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International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

By email to: commentletters@iasb.org

Dear Sirs

Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB's 19 December 2008 Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers ("the DP"). LIBA is, as you will know, the principal UK trade association for firms active in investment banking and securities trading; a list of our members is attached. We are grateful to you for allowing us a few days extension beyond the official 19 June deadline for comments on this DP.

We welcome the opportunity to contribute to the boards' proposals, which address an important area for our members, especially in relation to banking services and the related fees.

In general we agree with the DP's overall objective of developing a single contract-based revenue recognition model which can be universally applied. However, whilst we believe that such a model can be applied to revenue arising from the provision of financial services, we do not believe it would be appropriate for transactions involving financial instruments as there would be major inconsistencies with the existing requirements of IAS 39 and with those proposed under ED/2009/3 on Derecognition and ED/2009/5 on Fair Value Measurement.

We note that although the IASB has not excluded financial instruments from the DP's proposed model, it is considering whether the proposed model, and in particular its measurement approach, would provide decision-useful information for certain contracts, including financial instruments. We support this consideration by the boards and recommend that financial instruments be excluded from the scope of the proposed model.

Our responses to the specific questions on pages 14-16 of the DP are set out below.

Question 1 - Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Whilst we agree with the overall objective of the DP of developing a single contract-based revenue recognition model which can be universally applied, we believe that such a model would be inappropriate for certain types of transactions, notably those which involve financial instruments.

Specifically, we have concerns about how the proposal to base a single revenue recognition principle on changes in an entity's contract assets or contract liabilities would be applied to financial instruments while significant revenue-related financial instrument issues are still being considered under the Derecognition and Fair Value Measurement projects (see ED/2009/3 and ED/2009/5). We also note that IAS 39 already contains guidance on income recognition on debt instruments not held at fair value through profit or loss (i.e. the effective interest method). Accordingly, we urge the boards to exclude revenue associated with financial instruments from the scope of the DP proposals.

With respect to service based contracts in the financial services sector, we are in broad agreement with the proposals in the DP.

Question 2 -- Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

As explained in our response to Question 1 above, we believe the DP's proposed model will not provide decision-useful information on revenue recognition issues for financial instrument contracts, particularly in cases where extensive guidance already exists for such instruments, some of which conflicts with the requirements of the DP (e.g. the use of exit prices for the fair value measurement of financial instruments).

To address the limitations of the proposed model in providing decision-useful information relating to financial instruments, we believe the boards should, as suggested above, exclude financial instruments from the scope of the current proposals and address the relevant revenue recognition issues relating to such instruments as a part of the FVM and IAS 39 replacement projects.

Question 3 - Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

Whilst we agree with the DP definition of a contract, which we see as broadly consistent with the current definition in IAS 32, we are concerned that creating a new definition which is not identical to the existing IAS 32 definition could cause confusion. We suggest the IASB should avoid having two definitions for a contract within the IFRS literature.

Accordingly, we recommend that the IASB adopt a single definition (if necessary by amending the existing IAS 32 definition) to be applied throughout the IFRS literature.

Question 4 - Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We do not believe the current definition of performance obligations in the DP would result in consistent identification of deliverables in a contract. For example, with regard to bank guarantee contracts, there are different views among LIBA members as to whether guarantee contracts give rise to one performance obligation or two. Some members argue that creation of the guarantee contract, and standing ready to perform under the terms of the guarantee, are two different performance obligations with revenue being recognised over the guarantee contract period while others take the view that there is only one performance obligation. The proposals in the DP raise an additional question as to whether the performance obligation is satisfied over the duration of the guarantee contract with revenue recognised over the contract period, or whether the performance obligation is satisfied when the guarantee expires or is exercised, in which case revenue recognition is deferred until such an event occurs.

As seen in the above example, we believe the DP's proposals lack clarity for entities to identify performance obligations and the related timing of the revenue recognition on a consistent basis. We therefore request that the boards provide further implementation guidance on performance identification and the timing of revenue recognition.

Question 5 – Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We agree that entities should separate the performance obligations in a contract on the basis of when the corresponding assets are transferred to the customer, but we recognise that it can be difficult in some circumstances to determine when the assets are transferred.

Question 6 - Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

We have no comment on this question.

Question 7 - Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We have no comment on this question.

Question 8 – Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the

customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred

We generally agree with the principle that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service. We do however have concerns on the practical application of this principle in certain banking transactions such as guarantee fees (see our response to Question 4).

We therefore believe further application guidance from the boards is required in this area, as the current lack of clarity risks different entities treating similar contracts in different ways.

Question 9 - The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

As explained in our response to Question 1, we believe the DP's proposals will not provide decision-useful information for revenue recognition in contracts involving financial instruments, and that such instruments should therefore be excluded from the scope of the DP.

Question 10(a) - Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

While the majority of our members agree that initial recognition should be based on transaction price, which they see as more reflective of the entity's performance in such contracts, there are some who believe that further consideration should be given to the use of fair value or exit price, particularly for contracts relating to financial services. We appreciate that this may be a more complex approach and may not at all times be appropriate, but we believe it is worth exploring as an option.

Question 10(b) -- Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

No comment to make on this question.

Question 10(c) - Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristics of the obligation make that approach unsuitable? Please provide examples.

As explained in our response to Question 1, we believe the DP proposals will not provide decision-useful information for revenue recognition in financial instruments contracts and hence that such instruments should be excluded from its scope.

Question 10(d) -- Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why

not? If so, please provide examples and describe the measurement approach you would use.

As noted in our response to Question 10(a), we would like further consideration given to the optional use of fair value. Additionally, as explained in our response to Question 1, we believe that the boards' proposals in the DP will not provide decision-useful information for revenue recognition in contracts involving financial instruments.

Question 11 -- The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

We have no comment on this question.

(b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

As stated in our response to Question 1, we believe revenue recognition issues for financial instruments are best addressed in IAS 39 and the FVM projects. Specifically in the case of accounting for transaction costs on financial instruments, we suggest the guidance be consolidated with the other guidance on revenue in IAS 39 and in the FVM standard.

Question 12 – Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling price of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We have no comment on this question.

Question 13 – Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

We have no comment on the	his question.
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I hope these comments are helpful. We would of course be pleased to expand on any points which you may find unclear, or where you would like further details of our views.

Yours sincerely

Ian Harrison

Director

LONDON INVESTMENT BANKING ASSOCIATION

LIST OF MEMBERS

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Arden Partners plc

Bank of America Merrill Lynch

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