BT

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Via email: director@fasb.org

23 March 2012

Dear Mr Hoogervorst

Exposure Draft ED/2011/6 *Revenue from Contracts with Customers*
(A revision of ED/2010/6 *Revenue from Contracts with Customers*)

BT Group plc appreciates the opportunity to comment on the re-exposed draft 'Revenue from Contracts with Customers' (herein referred to as '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 a leading communication services provider. We sell products and services in the UK to consumers, small and medium sized enterprises and the public sectors. We also sell wholesale products and services to communication providers in the UK and around the world. Globally we supply managed network IT services to multinational corporations, domestic businesses and national and local government organisations. In the year to 31 March 2011, our revenue was £20 billion.

We welcome the decision to re-expose the proposals and note several significant changes to the original 2010 ED have been made based on comments received from constituents.

We support the joint work carried out by the IASB and FASB to develop a single revenue standard. We would also like to thank the Board members and Staff for engaging in discussions with the telecommunications industry. As you will be aware, the impact of the ED and the significant challenges that will arise from its implementation have been discussed at several meetings between industry representatives and Staff members over the last year or so and, more recently, at an EFRAG meeting to discuss field testing of the ED where the industry representatives provided specific examples of the concerns expressed to date.

Our detailed comments on the questions raised in the ED are included in the appendix to this letter. However, we have not confined our comments to the specific questions included in the ED and have set out below further comments on the ED.

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Allocation of the transaction price

The proposals contained in the ED will have a significant impact on the telecommunications industry when considering multiple elements arrangements, for example through the sale of equipment or other devices, which is used to provide different types of communication services. The requirement to mechanically allocate the initial (estimated) transaction price to all separate performance obligations in a contract in proportion to their standalone selling price will result in the reallocation of revenue for some transactions whereby ongoing service charges under these proposals will in part be recognised upfront as equipment revenue. We do not believe this reflects how the transfer of value is viewed and reported by the customer and could result in a number of undesirable effects such as: inconsistent revenue recognition for similar transactions; revenue and profit figures that are susceptible to significant management judgement and estimates; and increased separation between earnings and cash flow.

This could also lead to the need to maintain dual reporting for internal business management purposes and external communications, as well as an increase in the level of non-GAAP measures and disclosures. This concern is also supported by feedback from users. Several of the large European mobile telecom operators have sought user feedback, who expressed the view that the ED will provide less useful information to them and therefore they will require preparers to continue to provide existing data, thereby increasing the level of non-GAAP information.

We understand that the proposal to allow the use of the contingent cash cap model is not considered appropriate by the Board as it has broader implications for other industries. We believe further industry dialogue on this issue is required in order to identify other potential solutions, for example through the use of the Residual Method, which will provide a more practical solution for the industry but not deviate significantly from core principles of the ED.

Non refundable upfront fees

The previous ED included an example (example 7) illustrating the guidance on non-refundable up-front fees in two scenarios. This example is not reproduced in the illustrative examples accompanying the current ED. We believe the example was useful and we encourage the Board to reinstate it.

Contract acquisition costs

We do not believe that it is appropriate that the ED should mandate the recognition of the incremental costs of acquiring a contract as an asset. Furthermore, we believe that the proposed exemption from the requirement to recognise an asset where the amortisation period would be one year or less is arbitrary and inappropriate. The amortisation period is not necessarily indicative of materiality and profit could be impacted by management judgements or contractual arrangements impacting whether the relevant amortisation term is greater or less than one year. The ED should be limited to revenue recognition and the treatment of costs should be by reference to the relevant accounting standard or the conceptual framework.

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IT implementation issues
In its current form, we will need to implement major systems changes to support the methodology in the ED. Currently, we have multiple bespoke billing and related platforms which hold much of the individual contract and transactional information. Information is typically entered into our accounting systems at a transactional level and then held on an aggregated level by product or customer. Our systems do not have the capability to account for millions of individual contracts nor have been designed to handle such data. Nor do our systems contain information on standalone selling prices for all elements of contracts.

Accounting on a portfolio basis would reduce data volumes but is likely to require a very large number of portfolios to achieve sufficient accuracy. We also believe it may be difficult to demonstrate that portfolio accounting will result in materially the same results as a per contract basis or whether it can be applied in a sufficient level of detail and provide the required disclosures.

As the final accounting requirements are not yet certain and small amendments to the requirements could fundamentally affect system requirements, we cannot meaningfully undertake an implementation assessment until the final standard is issued, since the costs for such a project are expected to be very significant.

Implementation timetable
We believe that the proposed adoption timetable does not allow reasonable time for telecommunication companies to transition to the new standard if it remains in its current form. To avoid the potentially significant risk of errors on adoption we believe the Boards must allow sufficient time for preparers to plan for adoption. The proposed standard will have a substantive impact on systems and business processes and the need for historic customer contract and other data that is not currently obtained or retained. For this reason, we believe as an absolute minimum at least three years should be added to the standard 18 month lag between the date of the final standard issuance and the initial application date.

Disclosure requirements
We believe that the ED requires too many disclosures in both interim and annual financial statements, and recommend they be reduced. The ED does not strike the right balance between information presenting a comprehensive summary of an entity's performance and the need for information that is concise and decision useful. There is a risk that useful information will be obscured due to the volume of disclosures required. We also recommend that the disclosures be simplified. Reduced and simplified disclosures will better balance the needs of users and the burden on preparers.

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

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Appendix

RESPONSES TO SPECIFIC QUESTIONS

Q1: 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 note that the IASB has now included specific guidance on when an entity satisfies a performance obligation over time and although we generally agree with the proposed criteria in paragraphs 35 and 36 of the ED, we believe further practical guidance and examples would be helpful for preparers.

Q2: 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?

While we do agree with the requirement to apply IFRS 9 (or IAS 39) for the recognition and measurement of customer credit risk, we do not agree with presenting the allowance amounts as a separate line item adjacent to the revenue line item.

The proposed line item adjacent to the revenue line item does not in our view provide decision-useful information for the users of financial statements. The information on the allowance for bad debts is readily available from a company's IFRS 7 disclosures. The amount to be presented as a new line item on the face of the income statement adjacent to gross revenue consists of both initial expectations and subsequent adjustments. The subsequent adjustments comprise additional losses and reversals both relating to revenue recognised in former periods. Users cannot distinguish between losses arising from gross revenue recognised in the current period and those relating to prior periods. Therefore we question whether this provides decision useful information for users.

In our view the presentation of impairment losses should depend on an entity's business model and be consistent with management's own approach to dealing with issues of collectability and assessment of credit risk. For the reasons set out above, adding further line items to the income statement does not provide decision useful information especially when these lines items are of limited significance to the financial results of a company. Our preference is to retain the existing requirements, whereby impairment losses and bad debt allowances are included within the group's operating costs, with separate disclosures provided in accordance with the requirements of IFRS7.

THE QUEEN'S AWARDS FOR ENTERPRISE SUSTAINABLE DEVELOPMENT

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Q3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We generally agree with the proposed list of criteria as set out in paragraph 81. However, we do not agree with the indicator listed in paragraph 82(b) of the ED, as we do not think the time it takes to resolve an uncertainty influences whether or not an entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled.

Q4: 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 disagree with the ED that onerous contract provisions should be assessed (a) at the performance obligation level and (b) only for those obligations that will be satisfied over a period of time greater than one year.

The Basis for Conclusions in the ED states that the onerous test should be performed at the level of the performance obligation, because considering the contract as the unit of account would: (a) add complexity; (b) be inconsistent with recognising revenue at the performance obligation level; and (c) be arbitrary because the unit of account would depend on whether the entity provides its goods or services in one contract or in more than one contract.

It is unclear why the IASB thinks it adds complexity to perform the onerous test at a contract level rather than the level of the performance obligations. Current IFRS requires the test to be performed at a contract level which in our view is less complex than the proposed approach under the ED.

Whilst we agree that it might be more consistent with the proposed model to perform the onerous test at the level of the performance obligation as revenue is recognised at the performance obligation level, it introduces other issues. In particular, losses recognised on individual performance obligations in an overall profitable contract would not meet the definition of a liability under the IASB's Conceptual Framework. Similarly, the approach would be inconsistent with IAS 37, which applies to whole contracts, rather than to elements within contracts, and in fact prohibits the recognition of future operating losses.

It also appears to be the IASB's view that performing the onerous test at the level of the contract could result in arbitrary outcome because the ED does not appropriately describe how to bundle promised goods and services into contracts. The unit of account therefore depends on whether

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the entity provides its goods or services in one contract or in more than one contract. If the ED does not provide sufficient guidance on how to combine and segment contracts for the purpose of revenue recognition, we think this issue should be addressed instead of applying this weakness as an argument for applying the onerous test at the level of the performance obligation.

The ED also proposed no onerous test for: (a) performance obligations that are satisfied over a period of time that is less than one year; and (b) performance obligations that are satisfied at a point in time (in the future).

We do not agree with this outcome, which appears rather arbitrary. For example, we think it is inconsistent that an 11-month contract would not be tested, while a 13-month contract would be covered by the onerous test even though the loss on the 11-month contract could be significantly higher than the loss on the 13-month contract.

We urge the IASB to consider using a contract (or group of combined contracts) as the unit of account for determining onerous contract provisions. Moreover, the IASB should not provide exemptions for contracts with remaining performance obligations of less than one year in duration.

Q5: 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 that the list of specific requirements proposed in the ED to be in accordance with the principles underlying IAS 34 *Interim Financial Reporting.* Financial statements for interim periods and financial statements for annual periods have different objectives. IAS 34 requires an entity to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. This information should provide an update of the relevant information presented in the most recent annual financial report.

We believe that the existing approach to disclosures in IAS 34 maintains a sensible balance between the need to provide decision-useful information for users in interim periods and the

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costs to preparers. If the IASB is concerned about the adequacy of interim reporting under IAS 34, then it should be reviewed as part of a separate project on interim reporting.

Q6: 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 de-recognition 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?

We agree in principle that the proposals for the recognition of revenue from contracts with customers should also be applied to the transfer of non-financial assets that are not an output of an entity's ordinary activities, as this would be consistent with the current approach under IFRS.

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