaction price by using either the expected value (ie probability-weighted amount) or the most likely amount, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.

- (b) The time value of money—an entity would adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract. An entity would consider various factors in assessing whether a financing component is significant to a contract. As a practical expedient, an entity need not adjust the promised amount of consideration to reflect the time value of money if the entity expects at contract inception that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.
- (c) Non-cash consideration—if a customer promises consideration in a form other than cash, an entity would measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an entity cannot reasonably estimate the fair value of the non-cash consideration, it would measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.
- (d) Consideration payable to the customer—if an entity pays, or expects to pay, consideration to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash, credit or other items that the customer can apply against amounts owed to the entity, the entity would account for the consideration payable to the customer as a reduction of the transaction price unless the payment is in exchange for a distinct good or service.

IN17 An entity would not consider the effects of customer credit risk (ie collectibility) when determining the transaction price but, instead, would account for those effects by applying the requirements of IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, if the entity has not yet adopted IFRS 9) or ASC Topic 310 on receivables. Any corresponding amounts recognised in profit or loss would be presented both initially and subsequently as a separate line item adjacent to the revenue line item.

Step 4: Allocate the transaction price to the separate performance obligations in the contract

- IN18 For a contract that has more than one separate performance obligation, an entity would allocate the transaction price to each separate performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.
- IN19 To allocate an appropriate amount of consideration to each separate performance obligation, an entity would determine the stand-alone selling price at contract inception of the good or service underlying each separate performance obligation and allocate the transaction price on a relative stand-alone selling price basis. If a stand-alone selling price is not observable, an entity would estimate it.
- IN20 The proposed requirements specify the circumstances in which an entity would allocate a discount or a contingent amount entirely to one (or some) distinct goods or services promised in a contract rather than to all promised goods or services in the contract.
- IN21 An entity would allocate to the separate performance obligations in a contract any subsequent changes in the transaction price on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation would be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

- IN22 An entity would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.
- IN23 For each separate performance obligation, an entity would determine whether the entity satisfies the performance obligation over time by transferring control of a good or service over time. If the entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.
- IN24 An entity transfers control of a good or service over time and, hence, satisfies a performance obligation and recognises revenue over time if at least one of the following two criteria is met:

- (a) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (b) the entity's performance does not create an asset with an alternative use to the entity and at least one of the following criteria is met:
 - (i) the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs;
 - (ii) 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; or
 - (iii) the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised.

IN25 For each separate performance obligation that an entity satisfies over time, the entity would recognise revenue over time by consistently applying a method of measuring the progress towards complete satisfaction of that performance obligation. Appropriate methods of measuring progress include output methods and input methods. As circumstances change over time, an entity would update its measure of progress to depict the entity's performance completed to date.

IN26 If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. To determine the point in time when a customer obtains control of a promised asset and an entity satisfies a performance obligation, the entity would consider indicators of the transfer of control that include, but are not limited to, the following:

- (a) the entity has a present right to payment for the asset;
- (b) the customer has legal title to the asset;
- (c) the entity has transferred physical possession of the asset;
- (d) the customer has the significant risks and rewards of ownership of the asset; and
- (e) the customer has accepted the asset.

IN27 In addition, the proposed requirements include application guidance on specified topics (for example, repurchase agreements, consignment arrangements and bill-and-hold arrangements) to help an entity determine when control of a promised good or service is transferred to a customer.

Constraint on the cumulative amount of revenue recognised

IN28 If the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date would not exceed the amount to which it is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount of consideration allocated to satisfied performance obligations only if both of the following criteria are met:

- (a) the entity has experience with similar types of performance obligations (or has other evidence such as access to the experience of other entities); and
- (b) the entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.

IN29 An entity would be required to consider various factors when determining whether the entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled.

Onerous performance obligations

IN30 For a performance obligation that an entity satisfies over time and that the entity expects at contract inception to satisfy over a period of time greater than one year, an entity would recognise a liability and a corresponding expense if the performance obligation is onerous.

IN31 A performance obligation is onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. The proposed requirements specify how an entity would determine the lowest cost of settling the performance obligation.

Contract costs

- IN32 The proposed requirements also specify the accounting for some costs of obtaining or fulfilling a contract with a customer. An entity would recognise as an asset the incremental costs of obtaining a contract if the entity expects to recover those costs. To account for the costs of fulfilling a contract with a customer, an entity would apply the requirements of other standards (for example, IAS 2 *Inventories* or ASC Topic 330 on inventory; IAS 16 or ASC Topic 360 on property, plant and equipment; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), if applicable. Otherwise, an entity would recognise an asset from the costs to fulfil a contract only if those costs meet all of the following criteria:
- (a) the costs relate directly to a contract (or a specific anticipated contract);
 - (b) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
 - (c) the costs are expected to be recovered.

Disclosures

- IN33 The proposed requirements specify various disclosure requirements that would enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity would disclose qualitative and quantitative information about all of the following:
- (a) its contracts with customers (including a reconciliation of contract balances);
 - (b) the significant judgements, and changes in judgements, made in applying the proposed requirements to those contracts; and
 - (c) any assets recognised from the costs to obtain or fulfil a contract with a customer.
- IN34 In addition, the boards propose amending IAS 34 *Interim Financial Reporting* and ASC Topic 270 on interim reporting to require some information to be disclosed for interim reporting periods.

When would the proposals be effective?

IN35 The boards decided that, on the basis of their current timetable for the project, a final revenue standard would not be effective earlier than for annual reporting periods beginning on or after 1 January 2015. That timing would ensure that, for an entity providing two years of comparative annual financial information (in addition to information for the current year), the standard would be issued before the beginning of the earliest comparative annual period presented. The IASB decided that early application would be permitted. The FASB decided that early application would not be permitted.

Questions for respondents

IN36 Many of the proposed requirements in this exposure draft are similar to the proposed requirements in the 2010 exposure draft on which the boards have received extensive feedback. Hence, the boards are not seeking specific comments on all matters in this exposure draft. Instead, the boards invite individuals and organisations to comment on whether the proposed requirements are clear and can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers. If a proposed requirement is not clear, the boards invite suggestions on how to clarify the drafting of the proposed requirement. The boards also invite comments on the specific questions below. Respondents need not comment on all of the questions.

IN37 Comments are requested from both those who agree with the proposed requirements and those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with a proposal are asked to describe their suggested alternative(s), supported by specific reasoning.

IN38 Respondents should submit one comment letter to either the IASB or the FASB. The boards will share and jointly consider all comment letters received.

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?

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?

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?

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?

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)

* In the IASB exposure draft, see paragraph D19 in Appendix D.

- 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.

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?

* In the IASB exposure draft, see paragraphs D17, D22 and D26 in Appendix D.

[Draft] International Financial Reporting Standard X *Revenue from Contracts with Customers* ([draft] IFRS X) is set out in paragraphs 1–130 and Appendices A–C. Appendix D sets out amendments to other IFRSs. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] IFRS. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. [Draft] IFRS X should be read in the context of its objective and its Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[Draft] International Financial Reporting Standard X

Revenue from Contracts with Customers

Introduction

- 1 In accordance with the IASB's *Conceptual Framework for Financial Reporting*, revenues are increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants, and that arise in the course of an entity's ordinary activities. The assets increased by revenues may be of various kinds, for example, cash, claims against customers, inventory or other assets.
- 2 This [draft] IFRS specifies the accounting for revenue arising from contracts with customers. It does not address revenue arising from other transactions or activities (for example, revenues arising from changes in the value of some biological or agricultural assets).
- 3 The core principle of this [draft] IFRS is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
- 4 To achieve that core principle, an entity shall apply all of the following steps:
 - (a) identify the contract with a customer;
 - (b) identify the separate performance obligations in the contract;
 - (c) determine the transaction price;
 - (d) allocate the transaction price to the separate performance obligations in the contract; and
 - (e) recognise revenue when (or as) the entity satisfies a performance obligation.
- 5 An entity shall consider the terms of the contract and all related facts and circumstances when using judgement in applying this [draft] IFRS. An entity shall apply this [draft] IFRS consistently to contracts with similar characteristics and in similar circumstances.

- 6 This [draft] IFRS specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this [draft] IFRS to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this [draft] IFRS to the individual contracts (or performance obligations).
- 7 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Objective

- 8 The objective of this [draft] IFRS is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of *revenue* and cash flows arising from a *contract* with a *customer*.

Scope

- 9 An entity shall apply this [draft] IFRS to all contracts with customers, except the following:
- (a) lease contracts within the scope of IAS 17 *Leases*;
 - (b) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;
 - (c) contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*; and
 - (d) *[this subparagraph in the FASB exposure draft is not used in the IASB exposure draft]*
 - (e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers, or to potential customers, other than the parties to the exchange (for example, an exchange of oil to fulfil demand on a timely basis in a specified location).
- 10 A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities. An entity shall apply this [draft] IFRS to a contract (other than a contract listed in paragraph 9) only if the counterparty to the contract is a customer. For some contracts, the counterparty to the contract might not be a customer but rather a collaborator or a partner that shares with the entity the risks and benefits of developing a product to be marketed. Such contracts are not in the scope of this [draft] IFRS.

- 11 A contract with a customer may be partially within the scope of this [draft] IFRS and partially within the scope of other IFRSs.
- (a) If the other IFRSs specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply those separation and/or measurement requirements.
 - (b) If the other IFRSs do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply this [draft] IFRS to separate and/or initially measure the part(s) of the contract.

Recognition of revenue

Identifying the contract

- 12 **An entity shall apply this [draft] IFRS to each contract identified in accordance with paragraphs 13–22.**
- 13 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. Additionally, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining when an agreement with a customer creates enforceable rights and obligations of the entity.
- 14 An entity shall apply this [draft] IFRS to a contract with a customer only if all of the following criteria are met:
- (a) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract);
 - (b) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
 - (c) the entity can identify each party's rights regarding the goods or services to be transferred; and
 - (d) the entity can identify the payment terms for the goods or services to be transferred.

- 15 For the purpose of applying this [draft] IFRS, a contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (parties). A contract is wholly unperformed if both of the following criteria are met:
- (a) the entity has not yet transferred any promised goods or services to the customer; and
 - (b) the entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

Combination of contracts

- 16 An entity shall apply this [draft] IFRS to each contract with a customer except as specified in paragraphs 6 and 17.
- 17 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties) and account for the contracts as a single contract if one or more of the following criteria are met:
- (a) the contracts are negotiated as a package with a single commercial objective;
 - (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
 - (c) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single *performance obligation* in accordance with paragraphs 27–30.

Contract modifications (see paragraph IE3^{*})

- 18 A contract modification exists when the parties to a contract approve a change in the scope or price of a contract (or both). If a contract modification has not been approved by the parties to a contract, an entity shall continue to apply this [draft] IFRS to the existing contract until the contract modification is approved.

* Cross-references to the Illustrative Examples are provided in the IASB exposure draft to maintain consistency with the FASB exposure draft.

- 19 If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply this [draft] IFRS to the modified contract when the entity has an expectation that the price of the modification will be approved. To estimate the *transaction price* in such cases, an entity shall apply paragraphs 50–67.
- 20 If a contract modification results only in a change to the transaction price, an entity shall account for the modification as a change in the transaction price in accordance with paragraphs 77–80.
- 21 An entity shall account for a contract modification as a separate contract if the contract modification results in the addition to the contract of both of the following:
- (a) promised goods or services that are distinct in accordance with paragraphs 27–30; and
 - (b) an entity's right to receive an amount of consideration that reflects the entity's *stand-alone selling price* of the promised good(s) or service(s) and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity would adjust the stand-alone selling price for a discount that the customer receives because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.
- 22 For a contract modification that is not a separate contract in accordance with paragraph 21, an entity shall evaluate the remaining goods or services in the modified contract (ie the promised goods or services not yet transferred at the date of the contract modification) and shall account for the modified contract in whichever of the following ways is applicable:
- (a) If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, then the entity shall allocate to the remaining separate performance obligations the amount of consideration received from the customer but not yet recognised as revenue plus the amount of any remaining consideration that the customer has promised to pay. In effect, an entity shall account for the contract modification as a termination of the original contract and the creation of a new contract.

- (b) If the remaining goods or services are not distinct and are part of a single performance obligation that is partially satisfied at the date of the contract modification, then the entity shall update the transaction price and the measure of progress towards complete satisfaction of the performance obligation. The entity shall recognise the effect of the contract modification as revenue (or as a reduction of revenue) at the date of the contract modification on a cumulative catch-up basis. In effect, the entity shall account for the contract modification as if it were a part of the original contract.
- (c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall allocate to the unsatisfied (including partially unsatisfied) separate performance obligations the amount of consideration received from the customer but not yet recognised as revenue, plus the amount of any remaining consideration that the customer has promised to pay. For a performance obligation satisfied over time, an entity shall update the transaction price and the measure of progress towards complete satisfaction of the performance obligation. An entity shall not reallocate consideration to, and adjust the amount of revenue recognised for, separate performance obligations that are completely satisfied on or before the date of the contract modification.

Identifying separate performance obligations (see paragraphs B16, B20 and IE4)

- 23 **An entity shall evaluate the goods or services promised in a contract and shall identify which goods or services (or which bundles of goods or services) are distinct and, hence, that the entity shall account for as a separate performance obligation.**
- 24 A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. Performance obligations include promises that are implied by an entity's customary business practices, published policies or specific statements if those promises create a valid expectation of the customer that the entity will transfer a good or service.

- 25 Performance obligations do not include activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the customer as those activities occur. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Hence, those promised set-up activities are not a performance obligation.
- 26 Depending on the contract, promised goods or services may include, but are not limited to, the following:
- (a) goods produced by an entity for sale (for example, inventory of a manufacturer);
 - (b) goods purchased by an entity for resale (for example, merchandise of a retailer);
 - (c) providing a service of arranging for another party to transfer goods or services to the customer (for example, acting as an agent of another party as discussed in paragraphs B16–B19);
 - (d) standing ready to provide goods or services (for example, when-and-if-available software products);
 - (e) constructing, manufacturing or developing an asset on behalf of a customer;
 - (f) granting licences or rights to use intangible assets;
 - (g) granting options to purchase additional goods or services (when those options provide the customer with a material right as discussed in paragraphs B20–B22); and
 - (h) performing a contractually agreed-upon task (or tasks) for a customer.
- 27 If an entity promises to transfer more than one good or service, the entity shall account for each promised good or service as a separate performance obligation only if it is distinct. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in an entity accounting for all the goods or services promised in a contract as a single performance obligation.
- 28 Except as specified in paragraph 29, a good or service is distinct if either of the following criteria is met:

- (a) the entity regularly sells the good or service separately; or
 - (b) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer. Readily available resources are goods or services that are sold separately (by the entity or by another entity) or resources that the customer has already obtained (from the entity or from other transactions or events).
- 29 Notwithstanding the requirements in paragraph 28, a good or service in a bundle of promised goods or services is not distinct and, therefore, the entity shall account for the bundle as a single performance obligation if both of the following criteria are met:
- (a) the goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has contracted; and
 - (b) the bundle of goods or services is significantly modified or customised to fulfil the contract.
- 30 As a practical expedient, an entity may account for two or more distinct goods or services promised in a contract as a single performance obligation if those goods or services have the same pattern of transfer to the customer. For example, if an entity promises to transfer two or more distinct services to a customer over the same period of time, the entity could account for those promises as one performance obligation if applying one method of measuring progress (as discussed in paragraphs 38–48) would faithfully depict the pattern of transfer of those services to the customer.

Satisfaction of performance obligations (see paragraphs IE5 and IE6)

- 31 **An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.**

- 32 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly in many ways, such as by:
- (a) using the asset to produce goods or provide services (including public services);
 - (b) using the asset to enhance the value of other assets;
 - (c) using the asset to settle liabilities or reduce expenses;
 - (d) selling or exchanging the asset;
 - (e) pledging the asset to secure a loan; and
 - (f) holding the asset.
- 33 When evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the promised asset or a component of the promised asset. (See the application guidance on repurchase agreements in paragraphs B38–B48.)
- 34 For each separate performance obligation identified in paragraphs 23–30, an entity shall apply the requirements in paragraphs 35 and 36 to determine at contract inception whether the entity satisfies the performance obligation over time by transferring control of a promised good or service over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

Performance obligations satisfied over time

- 35 An entity transfers control of a good or service over time and, hence, satisfies a performance obligation and recognises revenue over time if at least one of the following two criteria is met:
- (a) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. An entity shall apply the requirements on control in paragraphs 31–33 and paragraph 37 to determine whether the customer controls an asset as it is created or enhanced; or

- (b) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met:
- (i) the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs.
 - (ii) 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. 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 (for example, work in progress) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity.
 - (iii) the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity's failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity's costs plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract is terminated.

36 When evaluating whether an asset has an alternative use to the entity, an entity shall consider at contract inception the effects of contractual and practical limitations on the entity's ability to readily direct the promised asset to another customer. A promised asset would not have an alternative use to an entity if the entity is unable, either contractually or practically, to readily direct the asset to another customer. For example, an asset would have an alternative use to an entity if the asset is largely interchangeable with other assets that the entity could transfer to the customer without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. Conversely, the asset would not have an alternative use

if the contract has substantive terms that preclude the entity from directing the asset to another customer or if the entity would incur significant costs (for example, costs to rework the asset) to direct the asset to another customer.

**Performance obligations satisfied at a point in time
(see paragraphs B38–B58)**

- 37 If a performance obligation is not satisfied over time in accordance with paragraphs 35 and 36, an entity satisfies the performance obligation at a point in time. To determine the point in time when a customer obtains control of a promised asset and an entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–33. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:
- (a) The entity has a present right to payment for the asset—if a customer is presently obliged to pay for an asset, then that indicates that the customer has obtained control of the asset in exchange.
 - (b) The customer has legal title to the asset—legal title often indicates which party to a contract has the ability to direct the use of and obtain the benefits from an asset or to restrict the access of other entities to those benefits. Hence, the transfer of legal title of an asset indicates that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer’s failure to pay, those rights of the entity are protective rights and do not preclude a customer from obtaining control of an asset.
 - (c) The entity has transferred physical possession of the asset—the customer’s physical possession of an asset indicates that the customer has the ability to direct the use of and obtain the benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. To account for a repurchase, consignment or bill-and-hold arrangement, an entity shall apply the application guidance in paragraphs B38–B54.

- (d) The customer has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the customer indicates that control of the asset has been transferred. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall consider any risks that may give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional separate performance obligation to provide maintenance services related to the transferred asset.
- (e) The customer has accepted the asset—the customer’s acceptance of an asset indicates that it has obtained the ability to direct the use of and obtain the benefits from the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the application guidance in paragraphs B55–B58.

Measuring progress towards complete satisfaction of a performance obligation (see paragraph IE7)

- 38 For each separate performance obligation that an entity satisfies over time in accordance with paragraphs 35 and 36, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict the transfer of control of goods or services to the customer—that is, to depict an entity’s performance. As circumstances change over time, an entity shall update its measure of progress to depict the entity’s performance completed to date. Such changes shall be accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 39 In accordance with the objective of measuring progress, an entity shall exclude from a measure of progress any goods or services for which the entity does not transfer control to the customer. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to the customer.

- 40 For each separate performance obligation satisfied over time, an entity shall apply a method of measuring progress that is consistent with the objective in paragraph 38 and shall apply that method consistently to similar performance obligations and in similar circumstances. Appropriate methods of measuring progress include output methods and input methods.

Output methods

- 41 Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date (for example, surveys of performance completed to date, appraisals of results achieved, milestones reached or units produced) and can be the most faithful depiction of the entity's performance.
- 42 If an entity has a right to invoice a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a services contract in which an entity bills a fixed amount for each hour of service provided), the entity shall recognise revenue in the amount to which the entity has a right to invoice.
- 43 A disadvantage of output methods is that they are often not directly observable and the information required to apply them may not be available to the entity without undue cost. Hence, an input method may be necessary.

Input methods

- 44 Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time lapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for an entity to recognise revenue on a straight-line basis.
- 45 A shortcoming of input methods is that there may not be a direct relationship between the entity's inputs and the transfer of control of goods or services to the customer because of inefficiencies in the entity's performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the transfer of control of goods or services to the customer (for example, the costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract).

- 46 When applying an input method to a separate performance obligation that includes goods that the customer obtains control of significantly before receiving services related to those goods, the best depiction of the entity's performance may be for the entity to recognise revenue for the transferred goods in an amount equal to the costs of those goods if both of the following conditions are present at contract inception:
- (a) the cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation; and
 - (b) the entity procures the goods from another entity and is not significantly involved in designing and manufacturing the goods (but the entity is acting as a principal in accordance with paragraphs B16–B19).

Reasonable measures of progress

- 47 An entity shall recognise revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.
- 48 In some circumstances (for example, in the early stages of a contract), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation or until the performance obligation becomes onerous.

Measurement of revenue

- 49 **When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price allocated to that performance obligation. If the amount of consideration to which an entity expects to be entitled is variable, the cumulative amount of revenue an entity recognises to date shall not exceed the amount to which the entity is reasonably assured to be entitled.**

Determining the transaction price

- 50 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). The transaction price does not include the effects of the customer's credit risk as discussed in paragraphs 68 and 69.
- 51 For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.
- 52 When determining the transaction price, an entity shall consider the effects of all of the following:
- (a) variable consideration;
 - (b) the time value of money;
 - (c) non-cash consideration; and
 - (d) consideration payable to a customer.

Variable consideration (see paragraphs B2–B9)

- 53 The promised amount of consideration in a contract can vary because of discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, contingencies, price concessions or other similar items.
- 54 If the promised amount of consideration in a contract is variable, an entity shall estimate the total amount to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. An entity shall update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period. An entity shall account for changes in the transaction price in accordance with paragraphs 77–80.
- 55 To estimate the transaction price, an entity shall use either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:
- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.

An expected value may be an appropriate estimate of the transaction price if an entity has a large number of contracts with similar characteristics.

- (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the transaction price if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).
- 56 When estimating the transaction price, an entity shall apply one method consistently throughout the contract. In addition, an entity shall consider all the information (historical, current and forecasted) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to determine the transaction price would typically be similar to the information that management of the entity uses during the bid and proposal process and in establishing prices for promised goods or services.
- 57 If an entity receives consideration from a customer and expects to refund some or all of that consideration to the customer, the entity shall recognise as a refund liability the amount of consideration that the entity reasonably expects to refund to the customer. The refund liability (and corresponding change in the transaction price) shall be updated at each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the proposed guidance in paragraphs B2–B9.

The time value of money (see paragraph IE8)

- 58 In determining the transaction price, an entity shall adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract. The objective when adjusting the promised amount of consideration to reflect the time value of money is for an entity to recognise revenue at an amount that reflects what the cash selling price would have been if the customer had paid cash for the promised goods or services at the point that they are transferred to the customer. If the promised amount of consideration differs from the cash selling price of the promised goods or services, then the contract also has a financing component (ie interest either to or from the customer) that may be significant to the contract.

- 59 In assessing whether a financing component is significant to a contract, an entity shall consider various factors including, but not limited to, the following:
- (a) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services;
 - (b) whether the amount of consideration would differ substantially if the customer paid in cash promptly in accordance with typical credit terms in the industry and jurisdiction; and
 - (c) the interest rate in the contract and prevailing interest rates in the relevant market.
- 60 As a practical expedient, an entity need not adjust the promised amount of consideration to reflect the time value of money if the entity expects at contract inception that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less.
- 61 To adjust the promised amount of consideration to reflect the time value of money, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract as well as any collateral or security provided by the customer or the entity, which might include assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the cash selling price of the good or service. After contract inception, an entity shall not update the discount rate for changes in circumstances or interest rates.
- 62 An entity shall present the effects of financing separately from revenue (as interest expense or interest income) in the statement of comprehensive income.

Non-cash consideration

- 63 To determine the transaction price for contracts in which the customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an entity cannot reasonably estimate the fair value of the

non-cash consideration, it shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

- 64 If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

Consideration payable to a customer (see paragraph IE9)

- 65 Consideration payable to a customer includes amounts that an entity pays, or expects to pay, to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash, credit or other items that the customer can apply against amounts owed to the entity. An entity shall account for consideration payable to a customer as a reduction of the transaction price and, hence, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 28 and 29) that the customer transfers to the entity.
- 66 If the consideration payable to a customer is a payment for a distinct good or service from the customer, then the entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, the entity shall account for all of the consideration payable to the customer as a reduction of the transaction price.
- 67 Accordingly, if consideration payable to a customer is a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following occurs:
- (a) the entity recognises revenue for the transfer of the related goods or services to the customer; and
 - (b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

Collectibility

- 68 Collectibility refers to a customer's credit risk—that is, the risk that an entity will be unable to collect from the customer the amount of consideration to which the entity is entitled in accordance with the contract. For an unconditional right to consideration (ie a receivable), an entity shall account for the receivable in accordance with IFRS 9 except as specified in paragraph 69. An entity shall similarly account for the effects of a customer's credit risk on a *contract asset* (see paragraph 106).
- 69 Upon initial recognition of the receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue recognised shall be presented in profit or loss as a separate line item adjacent to the revenue line item. If the contract does not have a significant financing component in accordance with paragraph 58, an entity shall present any impairment of the receivable (or change in the measurement of an impairment) in profit or loss as a separate line item adjacent to the revenue line item.

Allocating the transaction price to separate performance obligations (see paragraphs IE10 and IE11)

- 70 **For a contract that has more than one separate performance obligation, an entity shall allocate the transaction price to each separate performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.**
- 71 To allocate an appropriate amount of consideration to each separate performance obligation, an entity shall determine the stand-alone selling price at contract inception of the good or service underlying each separate performance obligation and allocate the transaction price on a relative stand-alone selling price basis. The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.
- 72 The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

- 73 If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available to the entity. In addition, an entity shall maximise the use of observable inputs and shall apply estimation methods consistently in similar circumstances. Suitable estimation methods include, but are not limited to, the following:
- (a) Adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that customers in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.
 - (b) Expected cost plus a margin approach—an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.
 - (c) Residual approach—if the stand-alone selling price of a good or service is highly variable or uncertain, then an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. A selling price is highly variable when an entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts. A selling price is uncertain when an entity has not yet established a price for a good or service and the good or service has not previously been sold.
- 74 If the sum of the stand-alone selling prices of the promised goods or services in the contract exceeds the transaction price (ie if a customer receives a discount for purchasing a bundle of goods or services), an entity shall allocate that discount to all separate performance obligations on a relative stand-alone selling price basis except as specified in paragraphs 75 and 76.
- 75 An entity shall allocate a discount entirely to one (or some) separate performance obligation(s) in the contract if both of the following criteria are met:
- (a) the entity regularly sells each good or service (or each bundle of goods or services) in the contract on a stand-alone basis; and

- (b) the observable selling prices from those stand-alone sales provide evidence of the performance obligation(s) to which the entire discount in the contract belongs.
- 76 If the transaction price includes an amount of consideration that is contingent on a future event or circumstance (for example, an entity's performance or a specific outcome of the entity's performance), the entity shall allocate that contingent amount (and subsequent changes to the amount) entirely to a distinct good or service if both of the following criteria are met:
- (a) the contingent payment terms for the distinct good or service relate specifically to the entity's efforts to transfer that good or service (or to a specific outcome from transferring that good or service); and
- (b) allocating the contingent amount of consideration entirely to the distinct good or service is consistent with the allocation principle in paragraph 70 when considering all of the performance obligations and payment terms in the contract.

Changes in the transaction price

- 77 After contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which the entity expects to be entitled in exchange for the promised goods or services.
- 78 An entity shall allocate to the separate performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.
- 79 An entity shall allocate a change in the transaction price entirely to one or more distinct goods or services only if the criteria in paragraph 76 are met.
- 80 An entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception.

Constraining the cumulative amount of revenue recognised (see paragraphs IE11–IE13)

- 81** If the amount of consideration to which an entity expects to be entitled is variable, the cumulative amount of revenue the entity recognises to date shall 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 of consideration allocated to satisfied performance obligations only if both of the following criteria are met:
- (a)** the entity has experience with similar types of performance obligations (or has other evidence such as access to the experience of other entities); and
 - (b)** the entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.
- 82** Indicators that an entity's experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled include, but are not limited to, the following:
- (a)** the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include volatility in a market, the judgement of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
 - (b)** the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
 - (c)** the entity's experience (or other evidence) with similar types of performance obligations is limited.
 - (d)** the contract has a large number and broad range of possible consideration amounts.
- 83** An entity shall use judgement and 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. The presence of any one of the indicators in paragraph 82 does not necessarily mean that the entity is not reasonably assured to be entitled to an amount of consideration.

- 84 If an entity is not reasonably assured to be entitled to the amount of the transaction price allocated to satisfied performance obligations, the cumulative amount of revenue recognised as of the reporting date is limited to the amount of the transaction price to which the entity is reasonably assured to be entitled.
- 85 Notwithstanding the requirements in paragraphs 81–83, if an entity licences intellectual property (see paragraph B33) to a customer and the customer promises to pay an additional amount of consideration that varies on the basis of the customer’s subsequent sales of a good or service (for example, a sales-based royalty), the entity is not reasonably assured to be entitled to the additional amount of consideration until the uncertainty is resolved (ie when the customer’s subsequent sales occur).

Onerous performance obligations

- 86 **For a performance obligation that an entity satisfies over time (see paragraphs 35 and 36) and that the entity expects at contract inception to satisfy over a period of time greater than one year, an entity shall recognise a liability and a corresponding expense if the performance obligation is onerous.**
- 87 A performance obligation is onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. The lowest cost of settling a performance obligation is the lower of the following amounts:
- (a) the costs that relate directly to satisfying the performance obligation by transferring the promised goods or services (those costs are described in paragraph 92); and
 - (b) the amount that the entity would pay to exit the performance obligation if the entity is permitted to do so other than by transferring the promised goods or services.
- 88 An entity shall initially measure the liability for an onerous performance obligation at the amount by which the lowest cost of settling the remaining performance obligation exceeds the amount of the transaction price allocated to that remaining performance obligation. At each reporting date, an entity shall update the measurement of the liability for an onerous performance obligation for changes in

circumstances. An entity shall recognise changes in the measurement of that liability as an expense or as a reduction of an expense. When an entity satisfies an onerous performance obligation, the entity shall derecognise the related liability.

89 Before an entity recognises a liability for an onerous performance obligation, the entity shall apply the requirements in paragraphs 100–103 to test for impairment of an asset recognised from the costs incurred to obtain or fulfil a contract with a customer.

90 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Contract costs

Costs to fulfil a contract (see paragraph IE14)

91 **If the costs incurred in fulfilling a contract with a customer are in the scope of another IFRS (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), an entity shall account for those costs in accordance with those other IFRSs. Otherwise, an entity shall recognise an asset from the costs to fulfil a contract only if those costs meet all of the following criteria:**

- (a) **the costs relate directly to a contract (or a specific anticipated contract);**
- (b) **the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and**
- (c) **the costs are expected to be recovered.**

92 Costs that relate directly to a contract (or a specific anticipated contract) include the following:

- (a) direct labour (for example, salaries and wages of employees who provide services directly to the customer);
- (b) direct materials (for example, supplies used in providing services to the customer);
- (c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment used in fulfilling the contract);
- (d) costs that are explicitly chargeable to the customer under the contract; and

- (e) other costs that are incurred only because the entity entered into the contract (for example, payments to subcontractors).
- 93 An entity shall recognise the following costs as expenses when incurred:
- (a) general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs in accordance with the criteria in paragraph 91);
 - (b) costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract;
 - (c) costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance); and
 - (d) costs that relate to remaining performance obligations but that the entity cannot distinguish from costs that relate to satisfied performance obligations.

Incremental costs of obtaining a contract

- 94 **An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs, subject to the practical expedient in paragraph 97.**
- 95 The incremental costs of obtaining a contract are those costs that an entity incurs in its efforts to obtain a contract with a customer and that it would not have incurred if the contract had not been obtained (for example, a sales commission).
- 96 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.
- 97 As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Amortisation and impairment (see paragraph IE15)

- 98 An asset recognised in accordance with paragraph 91 or 94 shall be amortised on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under an anticipated contract that the entity can identify specifically (for example, services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved).
- 99 An entity shall update the amortisation to reflect a significant change in the entity's expected pattern of transfer of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IAS 8.
- 100 An entity shall recognise an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised in accordance with paragraph 91 or 94 exceeds:
- (a) the remaining amount of consideration to which an entity expects to be entitled in exchange for the goods or services to which the asset relates; less
 - (b) the costs that relate directly to providing those goods or services (as described in paragraph 92).
- 101 To determine the amount to which an entity expects to be entitled, an entity shall use the principles for determining the transaction price.
- 102 Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 91 or 94, the entity shall recognise any impairment loss for assets related to the contract that are recognised in accordance with another IFRS (for example, IAS 2), except for impairment losses of cash-generating units recognised in accordance with IAS 36 *Impairment of Assets*.
- 103 An entity shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions cease to exist. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) had no impairment loss been recognised previously.

Presentation (see paragraph IE16)

- 104 **When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a *contract liability*, a *contract asset*, or a *receivable* depending on the relationship between the entity's performance and the customer's payment.**
- 105 If a customer pays consideration or an amount of consideration is due before an entity performs by transferring a good or service, the entity shall present the contract as a contract liability. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.
- 106 If an entity performs by transferring goods or services to a customer before the customer pays consideration, the entity shall present the contract as either a contract asset or as a receivable depending on the nature of the entity's right to consideration for its performance.
- (a) A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
 - (b) A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if nothing other than the passage of time is required before payment of that consideration is due. An entity shall account for a receivable in accordance with IFRS 9.
- 107 This [draft] IFRS uses the terms contract asset and contract liability but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between unconditional rights to consideration (ie receivables) and conditional rights to consideration (ie contract assets).
- 108 An entity shall present a liability for onerous performance obligations (in accordance with paragraph 86) separately from contract assets or contract liabilities.

Disclosure*

- 109 **The objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**
- (a) **its contracts with customers (paragraphs 113–123);**
 - (b) **the significant judgements, and changes in the judgements, made in applying the [draft] IFRS to those contracts (paragraphs 124–127); and**
 - (c) **any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraphs 91 and 94 (paragraphs 128 and 129).**
- 110 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.
- 111 Amounts disclosed are for each period for which a statement of comprehensive income is presented and as of each period for which a statement of financial position is presented, as applicable, unless otherwise stated.
- 112 An entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS.

Contracts with customers

- 113 An entity shall disclose information about its contracts with customers, including all of the following:
- (a) a disaggregation of revenue for the period (paragraphs 114–116);
 - (b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraph 117); and

* As noted in question 5 in the 'Introduction and questions for respondents' section, the IASB proposes to amend IAS 34 *Interim Financial Reporting* to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.

- (c) information about the entity's performance obligations (paragraphs 118–121), including additional information about any onerous performance obligations (paragraphs 122 and 123).

Disaggregation of revenue

- 114 An entity shall disaggregate revenue from contracts with customers (excluding amounts presented for customers' credit risk) into the primary categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. To meet the disclosure objective in paragraph 109, an entity may need to use more than one type of category to disaggregate revenue.
- 115 Examples of categories that might be appropriate include, but are not limited to, the following:
- (a) type of good or service (for example, major product lines);
 - (b) geography (for example, country or region);
 - (c) market or type of customer (for example, government and non-government customers);
 - (d) type of contract (for example, fixed-price and time-and-materials contracts);
 - (e) contract duration (for example, short-term and long-term contracts);
 - (f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and
 - (g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

116 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Reconciliation of contract balances (see paragraph IE17)

- 117 An entity shall disclose in tabular format a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall disclose each of the following, if applicable:
- (a) the amount(s) recognised in the statement of comprehensive income arising from either of the following:

- (i) revenue from performance obligations satisfied during the reporting period; and
 - (ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;
- (b) cash received;
 - (c) amounts transferred to receivables;
 - (d) non-cash consideration received;
 - (e) effects of business combinations; and
 - (f) any additional line items that may be needed to understand the change in the contract assets and contract liabilities.

Performance obligations

- 118 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:
- (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);
 - (b) the significant payment terms (for example, when payment is typically due, whether the consideration amount is variable and whether the contract has a significant financing component);
 - (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);
 - (d) obligations for returns, refunds and other similar obligations; and
 - (e) types of warranties and related obligations.
- 119 For contracts with an original expected duration of more than one year, an entity shall disclose the following information as of the end of the current reporting period:
- (a) the aggregate amount of the transaction price allocated to remaining performance obligations; and
 - (b) an explanation of when the entity expects to recognise that amount as revenue.

- 120 An entity may disclose the information in paragraph 119 either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations or by using qualitative information.
- 121 As a practical expedient, an entity need not disclose the information in paragraph 119 for a performance obligation if the entity recognises revenue in accordance with paragraph 42.

Onerous performance obligations

- 122 An entity shall disclose the amount of the liability recognised for onerous performance obligations along with a description of all of the following:
- (a) the nature and amount of the remaining performance obligation(s) in the contract that are onerous for which the liability has been recognised;
 - (b) why those performance obligations are onerous; and
 - (c) when the entity expects to satisfy those performance obligations.
- 123 An entity shall disclose in tabular format a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall include the amounts attributable to each of the following, if applicable:
- (a) increases in the liability from performance obligations that became onerous during the period;
 - (b) reductions of the liability from performance obligations satisfied during the period;
 - (c) changes in the measurement of the liability that occurred during the reporting period; and
 - (d) any additional line items that may be needed to understand the change in the liability recognised.

Significant judgements in the application of the [draft] IFRS

- 124 An entity shall disclose the judgements, and changes in the judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from contracts with customers. At a minimum, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

- (a) the timing of satisfaction of performance obligations (paragraphs 125 and 126); and
- (b) the transaction price and the amounts allocated to performance obligations (paragraph 127).

Determining the timing of satisfaction of performance obligations

- 125 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:
- (a) the methods used to recognise revenue (for example, a description of the output method or input method); and
 - (b) an explanation of why such methods are a faithful depiction of the transfer of goods or services.
- 126 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when the customer obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

- 127 An entity shall disclose information about the methods, inputs and assumptions used to:
- (a) determine the transaction price;
 - (b) estimate stand-alone selling prices of promised goods or services;
 - (c) measure obligations for returns, refunds and other similar obligations; and
 - (d) measure the amount of the liability recognised for onerous performance obligations.

Assets recognised from the costs to obtain or fulfil a contract with a customer

- 128 An entity shall disclose a reconciliation of the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 91 and 94), by main category of asset (for example, costs to obtain contracts with customers, precontract costs and set-up costs). The reconciliation shall include amounts related to each of the following, if applicable:

- (a) additions;
 - (b) amortisation;
 - (c) impairment losses;
 - (d) reversals of impairment losses; and
 - (e) any additional line items that may be needed to understand the change in the reporting period.
- 129 An entity shall describe the method it uses to determine the amortisation for each reporting period.
- 130 *[This paragraph in the FASB exposure draft is not used in the IASB exposure draft]*

Appendix A

Defined terms

This appendix is an integral part of the [draft] IFRS.

contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer , when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities.
income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
performance obligation	A promise in a contract with a customer to transfer a good or service to the customer.
revenue	Income arising in the course of an entity's ordinary activities.
stand-alone selling price [of a good or service]	The price at which an entity would sell a promised good or service separately to a customer .
transaction price [for a contract with a customer]	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer , excluding amounts collected on behalf of third parties (for example, sales taxes).

Appendix B

Application guidance

This appendix is an integral part of the [draft] IFRS. It describes the application of paragraphs 1–130 and has the same authority as the other parts of the [draft] IFRS.

B1 The application guidance gives guidance on the following issues:

[IG1]*

- (a) sale with a right of return (paragraphs B2–B9);
- (b) warranties (paragraphs B10–B15);
- (c) principal versus agent considerations (paragraphs B16–B19);
- (d) customer options for additional goods or services (paragraphs B20–B24);
- (e) customers' unexercised rights (paragraphs B25–B28);
- (f) non-refundable upfront fees (paragraphs B29–B32);
- (g) licensing and rights to use (paragraphs B33–B37);
- (h) repurchase agreements (paragraphs B38–B48);
- (i) consignment arrangements (paragraphs B49 and B50);
- (j) bill-and-hold arrangements (paragraphs B51–B54); and
- (k) customer acceptance (paragraphs B55–B58).

Sale with a right of return (see paragraphs 53–57 and paragraph IE18†)

B2 In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

[IG2]

- (a) a full or partial refund of any consideration paid;
- (b) a credit that can be applied against amounts owed, or that will be owed, to the entity; and
- (c) another product in exchange.

* The relevant paragraph numbers for the FASB exposure draft are included in the square brackets.

† Cross-references in Appendix B to the Illustrative Examples are provided in the IASB exposure draft to maintain consistency with the FASB exposure draft.

- B3
[IG3] To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:
- (a) revenue for the transferred products in the amount of consideration to which the entity is reasonably assured to be entitled (considering the products expected to be returned);
 - (b) a refund liability; and
 - (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.
- B4
[IG4] An entity's promise to stand ready to accept a returned product during the return period should not be accounted for as a separate performance obligation in addition to the obligation to provide a refund.
- B5
[IG5] An entity shall apply the requirements in paragraphs 81–83 to determine the amount of consideration to which the entity is reasonably assured to be entitled (considering the products expected to be returned). For any amounts to which an entity is not reasonably assured to be entitled, the entity shall not recognise revenue when it transfers products to customers but shall recognise any consideration received as a refund liability. Subsequently, the entity shall update its assessment of amounts to which the entity is reasonably assured to be entitled in exchange for the transferred products and shall recognise corresponding adjustments to the amount of revenue recognised.
- B6
[IG6] An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).
- B7
[IG7] An asset recognised for an entity's right to recover products from a customer on settling a refund liability initially shall be measured by reference to the former carrying amount of the inventory less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). Subsequently, an entity shall update the measurement of the asset to correspond with changes in the measurement of the refund liability. An entity shall present the asset separately from the refund liability.
- B8
[IG8] Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying these requirements.

B9 [IG9] Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the requirements on warranties in paragraphs B10–B15.

Warranties (see paragraph IE19)

B10 [IG10] It is common for an entity to provide (in accordance with the contract, the entity's customary business practices or the law) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

B11 [IG11] If a customer has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), an entity shall account for the promised warranty as a separate performance obligation because the entity promises to provide a service to the customer in addition to the product. Hence, the entity shall allocate a portion of the transaction price to the performance obligation for the service in accordance with paragraphs 70–80.

B12 [IG12] If a customer does not have the option to purchase a warranty separately, the entity shall account for the warranty in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the promised warranty, or a part of the promised warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

B13 [IG13] In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

- (a) whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the warranty is not a performance obligation, because such requirements typically exist to protect customers from the risk of purchasing defective products.
- (b) the length of the warranty coverage period—the longer the coverage period, the more likely that the warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

- (c) the nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

B14 [IG14] If a warranty, or a part of a warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, that promised service is a separate performance obligation. Hence, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

B15 [IG15] A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer might sell products in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a consumer using a product for its intended purpose. Similarly, an entity's promise to indemnify the customer for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IAS 37.

Principal versus agent considerations

B16 [IG16] When other parties are involved in providing goods or services to an entity's customer, the entity shall determine whether its performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for another party to provide those goods or services (ie the entity is an agent). That determination affects whether the entity recognises revenue in the gross amount of consideration to which the entity is entitled in exchange for those goods or services (if a principal) or in the amount of any fee or commission received in exchange for arranging for the other party to provide its goods or services (if an agent). An entity's fee or commission might be the net amount of consideration that the entity retains after paying other parties for providing their goods or services to the customer.

B17 [IG17] If an entity obtains control of the goods or services of another party before it transfers those goods or services to the customer, the entity's performance obligation is to provide the goods or services itself. Hence, the entity is acting as a principal and shall recognise revenue in the gross amount to which it is entitled. If an entity obtains legal title of a product only momentarily before legal title is transferred to the customer, the entity is not necessarily acting as a principal.

B18 [IG18] Indicators that the entity's performance obligation is to arrange for the provision of goods or services by another party (ie that the entity is an agent and shall recognise revenue in the net amount) include the following:

- (a) the other party is primarily responsible for fulfilling the contract;
- (b) the entity does not have inventory risk before or after the customer order, during shipping or on return;
- (c) the entity does not have latitude in establishing prices for the other party's goods or services and, hence, the benefit that the entity can receive from those goods or services is constrained;
- (d) the entity's consideration is in the form of a commission; and
- (e) the entity does not have customer credit risk for the amount receivable in exchange for the other party's goods or services.

B19 [IG19] If another party assumes an entity's performance obligation so that the entity is no longer obliged to provide the promised good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

Customer options for additional goods or services (see paragraphs 70–76 and IE20–IE22)

B20 [IG20] Customer options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.

- B21 [IG21] If in a contract with more than one performance obligation an entity grants a customer the option to acquire additional goods or services, that option gives rise to a separate performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.
- B22 [IG22] If a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the customer with a material right even if the option can be exercised only because of entering into a previous contract. In those cases, the entity has merely made a marketing offer that it shall account for in accordance with the proposed revenue requirements only when the customer exercises the option to purchase the additional goods or services.
- B23 [IG23] Paragraph 71 requires an entity to allocate the transaction price to separate performance obligations on a relative stand-alone selling price basis. If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount the customer would obtain when exercising the option, adjusted for both of the following:
- (a) any discount that the customer could receive without exercising the option; and
 - (b) the likelihood that the option will be exercised.
- B24 [IG24] If a customer has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for contract renewals.

Customers' unexercised rights (breakage)

- B25 [IG25] In accordance with paragraph 105, upon receipt of a prepayment from a customer, an entity shall recognise a contract liability for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognise that contract liability (and recognise revenue) when it transfers those goods or services and, hence, satisfies its performance obligation.
- B26 [IG26] A customer's non-refundable prepayment to an entity gives the customer a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service). However, customers may not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.
- B27 [IG27] If an entity is reasonably assured of a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity is not reasonably assured of a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote. To determine whether an entity is reasonably assured of a breakage amount, the entity shall consider the requirements in paragraphs 81–83.
- B28 [IG28] An entity shall recognise a liability (and not revenue) for any customer balances for which the entity may be required to remit the funds to a government entity in accordance with applicable unclaimed property laws.

Non-refundable upfront fees (and some related costs)

- B29 [IG29] In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, activation fees in telecommunication contracts, set-up fees in some services contracts and initial fees in some supply contracts.
- B30 [IG30] To identify performance obligations in such contracts, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 25). Instead, the upfront fee is an advance payment for future goods or

services and, hence, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right as specified in paragraph B21.

B31 [IG31] If the non-refundable upfront fee relates to a performance obligation, the entity shall evaluate whether to account for that performance obligation separately in accordance with paragraphs 23–30.

B32 [IG32] An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks as specified in paragraph 25). If those set-up activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph 45. That is because the costs of set-up activities do not depict the transfer of services to the customer. The entity shall evaluate whether costs incurred in setting up a contract have resulted in an asset that shall be recognised in accordance with paragraph 91.

Licensing and rights to use (see paragraph IE23)

B33 [IG33] Licensing refers to an entity's granting a customer the right to use, but not own, intellectual property of the entity. Rights to use can vary by time, geography or form of distribution. Examples of intellectual property include all of the following:

- (a) software and technology;
- (b) motion pictures, music and other forms of media and entertainment;
- (c) franchises; and
- (d) patents, trademarks and copyrights.

B34 [IG34] If an entity grants to a customer a licence or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights. Control of rights to use intellectual property cannot be transferred before the beginning of the period during which the customer can use and benefit from the licenced intellectual property. For example, if a software licence period begins before the customer obtains an access code that enables the customer to use the software, an entity shall not recognise revenue before the entity provides the access code.

- B35 [IG35] To determine the amount of revenue recognised for transferring a licence to a customer, the entity shall apply the requirements on determining and allocating the transaction price (including paragraph 85 on constraining the amount of revenue recognised to amounts that are reasonably assured).
- B36 [IG36] If an entity has other performance obligations in the contract, the entity shall apply the criteria in paragraphs 23–30 to determine whether the promised rights are a separate performance obligation or whether the performance obligation for the rights shall be combined with those other performance obligations in the contract. For example, if an entity grants a licence that is not distinct because the customer cannot benefit from the licence without an additional service that the entity promises to provide, the entity shall account for the combined licence and service as a single performance obligation satisfied over time.
- B37 [IG37] If an entity has a patent to intellectual property that it licences to customers, the entity may represent and guarantee to its customers that it has a valid patent and that it will defend and maintain that patent. That promise to maintain and defend patent rights is not a performance obligation because it does not transfer a good or service to the customer. Defending a patent protects the value of the entity’s intellectual property assets.

Repurchase agreements (see paragraph 37)

- B38 [IG38] A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.
- B39 [IG39] Repurchase agreements generally come in three forms:
- (a) an entity’s unconditional obligation to repurchase the asset (a forward);
 - (b) an entity’s unconditional right to repurchase the asset (a call option); and
 - (c) an entity’s unconditional obligation to repurchase the asset at the customer’s request (a put option).

A forward or a call option

B40 [IG40] If an entity has an unconditional obligation or unconditional right to repurchase the asset (a forward or a call option), the customer does not obtain control of the asset because the customer is limited in its ability to direct the use of and obtain substantially all of the remaining benefits from the asset (even though the customer may have physical possession of the asset). Consequently, the entity shall account for the contract as either of the following:

- (a) a lease in accordance with IAS 17 *Leases*, if the entity can repurchase the asset for an amount that is less than the original selling price of the asset; or
- (b) a financing arrangement in accordance with paragraph B42, if the entity can repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

B41 [IG41] When comparing the repurchase price with the selling price, an entity shall consider the effects of the time value of money.

B42 [IG42] If the repurchase agreement is a financing arrangement, the entity shall continue to recognise the asset and also recognise a financial liability for any consideration received from the customer. The entity shall recognise the difference between the amount of consideration received from the customer and the amount of consideration to be paid to the customer as interest and, if applicable, holding costs (for example, insurance). If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

A put option

B43 [IG43] If an entity has an unconditional obligation to repurchase the asset at the customer's request (a put option) at a price that is lower than the original selling price of the asset, the entity shall consider at contract inception whether a customer has a significant economic incentive to exercise that right. The customer's exercising of that right results in the customer effectively paying the entity consideration for the right to use a specified asset for a period of time. Hence, if the customer has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IAS 17.

- B44 [IG44] To determine whether a customer has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of repurchase and the amount of time until the right expires. If the repurchase price is expected to significantly exceed the market value of the asset, the customer has an economic incentive to exercise the put option.
- B45 [IG45] If the customer does not have a significant economic incentive to exercise its right, the entity shall account for the agreement similar to the sale of a product with a right of return as discussed in paragraphs B2–B9.
- B46 [IG46] If the repurchase price of the asset exceeds the original selling price and is more than the expected market value of the asset, the contract is in effect a financing arrangement. Hence, an entity shall:
- (a) continue to recognise the asset; and
 - (b) recognise a liability that initially shall be measured at the amount of the original selling price of the asset.
- B47 [IG47] When comparing the repurchase price with the selling price, an entity shall consider the effects of the time value of money.
- B48 [IG48] If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

Consignment arrangements (see paragraph 37)

- B49 [IG49] When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, the entity shall evaluate whether that other party has obtained control of the product at that point in time.
- B50 [IG50] Inventory on consignment is typically controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the dealer, or until a specified period expires. Until that point, the entity is typically able to require the return of the products or transfer them to another dealer. Moreover, the dealer typically does not have an unconditional obligation to pay for the products (although it might be required to pay a deposit). Accordingly, in those circumstances, the entity would not recognise revenue upon delivery of the products to the dealer.

Bill-and-hold arrangements (see paragraph 37)

- B51 [IG51] A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. A customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production schedules.
- B52 [IG52] An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when the customer obtains control of that product. For some contracts, control is transferred either when the product is delivered to the customer's site or when the product is shipped, depending on the terms of the contract (including delivery and shipping terms). However, for some contracts, a customer may obtain control of a product even though that product remains in the physical possession of the entity. In such cases, the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the customer over the customer's asset.
- B53 [IG53] For a customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria shall be met:
- (a) the reason for the bill-and-hold arrangement must be substantive;
 - (b) the product must be identified separately as belonging to the customer;
 - (c) the product currently must be ready for physical transfer to the customer; and
 - (d) the entity cannot have the ability to use the product or to direct it to another customer.
- B54 [IG54] If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining separate performance obligations (for example, for custodial services) in accordance with paragraphs 23–30 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 70–80.

Customer acceptance (see paragraph 37)

- B55 [IG55] In accordance with paragraph 37(e), a customer's acceptance of an asset indicates that the customer has obtained control of the asset. Customer acceptance clauses allow the customer to cancel a contract or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when a customer obtains control of a good or service.
- B56 [IG56] If an entity can objectively determine that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect an entity's determination of when the customer has obtained control of the good or service. For example, if the customer acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of the customer's acceptance. The entity's experience with contracts for similar goods or services may provide evidence that a good or service provided to the customer is in accordance with the agreed-upon specifications in the contract. If revenue is recognised before customer acceptance, the entity still must consider whether there are any remaining performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.
- B57 [IG57] However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance. That is because the entity cannot determine that the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the good or service.
- B58 [IG58] If an entity delivers products to a customer for trial or evaluation purposes and the customer is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the customer until either the customer accepts the product or the trial period lapses.

Appendix C

Effective date and transition

This appendix is an integral part of the [draft] IFRS and has the same authority as the other parts of the [draft] IFRS.

Effective date

C1 [131]* An entity shall apply this [draft] IFRS for annual reporting periods beginning on or after XX XXX 201X. *[The boards have not yet decided on the effective date of this [draft] IFRS. However, the boards have decided that the standard would not be effective sooner than for annual reporting periods beginning on or after 1 January 2015.]* Earlier application is permitted. If an entity applies this [draft] IFRS earlier, it shall disclose that fact.

Transition

C2 [132] An entity shall apply this [draft] IFRS retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients specified in paragraph C3.

C3 [133] An entity may use one or more of the following practical expedients when applying this [draft] IFRS. For the purposes of the expedients, the date of initial application is the start of the reporting period in which an entity first applies this [draft] IFRS.

- (a) For contracts completed before the date of initial application, an entity need not restate contracts that begin and end within the same annual reporting period.
- (b) For contracts completed before the date of initial application and that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- (c) An entity need not evaluate whether a performance obligation is onerous before the date of initial application unless an onerous contract liability was recognised previously for that contract in accordance with the requirements that were effective before the date of initial application. If an entity recognises an onerous

* The relevant paragraph numbers for the FASB exposure draft are included in the square brackets.

contract liability at the date of initial application, the entity shall recognise a corresponding adjustment to the opening balance of retained earnings for that period.

- (d) For all periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (as specified in paragraph 119).
- C4 [134] For any of the practical expedients in paragraph C3 that an entity uses, the entity shall apply that expedient consistently to all reporting periods presented. In addition, the entity shall disclose the following information:
- (a) the expedients that have been used; and
- (b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

References to IFRS 9

- C5 If an entity applies this [draft] IFRS but does not yet apply IFRS 9, any reference in this [draft] IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of other IFRSs

- C6 This [draft] IFRS supersedes the following IFRSs:
- (a) IAS 11 *Construction Contracts*;
- (b) IAS 18 *Revenue*;
- (c) IFRIC 13 *Customer Loyalty Programmes*;
- (d) IFRIC 15 *Agreements for the Construction of Real Estate*;
- (e) IFRIC 18 *Transfers of Assets from Customers*; and
- (f) SIC-31 *Revenue—Barter Transactions Involving Advertising Services*.

Appendix D

Amendments to other IFRSs

This appendix describes the amendments to other IFRSs that the Board expects to make when it finalises the proposed IFRS. Amended paragraphs are shown with new text underlined and deleted text struck through.

D1 This table shows how the following references have been amended in other IFRSs:

Existing reference to	contained in	in	is amended to reference to
IAS 18 <i>Revenue</i> [or IAS 18]	IFRS 4	Paragraphs 4(a) and (c), B18(h), items 1.16 and 1.18 of the table in paragraph IG2	[draft] IFRS X <i>Revenue from Contracts with Customers</i> [or [draft] IFRS X]
	IFRS 9	Paragraph IGA3, which consequentially amends item 1.18 of the table in paragraph IG2 of IFRS 4	
	IAS 16	Paragraph 68A	
	IAS 31	Paragraph 52	
	IAS 39	Paragraph AG2	
	IAS 40	Paragraph 3(b)	
IAS 11 <i>Construction Contracts</i> [or IAS 11]	SIC-32	Paragraph 6	

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

- D2 In Appendix D (Exemptions from other IFRSs), a heading and paragraph D33 are added as follows:

Revenue

- D33 A first-time adopter may apply the transition provisions in paragraphs C3(a), C3(b) and C3(d) of [draft] IFRS X *Revenue from Contracts with Customers*. In those paragraphs references to the 'date of initial application' shall be interpreted as the beginning of the first IFRS reporting period.

IFRS 3 *Business Combinations*

- D3 Paragraph 56 is amended as follows:

Contingent liabilities

- 56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:
- (a) the amount that would be recognised in accordance with IAS 37; and
 - (b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X *Revenue from Contracts with Customers*.

IFRS 4 *Insurance Contracts*

- D4 Paragraphs B7 and B21 are amended as follows:

- B7 Applying the IFRS to the contracts described in paragraph B6 is likely to be no more burdensome than applying the IFRSs that would be applicable if such contracts were outside the scope of this IFRS:
- (a) ...

- (b) ~~If IAS 18 Revenue~~ [draft] IFRS X Revenue from Contracts with Customers applied, the service provider would recognise revenue ~~by reference to the stage of completion~~ as it transfers services to the customer (and subject to other specified criteria). That approach is also acceptable under this IFRS, which permits the service provider (i) to continue its existing accounting policies for these contracts unless they involve practices prohibited by paragraph 14 and (ii) to improve its accounting policies if so permitted by paragraphs 22–30.
- (c) The service provider considers whether the cost of meeting its contractual obligation to provide services exceeds the revenue received in advance. To do this, it applies the liability adequacy test described in paragraphs 15–19 of this IFRS. If this IFRS did not apply to these contracts, the service provider would apply ~~IAS 37~~ [draft] IFRS X to determine whether ~~the contracts~~ its performance obligations are onerous.
- (d) ...
- B21 If the contracts described in paragraph B19 do not create financial assets or financial liabilities, ~~IAS 18~~ [draft] IFRS X applies. Under ~~IAS 18~~ [draft] IFRS X, revenue ~~associated with a transaction involving the rendering of services is recognised by reference to the stage of completion of the transaction if the outcome of the transaction can be estimated reliably when (or as) an entity satisfies a performance obligation by transferring a promised good or service to a customer.~~

IFRS 9 *Financial Instruments* (November 2009)

- D5 The following definition is inserted in Appendix A:
- dividends** Distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.
- D6 Paragraphs 5.4.5 and B5.12 are amended as follows:
- 5.4.5 If an entity makes the election in paragraph 5.4.4, it shall recognise in profit or loss dividends from that investment when:

- (a) the entity's right to receive payment of the dividend is established ~~in accordance with IAS 18 Revenue~~;
- (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and
- (c) the amount of the dividend can be measured reliably.

B5.12 Paragraph 5.4.4 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with ~~IAS 18 Revenue~~ paragraph 5.4.5 unless the dividend clearly represents a recovery of part of the cost of the investment.

D7 Paragraph C16 and related heading are deleted.

IFRS 9 Financial Instruments (October 2010)

D8 The following definition is inserted in Appendix A:

dividends Distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

D9 Paragraphs 4.2.1, 5.7.6, B3.2.13, B5.7.1, C5 and C42 are amended as follows:

4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost using the *effective interest method*, except for:

...

- (c) *financial guarantee contracts* as defined in Appendix A. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:
 - (i) the amount determined in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and

- (ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, ~~the cumulative amortisation amount of income recognised as the obligation is satisfied~~ in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers.
 - (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:
 - (i) the amount determined in accordance with IAS 37 and
 - (ii) the amount initially recognised (see paragraph 5.1.1) less, ~~the cumulative amortisation amount of income recognised as the obligation is satisfied~~ in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers.
- 5.7.6 If an entity makes the election in paragraph 5.7.5, it shall recognise in profit or loss dividends from that investment when:
- (a) the entity's right to receive payment of the dividend is established ~~in accordance with IAS 18 Revenue;~~
 - (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and
 - (c) the amount of the dividend can be measured reliably.

B3.2.13 The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 3.2.16.

All assets

- (a) If a guarantee provided by an entity to pay for default losses on a transferred asset prevents the transferred asset from being derecognised to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum

amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognised in profit or loss ~~on a time-proportion basis as the obligation is satisfied~~ (see ~~IAS 18~~ in accordance with the principles of [draft] IFRS X) and the carrying value of the asset is reduced by any impairment losses.

B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with ~~IAS 18~~ paragraph 5.7.6 unless the dividend clearly represents a recovery of part of the cost of the investment.

C5 Paragraphs 16, 42, 53, 56 and 58(b) are amended to read as follows, paragraph 64A is deleted and paragraph 64D is added:

...

56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

- (a) the amount that would be recognised in accordance with IAS 37; and
- (b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with ~~IAS 18~~ Revenue from Contracts with Customers.

This requirement does not apply to contracts accounted for in accordance with IFRS 9.

C42 In Appendix A, paragraphs AG3–AG4 are amended to read as follows:

...

AG4 Financial guarantee contracts may have various legal forms, such as ...

- (a) ... the issuer measures it at the higher of:
 - (i) the amount determined in accordance with IAS 37; and
 - (ii) the amount initially recognised less, when appropriate, ~~the cumulative amortisation amount of income recognised as the obligation is satisfied~~ in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers (see paragraph 4.2.1(c) of IFRS 9).

D10 Paragraph C19 and related heading are deleted.

IFRS 11 Joint Arrangements

D11 The reference to IAS 18 paragraph 6(b) in paragraph D1 is deleted.

D12 Paragraphs D28, D29 and the related heading are deleted.

IFRS 13 Fair Value Measurement

D13 Paragraph D60 and the related heading, and paragraphs D137–D140 and the related heading are deleted.

IAS 1 Presentation of Financial Statements

D14 Paragraph 34 is amended as follows:

Offsetting

34 ~~IAS 18 Revenue~~ [draft] IFRS X Revenue from Contracts with Customers defines revenue and requires an entity to measure it ~~revenue~~ at the fair value of the consideration received or receivable,

~~amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services, taking into account the amount of~~ For example, the amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

IAS 2 *Inventories*

D15 Paragraphs 2(a) and 19 are deleted and paragraphs 8, 29 and 37 are amended as follows:

- 8 Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (see IAS 18 Revenue).~~ Costs incurred to fulfil a contract with a customer that do not give rise to inventories (or assets in the scope of another standard) are accounted for in accordance with [draft] IFRS X *Revenue from Contracts with Customers*.

- 29 Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment. ~~Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.~~
- 37 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. ~~The inventories of a service provider may be described as work in progress.~~

IAS 12 Income Taxes

D16 Paragraph 59(a) is amended as follows:

- 59 ...
- (a) interest, royalty or dividend revenue is received in arrears and is included in accounting profit ~~on a time apportionment basis~~ in accordance with ~~IAS 18 Revenue~~ [draft] IFRS X Revenue from Contracts with Customers or IAS 39 Financial Instruments: Recognition and Measurement, but is included in taxable profit (tax loss) on a cash basis; and
- ...

IAS 16 Property, Plant and Equipment

D17 Paragraphs IN13, 69 and 72 are amended as follows:

- IN13 An entity is required to derecognise the carrying amount of an item of property, plant and equipment that it disposes of on the

~~date the criteria for the sale of goods in IAS 18 Revenue would be met the recipient obtains control of that item in accordance with [draft] IFRS X Revenue from Contracts with Customers. The previous version of IAS 16 did not require an entity to use those criteria to determine the date on which it derecognised the carrying amount of a disposed of item of property, plant and equipment.~~

- 69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). ~~In determining~~ The date of disposal of an item, ~~an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X Revenue from Contracts with Customers.~~ IAS 17 applies to disposal by a sale and leaseback.
- 72 The ~~amount of~~ consideration ~~receivable on disposal to be included in the gain or loss arising from the derecognition of~~ an item of property, plant and equipment is ~~recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction price in [draft] IFRS X and shall not exceed the amount to which the entity is reasonably assured to be entitled in accordance with [draft] IFRS X. Subsequent changes to the estimated amount of the consideration that is reasonably assured shall be recognised as a gain or loss in the period of the change in accordance with IAS 8.~~

IAS 27 Consolidated and Separate Financial Statements

D18 In paragraph 45B, the reference to IAS 18 is footnoted as follows:

- 45B *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to IFRS 1 and IAS 27), issued in May 2008, deleted the definition of the cost method from paragraph 4 and added paragraph 38A. An entity shall apply those amendments

prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the changes for an earlier period, it shall disclose that fact and apply the related amendments to IAS 18*, IAS 21 and IAS 36 at the same time.

*IAS 18 has been superseded by [draft] IFRS X Revenue from Contracts with Customers.

IAS 34 Interim Financial Reporting

D19 Paragraph 16A(k) is added as follows:

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

...

(k) the disclosures about revenue and contracts with customers required by paragraphs 114, 117, 119, 122, 123 and 128 of [draft] IFRS X Revenue from Contracts with Customers.

IAS 36 Impairment of Assets

D20 Paragraph 2 is amended as follows:

2 This Standard shall be applied in accounting for the impairment of all assets, other than:

...

(b) ~~assets arising from construction contracts (see IAS 11 Construction Contracts)~~ assets recognised in accordance with [draft] IFRS X Revenue from Contracts with Customers;

...

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

D21 Paragraph 6 is deleted and paragraphs 2, 5 and Example 9 of Appendix C are amended as follows:

2 **This Standard does not apply to:**

(a) **financial instruments (including guarantees) that are within the scope of IFRS 9 *Financial Instruments*; and**

(b) **the rights and obligations arising from contracts with customers within the scope of [draft] IFRS X *Revenue from Contracts with Customers*, except as specified by [draft] IFRS X and other standards.**

5 **When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:**

(a) ~~construction contracts (see IAS 11 *Construction Contracts*); [deleted]~~

...

Example 9 A single guarantee

...

(b) **At 31 December 20X1**

...

Conclusion – The guarantee is subsequently measured at the higher of (a) the best estimate of the obligation (see paragraphs 14 and 23), and (b) the amount initially recognised less, when appropriate, the cumulative amortisation amount of income recognised as the obligation is satisfied in accordance with ~~IAS 18 *Revenue*~~ the principles of [draft] IFRS X *Revenue from Contracts with Customers*.

IAS 38 Intangible Assets

D22 Paragraphs 3, 114 and 116 are amended as follows:

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

- (a) intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 *Inventories* and IAS 11 *Construction Contracts*).

...

- (i) assets arising from contracts with customers (see [draft] IFRS X *Revenue from Contracts with Customers*).

114 The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation). ~~In determining the date of disposal of an item, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods~~ intangible asset is the date the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*. IAS 17 applies to disposal by a sale and leaseback.

116 ~~The amount of consideration receivable on disposal to be included in the gain or loss arising from the derecognition of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction price in [draft] IFRS X and shall not exceed the amount to which the entity is reasonably assured to be entitled in accordance with [draft] IFRS X. Subsequent changes to the estimated amount of the consideration that is reasonably assured shall be recognised as a gain or loss in the period of the change in accordance with IAS 8.~~

IAS 39 *Financial Instruments: Recognition and Measurement*

D23 Paragraph IN5, IN6, 2, 9, 47 and 55 are amended as follows:

IN5 A scope exclusion has been made for loan commitments that are not designated as at fair value through profit or loss, cannot be settled net, and do not involve a loan at a below-market interest rate. A commitment to provide a loan at a below-market interest rate is initially recognised at fair value, and

subsequently measured at the higher of (a) the amount that would be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and (b) the amount initially recognised less, when appropriate, ~~the cumulative amortisation amount of income~~ recognised as the obligation is satisfied in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers.

IN6 The scope of the Standard includes financial guarantee contracts issued. However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or IFRS 4 *Insurance Contracts* to such financial guarantee contracts. Under this Standard, a financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognised less, when appropriate, ~~the cumulative amortisation amount of income~~ recognised as the obligation is satisfied in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers. Different requirements apply for the subsequent measurement of financial guarantee contracts that prevent derecognition of financial assets or result in continuing involvement. Financial guarantee contracts held are not within the scope of the Standard because they are insurance contracts and are therefore outside the scope of the Standard because of the general scope exclusion for such contracts.

2 This Standard shall be applied by all entities to all types of financial instruments except:

...

(k) assets and liabilities within the scope of [draft] IFRS X Revenue from Contracts with Customers.

9 ...

The effective interest method is ... The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see ~~IAS 18 Revenue~~ paragraphs AG8A and AG8B), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial

instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Dividends are distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

...

Subsequent measurement of financial liabilities

- 47 After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:

...

- (c) financial guarantee contracts as defined in paragraph 9. After initial recognition, an issuer of such a contract shall (unless paragraph 47(a) or (b) applies) measure it at the higher of:
- (i) the amount determined in accordance with IAS 37; and
 - (ii) the amount initially recognised (see paragraph 43) less, the cumulative amortisation amount of income recognised as the obligation is satisfied in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers.
- (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 47(a) applies) measure it at the higher of:
- (i) the amount determined in accordance with IAS 37; and
 - (ii) the amount initially recognised (see paragraph 43) less, the cumulative amortisation amount of income recognised as the obligation is satisfied in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers.

55 A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship (see paragraphs 89-102), shall be recognised, as follows.

...

(b) ... However, interest calculated using the effective interest method (see paragraph 9) is recognised in profit or loss (~~see IAS 18~~). Dividends on an available for sale equity instrument are recognised in profit or loss when:

(i) the entity's right to receive payment is established (~~see IAS 18~~);

(ii) it is probable that the economic benefits associated with the dividend will flow to the entity; and

(iii) the amount of the dividend can be measured reliably.

D24 In Appendix A paragraphs AG4 and AG48 are amended as follows:

AG4 ...

(a) ... the issuer measures it at the higher of:

(i) the amount determined in accordance with IAS 37; and

(ii) the amount initially recognised less, when appropriate, the cumulative amortisation amount of income recognised as the obligation is satisfied in accordance with ~~IAS 18 Revenue~~ the principles of [draft] IFRS X Revenue from Contracts with Customers (see paragraph 47(c)).

(b) ...

(c) If a financial guarantee contract was issued in connection with the sale of goods, the issuer applies ~~IAS 18~~ [draft] IFRS X in determining when it recognises the revenue from the guarantee and from the sale of goods.

AG48 ...

- (a) If a guarantee provided by an entity to pay for default losses on a transferred asset prevents the transferred asset from being derecognised to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognised in profit or loss ~~on a time proportion basis as the obligation is satisfied~~ (see IAS 18 in accordance with the principles of [draft] IFRS X) and the carrying value of the asset is reduced by any impairment losses.

D25 In Appendix A paragraphs AG8A–AG8C are added after paragraph AG8 as follows:

AG8A In applying the effective interest rate method, an entity distinguishes between fees that are an integral part of the effective interest rate of a financial instrument and fees that are receivable in exchange for distinct services provided. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate unless the financial instrument is measured at fair value with the change in fair value recognised in profit or loss. In those cases, the fees are recognised as revenue when the instrument is initially recognised. Fees that are receivable in exchange for distinct services provided are accounted for in accordance with [draft] IFRS X.

AG8B Fees that are an integral part of the effective interest rate of a financial instrument include:

- (a) Origination fees received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition,

evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

- (b) Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of this Standard and it is probable that the entity will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.
- (c) Origination fees received on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

AG8C Fees that are not an integral part of the effective interest rate of a financial instrument and are receivable in exchange for distinct services provided include:

- (a) Fees charged for servicing a loan.
- (b) Commitment fees to originate a loan when the loan commitment is outside the scope of this Standard and it is unlikely that a specific lending arrangement will be entered into.
- (c) Loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

IAS 40 *Investment Property*

- D26 Paragraph 9(b) is deleted and paragraphs 67 and 70 are amended as follows:

Disposals

- 67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. ~~In determining~~ The date of disposal for investment property, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the Appendix to IAS 18 is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*. IAS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.
- 70 The amount of consideration receivable on disposal to be included in the gain or loss arising from the derecognition of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 using the effective interest method determined in accordance with the requirements for determining the transaction price in [draft] IFRS X and shall not exceed the amount to which the entity is reasonably assured to be entitled in accordance with [draft] IFRS X. Subsequent changes to the estimated amount of the consideration that is reasonably assured shall be recognised as a gain or loss in the period of the change in accordance with IAS 8.

IFRIC 12 *Service Concession Arrangements*

- D27 In the 'References' section, a reference to [draft] IFRS X *Revenue from Contracts with Customers* is added and the references to IAS 11 *Construction Contracts* and IAS 18 *Revenue* are deleted.

D28 Paragraphs 13, 14, 20 and 27 are amended as follows:

- 13 The operator shall recognise and measure revenue in accordance with ~~IASs 11 and 18~~ [draft] IFRS X for the services it performs. ~~If the operator performs more than one service (ie construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.~~ The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed in paragraphs 23–26 below.
- 14 The operator shall account for revenue ~~and costs~~ relating to construction or upgrade services in accordance with ~~IAS 11~~ [draft] IFRS X.
- 20 The operator shall account for revenue ~~and costs~~ relating to operation services in accordance with ~~IAS 18~~ [draft] IFRS X.
- 27 In accordance with paragraph 11, infrastructure items to which the operator is given access by the grantor for the purposes of the service arrangement are not recognised as property, plant and equipment of the operator. The grantor may also provide other items to the operator that the operator can keep or deal with as it wishes. If such assets form part of the consideration payable by the grantor for the services, they are not government grants as defined in IAS 20. ~~They are recognised as assets of the operator, measured at fair value on initial recognition. The operator shall recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the assets.~~ Instead they are accounted for as part of the transaction price.

SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers

- D29 In the ‘References’ section, a reference to [draft] IFRS X *Revenue from Contracts with Customers* is added and the reference to IAS 18 *Revenue* is deleted.

SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

- D30 In the 'References' section, a reference to [draft] IFRS X *Revenue from Contracts with Customers* is added and the references to IAS 11 *Construction Contracts* and IAS 18 *Revenue* are deleted.
- D31 Paragraph 8 is amended as follows:
- 8 The ~~criteria requirements~~ in ~~paragraph 20 of IAS 18~~ [draft] IFRS X shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an Entity might receive. ...

SIC-32 Intangible Assets—Web Site Costs

- D32 In the 'References' section, the reference to IAS 11 *Construction Contracts* is deleted.

Approval by the Board of *Revenue from Contracts with Customers* published in November 2011

The exposure draft *Revenue from Contracts with Customers* was approved for publication by fourteen of the fifteen members of the International Accounting Standards Board. Mr Engström voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
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