



The voice of banking  
& financial services

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

22 October 2010

Dear Sir David

**ED/2010/6: Revenue from contracts with customers**

This is the British Bankers' Association's response to the above exposure draft. We welcome the opportunity to comment. The comments below reflect banks' roles as both the users and preparers of financial statements.

We are broadly supportive of what is proposed, believing the two boards have made considerable progress towards the fulfilment of the objectives set for this project and the development of a converged and simplified framework in this complex and important area.

We would agree with the exposure draft that revenue is a crucial number to users of financial statements in assessing a company's performance and prospects. However, it is this central importance of performance reporting to a very wide audience that in our view obliges the two boards to make certain that the final standard is clear and understandable. In this context, we welcome the principles-based nature of the standard and the fact that the exposure draft specifically scopes out lease contracts within the scope of IAS 17, insurance contracts within the scope of IFRS 4 and contractual rights or obligations within the scope of IFRS 9 or IAS 39. This is the right decision as we do not believe that the framework proposed here would provide decision-useful information for contracts such as these. The proposals are complex and it will be costly for many entities to implement them. Proper assessment should be given to whether the costs of implementing the proposals will be justified by the benefits of doing so.

Our broad support for the project notwithstanding, we do believe that there are a number of areas where it is very important for the two boards to think again. First, we would not agree with the proposal that reporting entities should always unbundle the different performance obligations provided as part of an overall service. For example, whilst this approach might have relevance for some products and industries – a car manufacturer offering three years of free servicing with a new car being a good example – we believe the case is different for many of the products offered by financial services firms. Packaged current accounts, for instance, provide a bundle of services to the customer to be used at their discretion over a fixed time period. Our reading of the proposed standard is that the providers of such accounts would be required to split revenue received between the different performance obligations and also estimate the likelihood of the customer using these services to determine a transaction price. We believe this is onerous, unnecessary and would add little value to users. We would argue that the provision of packaged currents should be seen as an overall package in return for a monthly fee rather than a distinct set of performance obligations. This is supported by the fact that not all elements of packaged current accounts are utilised by customers.

In addition, we are concerned by the wording of paragraph 23(a). Whilst paragraph 20 of the exposure draft asks entities to evaluate their customary business practice when determining whether

**British Bankers' Association**

Pinners Hall  
105-108 Old Broad Street  
London  
EC2N 1EX

T +44 (0)20 7216 8800  
F +44 (0)20 7216 8811  
E [info@bba.org.uk](mailto:info@bba.org.uk)  
[www.bba.org.uk](http://www.bba.org.uk)

to account for each service offered under a contract as a separate performance obligation, paragraph 23(a) would require entities to evaluate whether a service is a distinct performance obligation by reference to other entities. Although we appreciate the boards are seeking to align practice, we are unconvinced that an entity should ignore its own business practice and concerned that the practical consequence of this wording for the banking industry could be a requirement to consider whether an entity anywhere else in the globe is offering a similar product or service, given the homogeneity of products offered.

We also hold some reservations over the use of the 'control' concept. We do not believe that this concept has been adequately developed and fear that its use might lead to confusion and difficulty in application to real circumstances – particularly as the term control has a very specific meaning in the context of other standards. Furthermore, we are not at all certain that the proposed indicators of control are well developed or explained and believe that the lack of guidance on the approach which should be followed by the reporting entity when some but not all the indicators are present will lead to uncertainty and a divergence of practice. Our view would be that whilst control might be a useful indicator of when to recognise revenue in the case of commodities it has less relevance to the provision of services or complex goods which might require greater regard to the economic activities undertaken.

We cannot agree that onerous obligations should be assessed at the level of the performance obligation rather than at contract level. Not only would it be burdensome to make an assessment at the performance obligation level, doing so could also lead to the recognition of liabilities for contracts which are overall profitable. By way of illustration, we would highlight personal current accounts provided to customers with no explicit fee where the benefit to the bank is low cost funding and the performance obligation is the provision of account maintenance and service. The benefit to the bank (low cost funding) is not revenue in the scope of the exposure draft and is not linked to the service obligation. Whilst the contract overall delivers economic benefits to the entity, a liability would be incurred as the performance obligation would be considered onerous. This does not correctly reflect the economic substance of the transaction and we believe that an assessment of whether a contract is onerous or not should be made at the contract level.

Finally we disagree with the proposal that transaction prices should reflect the customer's credit risk if its effects on the transaction price can be estimated. Whilst we would agree that this is appropriate where a supplier takes a material risk that it will not be paid and therefore allocates activity to the activity of supplying credit, we do not agree that the transaction price should be adjusted in situations where credit risk has a negligible or nil effect on pricing as this would result in unnecessary complexity and a degree of subjectivity. As such, we would argue that finance risk should only be separated by corporates in their presentation of revenue in exceptional circumstances.

We hope you find these observations of value.

Yours sincerely,



**Paul Chisnall**  
*Executive Director*

Direct Line: 020 7216 8865  
E-mail: paul.chisnall@bba.org.uk