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Discussion Paper
Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Sirs,

Following a review of the above Discussion Paper, please see our comments below. These make reference to the relevant question where applicable.

Scope

We do not believe that the principles in the discussion paper would provide decision useful information for financial instruments that are currently covered by the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, for insurance contracts in the scope of IFRS 4 *Insurance Contracts* or for leasing contracts that are in the scope of IAS 17 *Leases*. We would support contracts such as these being excluded from the scope of this proposed model. (*Question 2*)

With regard to the construction industry where revenue is currently accounted for under IAS 11, the proposed principle may not provide decision-useful information particularly where the contracts can span a number of years and due to the move away from matching of revenue and costs. (*Question 2*)

Matching revenue and costs

The discussion paper covers revenue recognition but proposes no change to cost recognition. This will lead to a move away from the matching of costs and revenue. For longer contracts such as those in the construction industry, the principles may make the accounts of different companies difficult to compare and would not show the underlying financial performance.

Sales incentives, discounts on future sales and refunds

We would be of the view that certain sales incentives and discounts on future sales do not give rise to a performance obligation. Many of these are contingencies and would not be viewed as part of the performance obligation of a contract. (*Question 7*)

Similarly the practise or obligation to accept refunds would in our view be a contingent event and not a performance obligation. (*Question 6*)

Satisfying a performance obligation - Non-refundable upfront payments

The discussion paper includes example 7 where an upfront non refundable fee is payable to a Health Club followed by monthly payments to access a health club. We would disagree with the proposed treatment to allocate the initial non refundable up front payment to the performance obligation of providing access to the health club for one year. While there does not appear to be a transfer of an asset when the initial payment is made, the payment alone does not give access to the health club for one year. It is the continuous monthly payments that give this access and if these were to stop the access would be denied. The initial payment is not related to the obligation to provide access and our view is that this revenue should be recognised up front and not over the period of one year. (*Question 9*)

Transfer of the asset to customer

Clarity needs to be included as to when the asset involved in a service contract is transferred to the customer. The paper focuses more on the transfer of goods rather than services and does not cover certain items currently detailed in IAS 18 such as interest, dividends or royalties. We would be of the view that certain services, such as many in the financial services industry, are provided continuously and should be recognised continuously rather than at the end of the contract.

Use of estimates

The aim of the discussion paper is to clarify the principles for recognising revenue, however due to the complexity of certain contracts, which are made up of different components including those of a service nature; this principle may overcomplicate the recording of revenue. Where an entity does not sell a good or service separately the discussion paper is giving scope for the use of estimates to allocate the transaction price and this may impact on the accuracy and therefore the decision usefulness of information. (*Question 13*)

We appreciate the opportunity to provide comments on the discussion paper. Please contact me if you have any queries or require further clarification on any of the points above.

Yours sincerely

Jenny Waring

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