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Dear Hans,

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

We are pleased to have an opportunity to comment on the Exposure Draft *ED/2011/6 Revenue from Contracts with Customers* (ED). Our general comments on the proposals are set out below and our responses to the detailed questions are set out as an Appendix.

We remain supportive of convergence between IFRSs and US GAAP as well as a principles-based revenue recognition model that can be applied systematically to all contracts and all industries. We therefore acknowledge the Board's efforts to incorporate constituents' responses on the original exposure draft and to re-expose the revised proposals. We are conscious that the Board's request for comments is a limited scope request and have therefore limited our responses to the specific matters identified in the ED.

Although we are supportive of the overall revenue recognition principle of recognising revenue to reflect the consideration to which the entity expects to be entitled in exchange for those goods or services, we are not supportive of the following proposals:

- presenting uncollectible amounts as a separate line item adjacent to the revenue line item as it appears to override the general principles for the presentation of financial statements as set out in IAS 1 *Presentation of Financial Statements*;
- restricting the cumulative revenue recognised for satisfied performance obligations when the amount of consideration receivable is variable. The proposed approach is inconsistent with the guidance in other IFRSs for determining amounts receivable based on contingent or variable consideration;
- performing the onerous test assessment at the level of individual performance obligations, as contracts with customers are generally priced at a customer level;
- limiting the scope of the onerous test requirement to performance obligations that are expected to be satisfied over a period greater than one year; and
- including mandatory disclosure requirements in IAS 34 *Interim Financial Reporting* as it appears to override the underlying principle of IAS 34 without any consideration to the qualitative characteristics of financial statements as set out in IAS 1.

We trust that the Board will find our comments useful. If you would like to discuss our response in more detail, then please contact David Bradbery (david.bradbery@barclays.com) at 1 Churchill Place London E14 5HP.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Chris Lucas".

Our responses to the detailed questions set out on pages 14 -16 of the ED are as follows:

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time.

Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree in principle with the proposed guidance in paragraphs 35 and 36 of the ED on when a performance obligation is satisfied over a period of time. However, these paragraphs only once refer to the provision of services and as such it is not entirely clear how this guidance should be applied to a service contract extending over a period of time. We recommend the Board consider amending paragraph 35(b) to make it undoubtedly clear that when the provision of a service over a period of time represents a performance obligation, the criteria listed in (i) – (iii) should be applied.

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?

The proposed principle 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, appears to be broadly consistent with the current requirements in IAS 18 *Revenue* and IAS 11 *Construction Contracts* for revenue to be recognised at the fair value of the consideration received or receivable. This is supported by the Board stating in paragraph BC171 “[t]he boards expect that an entity would typically not recognise a loss on initial recognition because the receivable normally would initially be measured at the original invoice amount if the contract with a customer does not include a financing component that is significant.”

We note that the Boards tentatively agreed at the February Joint Board meeting that for trade receivables with a significant financing component entities should be allowed a policy choice whether to follow the full proposed impairment approach (three-bucket approach) or categorising the receivables into Bucket 2 or 3. Although we are supportive of the practical expedients proposed by the Boards, we note that the proposed recognition of receivables would not be consistent with the initial measurement criteria in accordance with IFRS 9 *Financial Instruments*.

Further, we do not support the presentation of uncollectible amounts as a separate line item which appears to override the general principles for the presentation of financial statements as set out in IAS 1 *Presentation of Financial Statements*. The presentation of uncollectible

amounts pertaining to trade receivables separate from other similar amounts may create an arbitrary divide and lead to confusion amongst users of the financial statements.

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 recognised 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?

The principle of restricting the cumulative revenue recognised for satisfied performance obligations when the amount of consideration receivable is variable, is inconsistent with the guidance in other IFRSs for determining amounts receivable based on contingent or variable consideration. For example, IFRS 3 *Business Combinations*, requires contingent consideration to be measured at fair value taking into consideration all available information. Similarly, IFRS 13 *Fair Value Measurement* provides guidance in situations where reliable market-based information is not available, which include determining the present value of expected cash flows.

We do not agree with the proposal to restrict the cumulative amount of revenue recognised for satisfied performance obligations as proposed. In our view, the cumulative amount of revenue recognised when the amount to which the entity is entitled is variable, should be based on the fair value of the amount receivable taking into consideration all available information, which may include (but is not limited to) past experience.

Furthermore, the 'reasonably assured' requirement in the context of paragraph 81 introduces a new quantitative threshold and it is not clear whether it is a higher or lower threshold than the existing 'probable' threshold in IAS 18 and IAS 11.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous.

Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We do not understand the reasons for limiting the scope of the onerous test requirement to performance obligations that are expected to be satisfied over a period greater than one year. This requirement appears to nullify the qualitative characteristic attribute of understandability

and moreover, materiality as set out in IAS 1. Furthermore, we do not agree with the proposal that the onerous test should be assessed on the level of individual performance obligations.

We believe an entity should be required to recognise an onerous obligation when the unavoidable cost of meeting the obligations under the contract exceeds the economic benefits expected to be received under it, regardless of the period of time over which the performance obligation is satisfied.

With regards to the unit of account for performing an onerous test, we believe such an assessment should be done at a contract level. Contracts with customers are generally priced and concluded on at an overall contract level with little regard to the price of the individual components of the contract. Recognising an onerous obligation for an individual performance obligation while the overall contract is profitable will not truly reflect the economic reality of the contract and may lead to distorted financial reporting.

Question 5

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

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

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

We do not agree with the inclusion of the proposed disclosure requirements in IAS 34 *Interim Financial Reporting*. The underlying principle of IAS 34 is the presentation and disclosure of information about transactions and events that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period. The proposed mandatory disclosures specified in the ED appear to override this underlying principle without any consideration to the qualitative characteristics of financial statements as set out in IAS 1. In our opinion, management should apply judgement when deciding the information to disclose in interim financial statements, based on the events and transactions that have occurred since the last reporting date.

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?

Although we agree in principle 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 the entity's ordinary activities, we do question whether the sale of non-financial assets should be included as part of this standard.

The scope of the proposed standard is limited to revenue arising from contracts with customers, while a customer is defined as 'a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities'. The inclusion of requirements on when control of non-financial assets that do not form part of an entity's ordinary activities cease, may lead to confusion amongst constituents as to the scope of the standard and/or its application to revenue arising from transactions with parties other than customers. We therefore recommend that derecognition of non-financial assets and the measurement of any gain or loss on derecognition should be retained in each individual standard.