1820-100
Comment Letter No. 273

BARCLAYS

Chris Lucas
Group Finance Director

1 Churchill Place
London
E14 5HP

Tel +44 (0)20 7116 1200 (Direct)
Fax +44 (0)20 7116 7386
chris.lucas@barclays.com

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

21 October 2010

Dear Sirs,

Exposure Draft – Revenue from Contracts with Customers

Barclays is a UK-based financial services group, with a large international presence in Europe, the USA, Africa and Asia that is engaged primarily in retail, commercial and investment banking. In terms of market capitalisation, Barclays is one of the largest financial services companies in the world. Barclays has been involved in banking for over 300 years and operates in over 50 countries with more than 156,000 employees.

We are pleased to submit our comments on the Exposure Draft, "Revenue from Contracts with Customers".

Our response to the detailed questions is set out in the Appendix to this letter. We draw your attention to our general views on the exposure draft which are as follows:

- We are strongly supportive of convergence between IFRS and US GAAP including this project to create a common high quality standard on the accounting for revenue;
- We are supportive of a comprehensive, principles-based model for revenue recognition that can be applied systematically to all contracts and all industries; and
- We support the proposals that would lead to clear and comprehensive disclosures regarding revenue recognition.

In addition, we have the following comments:

- The Board's stated aim is to leave current revenue recognition practices largely intact. It should therefore consider if it has in fact achieved this in all cases, for example, the recognition of long term contract revenue before the customer obtains control over the goods or services. Under the proposed ED, this may not be until the end of the contract, rather than revenue recognition by reference to the stage of completion of the contract under current practices;
- We are concerned about the level of estimation involved in the proposed approach for the recognition of revenue where the amount of revenue is not fixed. It introduces a high level

of subjectivity and complexity and calls for complex calculations and probability weighted expected outcomes where an approach based on 'best estimate' may be more practical for most entities;

- We do not agree that a customer's credit risk should affect the amount of revenue recognised by the entity which is not specifically priced into many contracts. The impacts of credit risk on an entity are currently addressed by impairment testing of receivables in IAS 39, 'Financial Instruments Classification and Measurement' and the methodologies that are likely to be included in IFRS 9. This should apply whether revenue to be received under the contract is fixed or not;

- We believe that the direct and incremental costs of obtaining a contract should be deferred when they result in the successful acquisition of the contract;

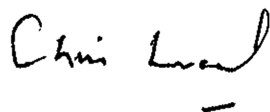
- We consider that more guidance and examples should be provided to clearly explain and illustrate the new recognition model and so that it can be applied consistently;

- We also consider it would be helpful to provide more guidance and examples on the new disclosures, especially those such as in paragraphs 69-73 and paragraphs 77 which are not tightly specified; and

- We question whether many of the new disclosures provide the user with useful information – for example, the movement on the onerous performance obligation account and the very detailed disclosures of movements on contract assets and liabilities, seem to have little information content.

We trust that the IASB finds our comments helpful. If you would like to discuss our response in more detail, then please contact Ben Binnington (Ben.Binnington@Barclays.com) at 1 Churchill Place London E14 5HP.

Yours faithfully,



APPENDIX – SPECIFIC QUESTIONS

Below we set out our views the questions in the Exposure Draft.

Recognition of revenue (paragraphs 8-33)

Question 1: 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 that 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 agree with the principle, however we note that this could lead to the exercise of considerable judgement in terms of which contracts are to be added together or to be separated.

Question 2: 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?

Whilst we agree with the principle, this level of disaggregation makes no difference in situations where the amount and timing of revenue recognition would be the same whether the performance obligations are split out or not. Entities could still assess whether a good or service is distinct and if it makes no difference to the amount and timing of revenue recognition in which case the performance obligations should not be separated.

We would suggest that entities only be required to separately account for those performance obligations which are substantive.

Question 3: 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?

While it does not directly impact Barclays, we are concerned that the definition of control may not allow for the recognition of revenue before the customer has control of the goods in the case of long term construction or turn key contracts – we understand that this was not the Board's intention and the requirements may therefore require clarification.

Question 4: 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 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?

APPENDIX – SPECIFIC QUESTIONS

We agree that revenue should be recognised on the basis of an estimated transaction price.

It is not clear when performance fees can be recognised. We are concerned that Example 18, in relation to management fees based on an index, may set a precedent that such fees can never be reliably estimated until the contract is completed. We request the Board clarifies its intentions in relation to this example, either by making the rationale for the conclusion in the example clearer, or through providing additional examples to illustrate alternative circumstances.

Question 5: 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 do not agree that the customer's credit risk should affect the amount of revenue recognised by the entity, based on a probability weighted calculation. This will introduce subjectivity and complexity in determining transaction price. The impacts of credit risk on the entity are currently addressed by impairment testing of receivables according to IAS 39, and in future, IFRS 9, which is more appropriate.

We also consider that "de-coupling" impairment from revenue is more consistent with the approach that is being proposed for IFRS 9.

Question 6: 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 with adjusting the transaction price to reflect the time value of money where material, however we are concerned about the requirement in paragraph 45 to use a rate reflecting both the time value of money and credit risk. We believe that credit risk should be dealt with under the impairment rules in IAS 39. Including credit risk in the calculation of revenue and in the discount rate could result in the double counting of the risk.

Question 7: 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 proposals, however note that this may lead to considerable subjectivity in practice for example where there may not be an observable market price for the goods or services being sold, or the entity achieving a higher than market sales price.

APPENDIX – SPECIFIC QUESTIONS

Contract Costs (paragraphs 57-63)

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; 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 agree that the proposed requirements are operational and sufficient.

Question 9: 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) and additional liability recognised for an onerous performance obligation.

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

In general we agree with the proposals, which will result in the deferral of direct and incremental costs, however we consider that pre-contract costs should be capitalised when they are likely to result in the successful acquisition of the contract.

For onerous performance obligations, in line with our comments on question 2 above, we would suggest that entities only be required to separately account for those onerous performance obligations which are substantive. The proposed guidance may lead to an increase in onerous contract provisions, resulting in losses being recorded even in situations in which the overall contract is profitable.

Disclosure (paragraphs 69-83)

Question 10: 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?

We agree in principle that entities should provide detailed and transparent disclosure about how revenue is measured and recognised. However, we question whether the new disclosures, which are far greater than those required at present, meet the required reasonable cost benefit test. In particular, the costs of preparing a movement on contract assets and contract liabilities are high for financial institutions with a large number of partially or fully unperformed advisory, investment management, arrangement and other financial services contracts. In general, these contracts are not individually significant and have relatively short durations. We expect that users of financial institution's financial statements are more interested in the business streams that comprise the total revenue recognised, and the qualitative factors surrounding the judgments and uncertainties involved. We recommend that this disclosure requirement be applied to long term contracts only, which could be useful for users of financial statements of corporations having long term construction or servicing contracts.

Some of the requirements to "provide information" (for example in paragraphs 69 – 74) are not tightly enough specified for entities to fully comply with and guidance should be provided on the content of such disclosures.

APPENDIX – SPECIFIC QUESTIONS

The proposals appear to duplicate the requirement in IFRS 8 'Operating Segments' to provide information on revenue by product or service. Whilst there is a note that states that disclosures need not be given if already provided for IFRS 8, it would be preferable if this disclosure requirement appeared only once.

Question 11: 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 that proposed disclosure requirement? If not, what, if any, information do you think and entity should disclose about its remaining performance obligations?

We agree that the probable timing of a deferred revenue balance should be disclosed together with the assumptions. Such disclosures should be restricted to material deferred revenue balances.

Question 12: 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 disagree with this on the basis that the disclosure requirements are potentially onerous, may require the disclosure of information that is not currently captured for management purposes and therefore costly to compile. In addition the requirements are open-ended and may not give rise to comparable disclosures.

This information may also duplicate some of the segment disclosures required by IFRS 8 'Operating Segments'.

Effective date and transition (paragraphs 84 and 85)

Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (i.e. as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods 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.

We agree with the proposal to apply the proposed requirements retrospectively as long as sufficient time is allowed to implement the proposals.

Application Guidance (paragraphs B1-B96)

Question 14: 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 would welcome additional – or more comprehensive - guidance to illustrate the principles and the proposed disclosures.

For example, in many cases an upfront fee is not a separate performance obligation, but rather an advance payment for future goods and services therefore the fee would be deferred. The example given is of a health club membership and payroll processing and shows no further

detail on how the fees would be spread. It would be helpful if the board provided more comprehensive guidance and clarity on accounting for non refundable upfront fees.

It would also be helpful if the board provided more guidance on the accounting treatment for management fees based on an index (Example 18 in the exposure draft), as noted in our response to Question 4 above.

Additional guidance on sale and repurchase agreements will be welcome, especially covering those situations where an entity has an unconditional obligation or unconditional right to repurchase the asset at a fixed price.

Question 15: 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?

The requirements are not likely to have a direct impact on Barclays. However, it is hard to distinguish between the two warranties and it would appear more practical and understandable to treat them the same.

Question 16: The boards propose the following if a license is not considered to be a sale of intellectual property:

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

Do you agree that the pattern or 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 have no particular observations, except that it is hard for the layman to distinguish between the 2 cases and therefore financial statements may lack understandability if different treatments are adopted in each case.

Question 17: 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?

APPENDIX – SPECIFIC QUESTIONS

It would appear that this is an afterthought, however it may lead to considerable changes in practice, especially for sales of property plant and equipment where warranties may be given. The Board should consider this point more carefully to avoid unintended consequences.

Question 18

FASB only