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Via email: director@fasb.org

22 October 2010

Dear Sir/Madam

RE: FILE REFERENCE NO: 1820-100 EXPOSURE DRAFT ED/2010/6: REVENUE FROM CONTRACTS WITH CUSTOMERS

We welcome the opportunity to comment on the joint IASB and FASB ('the Boards') Exposure Draft '*Revenue from Contracts with Customers*' ('the ED'). Our main activities are the provision of fixed telephony lines, broadband, mobile and TV products and services as well as networked IT services. In the UK we are the largest communication services provider, serving the consumer, business and public sector markets. Globally, we supply networked IT services to multinational corporations, domestic businesses and government departments. We also provide access to our network and services to more than 1,000 communications providers in the UK and others worldwide. In the year to 31 March 2010, our revenue was £21 billion.

We acknowledge the considerable effort the Boards have put into achieving the objectives of: attempting to clarify the principles for recognising revenue and seeking to develop a common set of standards that removes weaknesses and inconsistencies in existing standards; providing a more robust framework for dealing with revenue recognition issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and attempting to simplify the preparation of financial statements by reducing the number of requirements to which entities must refer.

In the first part of this comment letter, we set out some general remarks and observations in relation to the ED's proposals. These remarks need to be read in conjunction with our detailed responses to the specific questions raised, which are set out in the Appendix to this letter.

There is much in the ED which we support, as noted in Appendix 1. However we do have a number of significant concerns with certain aspects of the proposals, which are set out below.

Control-based model

Although the proposed control based model may work reasonably well for 'spot transaction' based contracts, in our view it is unlikely to result in a fair or reasonable revenue recognition

basis in the specific cases of construction-type contracts where control of the asset is not transferred to the customer on a continuous basis or for services contracts where such delivery, and transfer of control, is not continuous. As set out in our detailed response to the questions posed by the Boards in the Appendix, we believe that the ED's control based model would mean revenue and profit recognition (for those entities with such contracts) would be deferred for potentially significant periods until it was clearly established that legal control had passed to their customers for separately identified performance obligations within these contracts. Therefore revenue recognition would become considerably 'lumpier' than at present, and revenue will not be a reflection of activity as the contract progresses.

We agree with the alternative contract based activity model set out by the European Financial Reporting Advisory Group (EFRAG) in Appendix 3 of its draft comment letter to the ED. We feel that this alternative model would lead to more decision-useful information for users of financial statements.

Onerous performance obligations

We strongly disagree with the requirement that onerous contracts be assessed at the individual performance obligation level. This does not reflect the commercial and economic reality of customer relationship management and would be extremely impractical and misleading to apply. When entering into a contract, businesses consider profitability of the contractual relationship in totality, and not in terms of individual performance obligations. As a result of this artificial allocation, a loss may be recognised at inception for an individual obligation under the terms of a contract that will be extremely profitable overall.

Credit risk

The credit risk of a customer should not be reflected in revenue. In our opinion revenue should represent a measure of goods or services sold in the period, multiplied by the sales consideration for those goods or services, and the credit loss on a receivable should be dealt with separately as a cost, given it is not a reflection of what has been "sold".

Contract modifications

The proposed principle of accounting for modifications solely based on price interdependence as part of the original contract, with the requirement to recognise the cumulative effect of the modification in the period in which the modification applies, is considered to be overly simplistic and does not reflect the economic and commercial reality. The commercial reality may be that contract pricing can be modified for many different reasons, and we do not believe it is possible to specify a single rule and treatment that can adequately capture all situations. We believe that the final standard should include principles and related factors to help preparers capture and report the economic impact of modifications appropriately, based on the particular facts and circumstances.

Disclosure requirements

The effort to provide the significant additional quantitative disclosures and tabular reconciliations of resulting balance sheet amounts is material and we believe significantly outweighs the benefits provided to investors. We suggest requiring disclosures at a principles-based level, as opposed to prescriptive disclosures may be more meaningful to users. A principles based approach would allow different industries to provide relevant information.

Variable consideration

The concept of variable consideration being reasonably estimable needs to be better defined as it can be very subjective. In our view, users of financial statements expect reported revenue to

be highly correlated with current and future (short term) cash flows and we are concerned that estimating the transaction price based on the 'probability-weighted amount of consideration' may result in a significant disconnect between the recognition of estimated revenue which could be significantly different from the actual outcome.

While a reasonable approximation to actual eventual cash flows can be made for large, homogenous populations, for small or individual populations, particularly those that are personalised or bespoke, the expected value calculated could potentially be significantly different from the actual outcome. We suggest that for small or unique individual populations variable consideration should be valued by reference to the 'most likely' amount.

Contract costs

Cost guidance should not be included in a revenue accounting standard. Such guidance should be included in other standards containing asset or cost guidance. We do not agree that all costs relating to securing a contract should be expensed because those costs which are incremental, directly related and necessary to secure the contract may qualify as an asset and should be capitalised and amortised over the life of the contract;

Retrospective application

Retrospective application of the proposed guidance will be completely impractical and cost prohibitive. We propose that the Boards' allow companies to have the choice of applying the standard retrospectively or prospectively. An alternative would be to acknowledge that significant estimation may sometimes be required in full retrospective application, and that where it is significant, companies should disclose the approach they have taken in estimating the retrospective adjustments.

Finally, to reiterate our earlier comment, we agree with the alternative contract based activity model set out by the European Financial Reporting Advisory Group (EFRAG) in Appendix 3 of its draft comment letter to the ED. We feel that this alternative model would lead to more decision useful information for users of financial statements.

We trust these comments are helpful in contributing to your deliberations. If you have any questions or would like to discuss these comments further, please do not hesitate to contact me.

Yours faithfully

GLYN PARRY DIRECTOR, GROUP FINANCIAL CONTROL

BT GROUP PLC

Appendix

RESPONSES TO SPECIFIC QUESTIONS

Q1: Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- (a) to combine two or more contracts and account for them as a single contract;
- (b) to segment a single contract and account for it as two or more contracts; and
- (c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with the principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We generally agree with the proposed principle that price interdependence would help an entity determine whether to combine contracts. However, we believe price is not the sole principle that should be applied. Performance obligations and any other conditions specific to a contractual relationship should be considered. We would encourage the Boards to consider a principle which reflects economic reality and commercial substance without setting rules solely based on price interdependence.

There is a need for guidance on contract modifications. However the proposed principle of accounting for modifications solely based on price interdependence as part of the original contract, with the requirement to recognise the cumulative effect of the modification in the period in which the modification applies, is considered to be overly simplistic and does not reflect the economic and commercial reality. Modifications arise when the economics of the contracts change, for a variety of reasons. For example there can be a change in the scope or contract specification of a complex customised software solution due to a customer requirement. The combination criteria set out in paragraph 13 of the ED do not, in our view, take into account the economic interdependence between contract modification and overall effort. Similarly, in our retail consumer business, changes in call plans/add on features requested by our customers occur on a frequent basis. It would not be feasible for us to assess, each and every time the customer decides to request a change, whether this is priced interdependently, and if so, make a cumulative adjustment to the contracts. We are also unclear whether cancelling one type of call or service plan and simultaneously signing up for a new plan is considered a contract modification to the original contract or a separate contract.

Whilst we agree that accounting for the cumulative effect of a contract modification might be appropriate in some situations, there are also situations where prospective treatment might better reflect the economic and commercial reality of the modification. Judgement is required to determine whether prospective or cumulative recognition is appropriate. The commercial reality may be that contract pricing can be modified for many different reasons, and we do not believe it is possible to specify a single rule and treatment that can adequately capture all situations. We believe that the final standard should include principles and related factors to help preparers capture and report the economic impact of modifications appropriately, based on the particular facts and circumstances.

Q2: The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

In determining whether elements are distinct, we believe that the accounting treatment should reflect the entity's business model and the commercial substance of a transaction rather than a generic approach as set out in paragraph 23. By way of example, we provide complex networked IT and communication services to global customers. In order to connect our customers, we often have to use specified equipment that we rarely sell separately. However, as we ourselves buy this equipment on a standalone basis from suppliers, it is obvious that other companies sell this equipment separately. Taking the perspective of our customers, we do not believe they perceive this equipment as a separate deliverable, as they are procuring an end to end service rather than individual services and products, even though the equipment may be located on the customer's premises. Therefore we believe that separate performance obligations should only include deliverables that are provided in an entity's ordinary course of business or are restricted to those goods or services that a customer specifically wishes to acquire and excludes deliverables that are incidental.

Q3: Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

We do not support the control model for revenue recognition as set out in the ED. We appreciate the objective of the Boards is to devise a framework which can be used for all types of revenue, but feel that this model is overly prescriptive and not appropriate for certain contracts. Whilst the model may work reasonably well for many contracts, we feel it will not lead to fair revenue recognition in particular for construction-type contracts where control of the asset is not transferred to a customer on a continuous basis or for certain types of contracts for the delivery of services where such delivery (and transfer of control) is not continuous.

Our interpretation of the ED is that revenue recognition for many contracts would be significantly different from that which is reported under IAS 18 and IAS 11 at present. In many situations, revenue and profit recognition would be deferred for potentially significant periods until it was clearly established that control had passed to their customer for separately identified performance obligations within these contracts. As a consequence, revenue recognition may well become considerably 'lumpier' than at present and completely disconnected from contract activity and progress.

One of the aims of the Board is to increase comparability between the financial statements of entities, but in many respects, these proposals would decrease comparability. By way of example, consider two entities which are similar in all respects, work in the same long term contracting business and have the same levels of activity and profitability. The only difference is that their contracts have different timing profiles such that one entity completes more performance obligations within its contracts than the other in a reporting period but their level of activity was exactly the same. Under the existing standards, the two entities would produce comparable financial results. Under the proposals, one entity would report more revenue and

profit than the other. This does not seem to provide more useful or comparable information for users of accounts.

We agree with the alternative model set out by the European Financial Reporting Advisory Group (EFRAG) in Appendix 3 of its comment letter to the ED. It is not considered appropriate to reproduce the full model here, but the key elements are contained in paragraph 4:

'Under this alternative model, revenue should reflect the activity carried out by an entity pursuant to a contract with a customer. That is, revenue should be recognised as an entity progresses towards the fulfilment of a performance obligation. However, the following conditions should exist before revenue is recognised:

- a) A contract with a customer must be concluded, and the entity must have performed pursuant to that contract, ie made progress in fulfilling its performance obligations under the contract;
- b) The contract must be such that the entity, as it progresses towards fulfilling its performance obligations, holds an irrevocable right to consideration, subject to continued performance. This right may be stipulated in the contract itself, stem from law or from law enforcement practices. In other words, the customer must be obliged, in one way or another, to pay for any work completed to date, as long as the entity performs under the contract'.

Such a model would provide more decision useful information for users of financial statements. As noted earlier, the Boards' model would be satisfactory for some types of contracts but its attempted 'one size fits all' control based model would not in our view satisfactorily fit all contracts, in particular construction-related and service contracts.

In relation to the specific question posed, we feel that the guidance on this issue is not sufficiently robust. The ED provides four basic 'indicators' for determining whether control has passed to the customer, however none of these are individually determinative and may not be relevant in all cases. In our view the assessment of whether control has passed requires considerable judgement by the preparers of account. This may lead to subjective, differing judgements being made by entities in similar circumstances. We do not believe this contributes to greater comparability.

We are also concerned that the concept of control is a legalistic view and more difficult to apply in the case of services contracts, and therefore further guidance is needed in this area. It is also problematic that the entity has to make this judgement based on the perspective of its customer, about which it may have no insight.

Q4: The Boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

We agree that revenue can be recognised using an estimated transaction price. However the concept of variable consideration being reasonably estimable needs to be better defined as it can be very subjective. In our view, users of financial statements expect reported revenue to be highly correlated with current and future (short term) cash flows and we are concerned that estimating the transaction price based on the 'probability-weighted amount of consideration' may result in a significant disconnect between the recognition of estimated revenue which could be significantly different from the actual outcome.

While a reasonable approximation to actual eventual cash flows can be made for large, homogenous populations, for small or individual populations, particularly those that are personalised or bespoke, the expected value calculated could potentially be significantly different from the actual outcome. We suggest that for small or unique individual populations variable consideration should be valued by reference to the 'most likely' amount.

Q5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We disagree. Customer's credit risk should not be reflected in revenue. In our opinion, revenue should represent a measure of goods or services sold in the period, multiplied by the sales consideration for those goods or services, and a credit loss on a receivable should be dealt with separately as a cost, given it is not a reflection of what has been "sold". Furthermore, given the IASB has proposed that credit risk be presented separately from interest in the Exposure draft: Financial Instruments: Amortised Cost and Impairment' it is inconsistent that it should be treated as part of revenue.

Q6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree in principle that it is appropriate to include the time value of money in contracts that include a material financing component. The importance of materiality is essential in order to avoid significant burden to identify and allocate the financing component to contracts.

Q7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We agree with the overall principle of allocating the transaction price to all separate performance obligations and the guidance in paragraph 50 may be applied in those situations where such an allocation is consistent with the underlying economic and commercial substance of the transaction. However, this is not the case for all transactions and therefore we would encourage the Boards to consider a model which allows preparers to reflect the economic and commercial substance of multiple element contracts instead of setting a prescriptive and arbitrary methodology which seems to be based solely on the overly simplistic use of standalone selling prices.

In many situations certain items are more commonly or solely sold as a package rather than individually. The margins made on the individual items may vary considerably from contract to contract and when they are packaged together the seller may grant discounts on the higher-margin items rather than on the lower-margin items. A mechanical allocation in proportion to stand-alone selling prices in these circumstances may be theoretically and mathematically simple to apply but does not reflect underlying economic or commercial substance. Allocation in this way could lead in some cases to a loss being recognised at certain stages of a highly profitable contract, because too large a discount had mechanically been allocated to low margin items. This would be completely misleading. Therefore an option must be available to make the allocation on another basis if that is more appropriate.

We recommend that the standard does not mandate how discounts should be allocated between items. Instead, whilst we would accept that standalone selling price should be the starting point for allocating revenue to an item, we would expect an entity to use judgement to allocate any overall discount on a contract in a way that reflects the commercial and economic substance of the arrangement as a whole.

Q8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 380; IAS 16 or ASC Topic 360; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

We support the proposed treatment in paragraph 57. We believe that the criteria are appropriate in that they enable an asset to be recognised where it is clear that future economic benefits will be generated while being restrictive enough to prevent over-capitalisation. In relation to the types of costs which are directly related to a contract, we agree with the categories outlined in paragraph 58 as they are consistent with costs that can be capitalised under other standards.

However, we believe the interaction of paragraphs 57 and 59 with regard to pre-contract costs should be made clearer. Paragraph 57(a) explicitly states that costs relating to a contract under negotiation may be capitalised if the conditions (a) to (c) are satisfied. However, paragraph 59 (a) then goes on to state that the costs of obtaining a contract must be expensed, including 'bid and proposal' costs. We believe that cash flows relating to securing a contract that are directly and incrementally related to obtaining the contract and should be accounted for as part of the contract. We believe this is consistent with the current requirements in IAS 11 (paragraph 21) in respect of costs incurred in securing a contract.

Finally, we suggest it would be more appropriate to include requirements about asset recognition and contract costs in other accounting standards, rather than in a standard which deals with revenue recognition. This could be achieved through scope revisions to IAS 2 'Inventory', IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible assets' to permit capitalisation of contract costs if the respective criteria under the individual standards are met.

Q9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

Capitalisation of costs

We agree that an entity should apply the full direct cost method (ie including in the cost of an asset both incremental and directly allocated costs) as suggested by the ED for measuring contract costs eligible for capitalisation. As noted in our response to question 8, we also that think that the costs meeting this definition in securing a contract should be capitalised if the appropriate criteria are met

Onerous performance obligations

We strongly disagree with the requirement that onerous contracts be assessed at the individual performance obligation level. This does not reflect the commercial and economic reality of customer relationship management and would be extremely impractical and misleading to apply. When entering into a contract, businesses consider profitability of the contractual relationship in totality, and not in terms of individual performance obligations. As a result of this artificial allocation a loss may be recognised at inception for an individual obligation under the terms of a contract that will be extremely profitable overall. We also think that the proposed approach is inconsistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which requires an entity to consider the unavoidable costs of meeting the obligations and the economic benefits expected to be received under the contract as a <u>whole</u>.

Measurement of onerous performance obligations

We do not agree with the proposal to require the use of the probability weighted technique for the costs in determining whether a performance obligation is onerous. We believe that contract costs should be estimated on the 'most likely' basis which is management's best estimate of the likely outcome.

Q10: The objective of the Boards proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash-flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Q11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with the proposed disclosure requirement? If not, what if any, information do you think an entity should disclose about its remaining performance obligations?

In our view, the effort required to provide the significant quantitative disclosures and tabular reconciliations of balance sheet amounts required under the ED is material and we believe significantly outweighs the benefits provided to investors and other users. The proposed disclosures are extensive and will add to the length and complexity of financial statements. As evidenced by a number of consultations, such as the UK's Financial Reporting Council 'Louder

Than Words' paper issued in June 2009, many commentators are of the view that financial statements are too voluminous and complex to understand.

We do not agree with the disclosure requirements about performance obligations that are expected to be satisfied in future reporting periods. This would not represent decision useful information as it would only present revenues and/or cash flow information for a portion of future revenues and would therefore not have any predictive value. In addition, we believe that there is a lack of clarity in relation to amounts that could be subject to change or termination. For example, we have some contracts with customers that can be terminated by the customer at relatively short notice and for no compensation. Those contracts will also typically include fixed and variable elements (e.g. line rental and calls, respectively). It is unclear whether the disclosure should reflect (1) only contracts that cannot be terminated without compensation, (2) the company's estimate of the proportion of contracts that will not be terminated or (3) all contracts. Similarly, it is unclear whether disclosure should include only the minimum (fixed) amount specified under a contract or also an estimate of the variable amount that customers are likely to request.

Furthermore, the suggested disclosures would result in the inclusion of information based on projections in audited financial statement notes. This would require audit firms to audit forward looking projections which may have changed by the time the financial statements are signed. We believe this type of information is better suited for inclusion in the Financial Review, given its forward looking nature. If the Board retains this disclosure we would recommend that the disclosure requirement is a percentage estimate of what portion of a company's obligations will be satisfied in more than year, given the challenges in precisely estimating this amount.

We suggest requiring disclosures at a principles-based level, as opposed to prescriptive disclosures may be more meaningful to users. A principles based approach would allow different industries to provide relevant information. Perhaps this principle should be aligned with how a chief operating decision maker views the company, similar to the current segmental reporting requirements. Adoption of this approach will also better align cost and benefit in many instances and this approach will limit the need for significant system and process changes to collect and track information that may not provide decision useful information.

Q12: Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash-flows are affected by economic factors? If not, why?

We agree with the principle of disclosing primary revenue streams, however, we are concerned that this does not contradict or increase the requirements of IFRS 8 'Operating Segments'.

Q13: Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting period presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

For many preparers, particularly with high volume or significant complex multiple element long term arrangements the requirement to re-examine of these contracts to determine the impact of

retrospective adoption will be an extensive and costly exercise. Some of the issues we have identified to date are set out below:

- We will need dual systems to account for our revenue during the transition period for the two
 years of restated information prior to the first year of adoption (US requirements are to
 include 5 years of financial information on a consistent basis in selected financial data).
 Retrospective application is extremely onerous and costly, in terms of time, money and
 management resources. Additional costs will include audit costs, duplicate systems and the
 resource required to review and account for contracts under the new rules during the period.
- Using estimates during the transition period. For example, for the two (or four) years of historical information would we take advantage of hindsight? We would welcome some guidance on this issue.

In our view, the Boards should conduct field trials to understand the full complexity of the proposed changes before concluding on retrospective application.

Finally, we propose that the Boards allow companies to have the choice of applying the standard retrospectively or prospectively. An alternative is an extension of paragraph 85, acknowledging that significant estimation may sometimes be required in full retrospective application, and that where it is significant, companies should disclose the approach they have taken in estimating the retrospective adjustments.

Because preparers will find transition a difficult and time consuming exercise, we encourage the Boards to provide a sufficiently long lead time for transition.

Q14: The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

We think an accounting standard should have clear principles and limited application guidance to be effective.

Q15: The boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- (b) A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract. Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We agree with the principle that an entity should recognise its warranty obligations, but we do not agree with the proposed distinction between different types of product warranty. The distinction is not necessary because the accounting for both types of warranty is ultimately the

same – namely the deferral of some or all of the revenue associated with the transaction. We therefore see no benefit in distinguishing between the different types.

Q16: The boards propose the following if a licence is not considered to be a sale of intellectual property:

- (a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the terms of the licence; and
- (b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

We do not agree that exclusivity is the correct criterion for determining the pattern of revenue recognition. Rather, we believe the pattern of revenue recognition for a licence depends on the terms of the contract and any performance obligations that it may include. Where a licence needs to be supplied at a discrete point in time with no further support, maintenance or other requirements, then all performance obligations may be deemed to have been met on supply. However, where the vendor retains ongoing responsibilities, it would be appropriate to recognise these as separate performance obligations and to defer revenue accordingly.

As licensing arrangements generally transfer "rights of use" of an intangible asset in the widest sense of the term, we believe the accounting for both licences of intangible assets and leases of tangible assets should be consistent, as they are commercially and economically similar. We are aware the ED on Leases excludes intangible assets, and therefore we are concerned this may generate an inconsistency. It would be helpful if the Boards use terminology that can be applied consistently across all relevant standards.

Q17: The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We agree that accounting for the disposal of non-financial assets should use revenue recognition and measurement principles consistent with those required by the proposed revenue recognition model.

Other comments

We note that the ED only addresses revenue arising from contracts with customers. The current revenue recognition accounting standard deals with all forms of revenue and includes specific requirements for interest, royalties and dividends. We would expect an accounting standard to address all revenue transactions in the widest sense (as is the case with IAS 18) and not just revenue from contracts with customers.