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20 February 2012

**BY FAX (2865 6603)
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Our Ref: LD/CC/001-12

Mr. Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Steve,

**IASB Revised Exposure Draft on Revenue from Contracts with Customers
("Exposure Draft")**

I refer to your letter dated 15 December 2011 on the above Exposure Draft to our Mr. Mark Dickens which has been passed to me for my attention.

The objective of the Revenue project is to provide a single revenue recognition model that will apply to all entities for recognising revenue from contracts with customers. The new model will replace the existing IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

We understand that the revisions made to the original exposure draft issued in June 2010 ("2010 Exposure Draft") are intended to provide greater clarity and guidance in applying the new model.

We welcome the IASB's decision to re-expose the proposed standard in full as its impact will be widespread and significant.

General

We have completed our review of the Exposure Draft and our views are set out below.

In summary, we believe there are a number of areas where the Exposure Draft requires greater clarity and further consideration by the IASB. These include the following matters which are further discussed in the paragraphs below.

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- (a) Need for clarity on the purpose of the standard which we believe is to restrict the recognition of revenue and profits until after a performance obligation has been delivered and accepted by the customer. The IASB may wish to consider amending the name of the standard to also refer to profit recognition.
- (b) The appropriateness of primarily using the “control” model as the basis for revenue recognition.
- (c) Need for clarity on the appropriate “unit of account” for accounting for transactions. We believe that the requirements of paragraph 38 on the recognition of revenue “over time” will be inoperable from the preparer’s perspective. We believe the “unit of account” should be determined based on completed performance obligations, namely, those for which a liability or an obligation to pay has been accepted by the customer. Acceptance of a liability by the customer should be a pre-condition before revenue and the related profit can be recognised.
- (d) The need to include specific and clear conditions for triggering the recognition of revenue and therefore the related profits.
- (e) To re-consider the appropriateness of recognising “contract assets”.
- (f) The need for a full practical example including the journals entries for recognising revenue of a sales contract over two or more reporting periods from inception of the contract to delivery of the product and settlement of the sales consideration, and the disclosures required at each reporting year end date.
- (g) Consider our suggested alternative core principle and our suggested pre-conditions for revenue and profit recognition which focus on “agreed completed transactions” between both the buyer and seller. Under the Exposure Draft whether performance obligations have been completed is primarily viewed from the seller’s perspective which we believe is inappropriate.

Need for greater clarity on the objectives and purpose of the standard

Although the Exposure Draft is an improvement to the 2010 Exposure Draft, we believe that the Exposure Draft still lacks clarity on the core concepts and principles, and the purpose of the standard which we believe is to provide guidance on the timing of recognition of revenue and its measurement, together with the related profits arising from contracts with customers. The standard is not purely focused on revenue recognition.

We believe that the guidance on the “when” question, namely, when revenue should be recognised, is unduly complex and is not clear. The Exposure Draft as it is currently worded and structured will not result in achieving consistency in accounting for revenue

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and related profits and help facilitate meaningful comparisons across entities, which we believe is one of the key objectives of the standard.

We understand that the purpose of the standard is to provide guidance on when and how to measure the “level of activity” of the reporting entity but only after the reporting entity has transferred a promised good or service to a customer. The IASB has decided to retain the previous principle that recognition of contract revenue at contract inception (e.g. the signing of a contract) would not be acceptable. The layman term for this level of activity is “sales” although the term used in the Exposure Draft for this is “revenue”. More importantly, we believe the intention of the standard is to specify the amount of profit that can be recognised arising from the sale. We believe this dual purpose of recognition of the level of activity and relevant profits should be more clearly explained.

We believe the underlying objectives of the standard are embedded in the definitions of “Revenue” and “Income” used in the Exposure Draft. In Appendix A on page 51 of the Exposure Draft, “Revenue” is defined as “*Income arising in the course of an entity’s ordinary activities*” and “Income” is further defined as “*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.*” [emphasis added by words shown in underline]

Reading the two definitions together it appears that the objective of the standard is to provide guidance on when revenue can be recognised but also the amount of “profit” (that is, “increases in equity”) that may be recognised from contracts with customers.

Core principles

One of the key objectives of financial reporting is to provide information about an entity’s performance. The purpose of the revenue standard is therefore directed at measuring performance and the Exposure Draft attempts to set out when revenue and the related profit can be recognised, and also how they should be measured.

We believe the core principle should be that “*revenue and the related profits should only be recognised for agreed completed transactions*”. Completion of a transaction would be the point in time when a good or service has been delivered by the seller to the customer and a liability, or a present obligation, has been agreed and is recognised by the buyer. We believe this core principle should be clearly explained in the Exposure Draft which we believe is consistent with the principles set out in the current Conceptual Framework. This core principle will cater for recognising revenue as performance obligations are satisfied over time which is proposed under paragraph 35 of the Exposure Draft. In the past this was known as the “percentage of completion” method for revenue recognition.

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The use of the word “transaction” in the core principle reflects the notion of an exchange or transfer of a good or service between a seller and a buyer as we believe one of the primary purposes of financial reporting is to record completed transactions or exchanges made between the reporting entity and external parties.

We also believe “completion” of a transaction should be ultimately determined from the buyer’s perspective, based on express or implied evidence of actions taken by the buyer. It does not necessarily require the full settlement of the sales consideration by the buyer because if immediate cash settlement was necessary by the supplier, the supplier would have asked for it and the good or service would not have been delivered and the exchange would not have consummated. If the seller has agreed that he would accept deferred payment, that is, he is willing to accept the credit risk, the transaction is still regarded as completed as granting time for settlement had been agreed.

We note that the position taken by the Exposure Draft is to look at the position primarily from the perspective of the seller. We believe this is inappropriate. For example, although the seller may believe that he has satisfied his performance obligations in respect of the transaction, until performance of the required obligations has been recognised and is accepted by the buyer as having been performed properly, the buyer has not accepted or acknowledged any liability to pay. It would therefore be inappropriate and premature for the seller to recognise revenue and profit which is the other side of the transaction looked at from the seller’s perspective.

We note that under paragraph 14 of the existing IAS 18, one of the conditions for recognising revenue is:-

“(d) it is probable that the economic benefits associated with the transaction will flow to the entity”

However, this condition is not included in the Exposure Draft as a pre-requisite for recognising revenue.

We would also point out that paragraph 14(d) of IAS 18 is linked to paragraph 4.40 of the Conceptual Framework which states that:-

“The probability of future economic benefit

The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. The concept is in keeping with the uncertainty that characterises the environment in which an entity operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed to an entity will be paid, it is then justifiable, in the absence of any

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evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence an expense representing the expected reduction in economic benefits is recognised.”

The Exposure Draft therefore is proposing the recognition of an asset in circumstances that would be inconsistent with the existing Conceptual Framework and in substance will have the effect of amending the Framework without a full conceptual debate. For these reasons, we believe that the required condition set out in paragraph 14(d) of IAS 18 should be reinstated as a pre-condition for revenue recognition.

Is transfer of “control” a meaningful and helpful test?

We agree with the principle that revenue should be recognised when a good or service is transferred to a customer but as we mentioned above, a proper transfer would entail proper “completion” and “agreement” by the buyer.

However we are not convinced that the discussion on “control” provides clarity on when revenue should be recognised and note that paragraph 31 of the Exposure Draft states:-

“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.” [emphasis added by words shown in underline]

We question whether “control” is the most useful test and also question whether it will be interpreted consistently for triggering revenue recognition. The meaning of “control” is not clearly defined or explained in the Exposure Draft although we note that there is an attempt to clarify the meaning by adding the following “indicators of control” in paragraph 37 on pages 28 and 29 of the Exposure Draft:-

- (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
- (e) The customer has accepted the asset

Paragraph BC 106 on page 46 of the Basis for Conclusions document accompanying the Exposure Draft further states that “*the proposed guidance in paragraph 37 is not a checklist. Rather, it is a list of factors that are often present when a customer has control of an asset, and is provided to assist entities in applying the principle of control in paragraph 31*”.

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The guidance therefore clearly states that “all” of the control indicators are not required to be present for an entity to conclude that it has transferred goods or services to a customer to justify the recognition of revenue.

We believe that the application of different indicators may result in different timing for revenue recognition which we understand is the one of the key issues the IASB is attempting to address. The use of different indicators will not ensure consistency of revenue recognition across entities as these indicators do not provide clear principles or represent essential pre-conditions.

Is the notion of “control” operable where revenue is to be recognised over time?

We believe that the notion of control will not be operable where an entity recognises revenue over time which is proposed to be allowed under paragraphs 35 and 36 of the Exposure Draft.

We believe that the transfer of control is a single one-time event. You either have control or you do not. This concept of a change in control as being a one-time event is also referred to in the requirements for consolidating subsidiaries in IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements*.

Paragraph 38 on page 29 of the Exposure Draft states:-

“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 ...” [emphasis added by words shown in underline].

Paragraph 39 on page 29 of the Exposure Draft further states:-

“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.” [emphasis added by words shown in underline]

If our interpretation is correct that the transfer of control is a one-time event that triggers the recognition of revenue, it would appear that there will need to be new triggers, other than a change in or a transfer of control, for recognising additional revenue for contracts where revenue is recognised over time. The question then is what would be the new triggers for recognising additional revenue. We believe that additional revenue should

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not and cannot be based solely on additional work and costs incurred but must include considerations such as agreement by the customer as to his satisfaction of the work done.

It is for above reasons that we believe that the notion of a transfer of control as presently drafted will not work, especially for contracts where revenue is recognised over time.

Customer acceptance - A formality or a key trigger for recognising revenue

Paragraph B56 on page 64 of the Exposure Draft states that “*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.*” [emphasis added by words shown in underline]

We disagree with this application guidance as it is looking at the issue solely from the seller's perspective. It ignores the views of the buyer and disregards a buyer’s right to inspect and to refuse acceptance. We believe that customer acceptance is not a formality but is in fact essential. We believe that no revenue should be recognised unless there is evidence that there has been customer acceptance of satisfactory delivery of a good or service to conclude that there has been proper completion of a performance obligation. Customer acceptance provides evidence that an exchange or an agreed transaction has occurred. If a customer has not agreed to accept a good or service (whether in full or in part), the seller is not assured to the consideration. Recognising revenue before customer acceptance is premature.

Performance obligations – Is it operable? – Greater clarity needed and need to re-order the primary test

We believe that the Exposure Draft is unclear and does not set out specifically enough the conditions that must exist before revenue is recognised to ensure consistent application.

The Exposure Draft sets out some criteria for assessing when performance obligations relating to a sale of a good or service transfers “over time” or “at a point in time”.

It is proposed that an entity satisfies a performance obligation “over time” if (1) the entity’s performance creates or enhances an asset of the customer; or (2) when the entity’s performance does not create an asset with an “alternative use” to the selling entity. This latter point we understand means the production of an item of inventory held for sale. If a performance obligation is not satisfied over time, paragraph 37 of the Exposure Draft states that the performance obligations are satisfied “at a point in time”.

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We believe that the terminology used of the recognition of revenue “over time” is inappropriate as there must be a “point in time” or a cut-off trigger point. The recognition of further additional revenue after the transfer of control which was the initial trigger to commence the recognition of revenue for a specific performance obligation would require another cut-off point. If the terminology is to be retained, we would suggest that “performance obligations satisfied over time” in paragraph 35 of the Exposure Draft, should be re-phrased to “performance obligations satisfied **over several points in time**”. Likewise, the phrase “performance obligations satisfied at a point in time” in paragraph 37 of the Exposure Draft should be re-phrased to “performance obligations satisfied **at one point in time**”.

In addition, rather than the order as presented in the Exposure Draft we strongly believe that the primary test for the recognition of revenue should be performance obligations satisfied at “one point in time” as this would cover the majority of transactions normally undertaken by most business enterprises. The use of the model of recognising “performance obligations over several points in time” should be the secondary alternative method that may be applied which may be relevant to contracts for services and also contracts for goods that require more than twelve months for the supplier to produce and deliver the good. We also appreciate that this latter method may also be appropriate for contracts that include the sale of combined goods and services where the delivery of the good is regarded as a separate performance obligation from the delivery of the service obligation.

At this point we would also comment that the separation of performance obligations of a single contract is artificial as if the obligations were intended to be separate there would have been separate contracts. Moreover, the pricing of these combined contracts is based on the combined performance obligations and accordingly the performance obligations are intricately linked. This again raises the issue of what is the unit of account and whether conceptually there should be bifurcation of transactions into separate components when the intention at the outset between the two contracting parties was that under the contract the performance obligations were intended to be inseparable. We believe this fundamental conceptual issue requires greater debate at the Conceptual Framework level as currently bifurcation is mandated for some transactions but not for others.

Paragraph 38 on page 29 of the Exposure Draft states:-

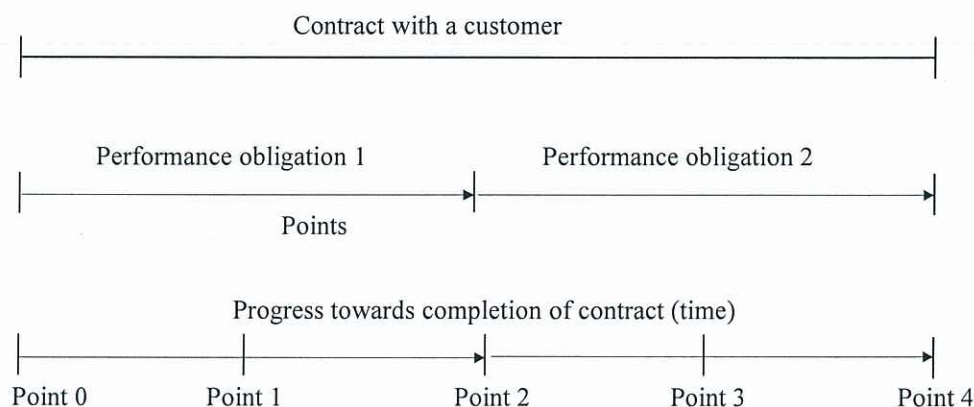
*“For **each separate performance** obligation that an entity satisfies over time in accordance with paragraphs 35 and 36, an entity shall **recognise revenue over time by measuring the progress towards complete satisfaction of that** performance obligation. The objective when measuring progress is to depict the **transfer of control** of goods or services to the customer - that is, to depict an entity’s performance ...”* [emphasis added by words shown in bold and underline].

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We believe that paragraph 38 will be inoperable from a preparer’s perspective. Moreover, we believe that it will also be difficult to audit as our reading of paragraph 38 is that revenue will be required to be recognised continuously as work progresses and not at a specific point in time such as upon completion of a separate performance obligation. Under the current wording of the Exposure Draft it appears that it is necessary to subdivide each performance obligation where control has already been transferred in respect of that performance obligation, and each sub-division will require the recognition of revenue.

Below we illustrate in a diagram what we understand to be requirements of paragraphs 35 to 38 on the timing of revenue recognition “over time”. We also deal with revenue recognition “at a point in time” under paragraph 37 of the Exposure Draft. For the purpose of this simple illustration, assume that the sales contract with a customer involves two identifiable separate performance obligations and each will be satisfied sequentially over time in a linear fashion.



If the two performance obligations are regarded as inter-related and inseparable, the “revenue recognition at a point-in-time model” would be adopted. If the transfer of control happens at Point 4, revenue for the full amount of the contract together with the related profit will be recognised at Point 4.

If the two performance obligations are regarded as separable, the “revenue recognition over time model” is adopted. If the transfer of control arises at Point 1, revenue recognition will start to be recognised at Point 1 and will be based on the percentage of the total contract price attributed to the work done up to Point 1. The related percentage of the total expected profit from the contract would also be recognised. The remaining revenue and profits on the contract will be made at some points between Point 1 to Point 4.

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However, as previously discussed above under the issue of “control” it is unclear what would be the trigger for recognising additional revenue if “control” of the good or service under the contract has already been passed to the customer at Point 1.

We believe an alternative “agreed completed transaction” model mentioned above which requires considering all the facts and especially from the perspective of the buyer would be a more simple and more easily understood model for revenue and profit recognition. This approach, which focuses on “transactions”, would assist in dealing with revenue recognition for long term contracts for the sale of goods as well as the sale of services as it will cater for the recognition of revenue as the contract “progresses” where this is appropriate. We believe that if a customer agrees to recognise a liability for work as it progresses the substance of the agreement is that revenue is in fact generated gradually over time.

We believe this alternative model would meet the principle set out in paragraph 3 of the Exposure Draft which is to “*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*”. We would suggest that the phrase “(in whole or in part)” could be added at the end of the principle to indicate that if a customer has agreed to accept a liability for a partially completed good or service, revenue and the related profit can be recognised.

Unit of account

We believe the Exposure Draft raises the fundamental conceptual issue of what should be the “unit of account” in accounting for transactions. The unit of account will be all performance obligations under the contract taken as a whole if the “at the one point in time” revenue recognition model is used. However, the unit of account could also be the separate performance obligations making up the sales contract and for these contracts revenue is recognised using the “over time” model and the unit of account will be the separate performance obligations. We believe that the unit of account is therefore the item (whether it be the complete good or part thereof) identified that has been traded or exchanged as agreed by both the seller and buyer. Using the illustration in the above diagram, we believe that the unit of account should be a complete performance obligation as agreed by the buyer and not necessarily the performance obligation as perceived by the seller. That is, the unit of account could be any block of two points in the progress towards completion as the buyer determines. The point the buyer accepts a liability represents the point up to which revenue can be measured and recognised.

Suggested alternative pre-conditions for the recognition of revenue and profit

We note that the proposals in the Exposure Draft are less prescriptive to that currently required under IAS 18 which requires that revenue should only be recognised when all

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the specified conditions are satisfied. We believe that most of the conditions contained in IAS 18 should be retained as they have worked reasonably well in the past.

As a possible alternative solution we would suggest that all of the following conditions should be satisfied for the recognition of revenue and the related profit on a transaction:-

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the good or service under the transaction;
- (b) the amount of revenue of the transaction can be measured reliably;
- (c) the buyer has acknowledged (as evidenced from its actions whether express or implied) acceptance of the good or service (or part thereof) under the “contract” and it is probable that the economic benefits associated with the transaction will flow to entity; and
- (d) the costs and profit arising in respect of the transaction can be measured reliably.

The above suggestion emphasises and distinguishes a “transaction” from the “sales contract” and we believe this will cater for the use of the percentage of completion method which we understand the IASB has decided to permit.

However, we would stress that our suggested alternative requires as a key condition that the buyer has agreed to accept (in full or in part) the product or service that is the subject of the sales contract. This acceptance results in completion of the “transaction”. We believe this is essential as customer acceptance of a liability to pay is vital in the consideration of whether economic benefits and profits (that is, increases in equity) will flow to the reporting entity.

Distinguishing goods from services

We believe that it would be also useful to include a discussion on the meaning of “goods” versus “services” and the differences between the two as we believe most businesses consider these in determining the appropriate revenue and profit recognition policy. We believe a possible distinguishing characteristic of a “good” is that it has a physical form. In addition, another important characteristic is that after delivery of the good, the good is capable of being returned by the buyer in its original delivered state to the seller or another third party.

In contrast, a “service” can be distinguished by the absence of a substantial physical form that represents the materials used and work done in producing it. In addition, after delivery of the service, the buyer has no ability to return the substantive substance of the product to the seller or somehow sell it to another third party.

To illustrate the above, a company providing gas to households of a housing estate could be selling either a good or a service and this will depend on the method of delivery. If

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the gas is delivered through installed gas pipes in the housing estate, this we believe should be regarded as the sale of a “service” as once the gas is delivered to the household, the customer is incapable of returning the gas in its delivered state to the gas supplier. It has been accepted and consumed. However, if the gas supplier delivers the gas to a household by way of gas cylinders, we believe that it would be appropriate for the sale to be regarded as the sale of a good, as the gas, which has been accepted, can be returned in the form it had been received to the supplier or sold to another third party.

Is a “contract asset” an asset?

We understand that in respect of contracts where performance obligations are satisfied “over time”, the progress of completion of the contract will lead to the following principle components of the contract, and under the Exposure Draft we understand that each will be required to be disclosed separately.

- (a) “Work-in-progress” - represented by contract costs incurred
- (b) “Contract asset” - “Contract asset” is defined in page 51 of the Exposure Draft as “*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)*”. It therefore appears to represent rights to consideration but where the customer does not have a liability or a present obligation to pay for the work done to-date.
- (c) “Receivable from contract” - represented by rights to consideration but where the customer does have a liability, that is, a present obligation to pay, and this would normally be supported by delivery of the product and the issue of an invoice to the customer.

We have concerns on the recognition of the “contract asset” as defined as we believe that in substance this represents a contingent asset. Paragraph 31 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides that a contingent asset should not be recognised as an asset. This requirement is modified by paragraph 33 of IAS 37 which states that “*However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.*” [emphasis added by words shown in underline]

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We believe that the nature of “contract assets” as defined would not be able to meet the virtually certain test and therefore should not be recognised. The customer has not recognised a liability. Moreover, in substance, the recognition of the “contract asset” has the effect of revaluing work-in-progress upwards by a profit margin. If work-in-progress is regarded as forming part of the reporting entity’s inventories produced for sale in the ordinary course of business, which we believe it is, the Exposure Draft’s proposal is therefore raising the fundamental conceptual issue of what is “profit”, when it should be recognised and how it should be measured. The Exposure Draft is also not clear as to whether cost of work-in-progress should be de-recognised once revenue and profit relating to it is recognised. We would suggest that the Exposure Draft make this clear.

In summary, we do not believe that a contract asset as defined should be recognised. Assets arising from contracts should be restricted to work-in-progress or contract receivables, that is, when the work-in-progress is invoiced and has been converted into a receivable. Once the receivable and accompanying profit is recognised, the work-in-progress should be de-recognised.

Disclosures

Paragraphs 104 to 130 of the Exposure Draft set out a list of proposed disclosure requirements and the IASB has produced a separate booklet of illustrative examples of disclosures. We believe Illustrative Example 19 on page 25 of the booklet of the required disclosure of a reconciliation of amounts relating to contracts with customers is difficult to understand and we question whether the analysis provides useful, relevant and understandable information.

We believe a more useful and meaningful example would be to present the information in a tabular format showing the movements in the carrying amounts (of work-in-progress contract costs, contract receivables and contract liabilities) between the beginning and at end of the accounting period. Significant changes or movements to the carrying amounts should be disclosed.

We would also suggest that the illustrative booklet include an example which shows the journal entries used in accounting for long term contracts over a two or three year period from the performance of obligations and the incurring of costs, invoicing, revenue and profit recognition and settlement of receivables, and the disclosures to be included in the relevant financial statements for each reporting period.

Conclusion

In summary, we believe that the IASB needs to reconsider its proposals and set out clearly articulated principles for recognising revenue and profits. We fully agree with the comment from the member of the FASB, Mr. Thomas J Linsmeier which are set out in

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paragraph AV10 on page 138 of the Basis for Conclusions that “*efforts need be undertaken to ensure that the guidance in the proposed standard are made operable and auditable ...*”.

We also expect that the IASB will undertake thorough field testing of the proposals before the standard is finalised to ensure that the full implications of the proposals are clear, understood, workable in practice, and do not result in unintended consequences.

As explained above and in our letter to you dated on 8 October 2010 on the 2010 Exposure Draft, we believe an alternative simpler approach to revenue recognition is to look at whether there has been an “agreed completed transaction”. Under this approach the focus is on identifying whether the contracting parties have agreed that the good or service (or a part thereof) has been delivered and an obligation to pay or a liability is acknowledged. The agreement that an exchange or transaction has been completed as agreed can be determined from the actions taken by both the seller and buyer.

We believe this approach and concept is easier to understand and would be simpler to implement in practice.

We hope that the above comments are useful.

On a personal note, I wish to advise that this is likely to be my last letter from the Exchange as I will be retiring and my last day at the Exchange will be 29 February 2012. Nevertheless, I shall continue to have an interest in developments in accounting and auditing standards and can be contacted at rbcolini@gmail.com.

Yours sincerely,
For and on behalf of
The Stock Exchange of Hong Kong Limited



Colin Chau
Senior Vice President
Listing Division

CC/ESA/el

c.c. Mr. Mark Dickens - Head of Listing