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

22 October 2010

Dear Sir/Madam,

We are pleased to provide our comments on the Exposure Draft ED/2010/6, "Revenue from Contracts with Customers".

Background to Stagecoach

Stagecoach Group plc ("**Stagecoach**") is a leading international public transport group with operations in the UK, United States and Canada. Stagecoach's ordinary shares are quoted on the London Stock Exchange and the company has a market capitalisation of around £1.5 billion. Our comments on the ED are therefore largely from the perspective of Stagecoach's role as a preparer of company reports.

Overall view on the proposals

We agree that it is appropriate to develop an accounting standard that consolidates and clarifies the principles for recognising revenue. However, we have significant concerns with the proposed standard. We expect the proposed standard will:

- be difficult to implement in practice;
- increase subjectivity in recognising revenue and as a result, worsen comparability of revenue recognition practices between different entities and between different financial periods;
- result in revenue recognition practices that are less well understood by investors.

The proposals appear to have been developed to achieve a purer theoretical approach to revenue recognition but have not fully taken account of the practical implications and understandability of such an approach.

This can be illustrated by a relatively simple example from Stagecoach's own business sector, as follows. The figures used are for illustrative purposes only. A train operating company sells £365m of annual season tickets to train passengers on 1 January 2010. Each ticket entitles the customer to make an unlimited number of journeys by train within a designated geographical area during the period 1 January 2010 to 31 December 2010. The train operating company does not capture data on when each passenger makes a journey. Under the current revenue recognition

practice, the train operating company would recognise £365m of deferred income on 1 January 2010 and then recognise £1m of revenue per day from 1 January 2010 to 31 December 2010. This method of revenue recognition is well understood by preparers, executives and investors.

When applied to the above example, the proposals set out in the exposure draft would potentially result in greater subjectivity and less understandability:

- The financing element of the £365m would, if material, need to be separately quantified and reported. This in itself introduces subjectivity:
 - o If the £365m comprises the sale of 365,000 tickets at £1,000 each, should the materiality of the financing element be assessed for each individual sale of £1,000 or for the combined sales of £365,000,000? Season tickets are sold for varying periods, validities and geographical areas throughout the year so in practice, the subjectivity involved in this assessment is even greater and the complexity of the systems required to apply this is significant.
 - The selection of the appropriate discount rate is subjective.
- If the financing element is material, the non-financing revenue recognised would exceed £365m and a finance expense would be recognised. Investors do not readily understand the notion that the sale of services for £365m results in a higher amount of revenue being recognised.
- When the consumption of the service by the customer is unknown, it will be
 necessary to apply judgement in determining the pattern of revenue
 recognition. Whilst a straight-line pattern of recognition may be appropriate,
 the proposals arguably allow for a wider of choice of recognition methods,
 which is likely to reduce comparability even between entities operating in the
 same business sector.

Although in practice, the effect on rail season ticket sales might be immaterial, the above example is intended to illustrate how a relatively straightforward and widely understood basis of recognising revenue for a simple sales transaction could be replaced by a subjective and less well understood method of revenue recognition. Whilst example 7 in the application guidance is of some assistance, it does not specifically address the issues outlined above. Our responses to the specific questions raised by the ED are set out below and, amongst other matters, reflect our views on the issues set out above.

Question 1

We agree with principles proposed for determining whether to combine or segment contracts and for accounting for contract modifications.

Question 2

We agree with the principle for determining when a good or service is distinct. However, we believe that further guidance would be helpful in respect of revenue arising from contracts where the amount of goods or services consumed by the customer is not known by the entity. An example of this is where a customer purchases a right to consume an unlimited amount of goods or services (perhaps during a specified time period) but the actual consumption by the customer is unknown – this might include season tickets for travel, car park season tickets and health club memberships.

Question 3

As noted above, we believe that further guidance would be helpful in respect of revenue arising from contracts where the amount of goods or services consumed by the customer is not known by the entity.

Question 4

We agree that an entity should recognise revenue on the basis of an estimated transaction price and we agree with the proposed criteria in paragraph 38 of the Exposure Draft.

Question 5

Whilst there is some theoretical appeal that the transaction price should reflect the customer's credit risk, we believe this to be difficult to apply in practice and increases subjectivity. It creates some ability for the preparers of financial statements to "manage" profit by manipulating subjective assessments of customer credit risk. Although current accounting practice could already allow this to a degree, the proposals appear to increase this subjectivity further.

Under the proposals, an entity might recognise a transaction at 98% of its face value with the 2% being to recognise the credit risk of the customer but if the revenue is subsequently collected in later financial period then recognise the remaining 2%. We do not believe that investors will readily understand such an approach and we believe it is open to manipulation.

We would prefer a more straightforward and objective approach to credit risk whereby the customer's credit risk is not reflected in the initial transaction price but that provision is made against any receivable (or contract asset) due from a customer where there is a significant doubt about the collectability of the asset. We do recognise that there are interactions with other accounting standards in this area, including International Accounting Standard 39 ("IAS 39") but we believe that a more objective test will result in more reliable and more understandable financial statements.

Question 6

In theory, we agree with the proposal that an entity should adjust the amount of promised consideration to reflect the time value of money. In practice, we believe this increases subjectivity and reduces understandability.

We would prefer that the circumstances should be further restricted in which an entity should adjust the amount of promised consideration to reflect the time value of money. We would recommend that the consideration should only be adjusted when:

- The financing element of an individual contract is material to that entity it should be clear that materiality is considered on a contract-by-contract basis and then assessed in the context of the entity as a whole. So where the financing element of a contract is material to that contract but not to the entity then no adjustment is required, <u>and</u>;
- 2. Either the contract was intended to serve a financing purpose or the contract is not common to the business sector in which the entity operations. So where an entity makes a sales transaction that is common to its business

sector and was not intended as a financing transaction then it would not be required to adjust the consideration to reflect the time value of money.

In any event, guidance is required as to whether materiality should be considered separately in respect of each individual contract (as the proposals seem to suggest) or in respect of groups of contracts. We recommend that it be assessed in respect of each individual contract because this will better reflect whether a contract contains a financing element and will also avoid the difficulties in determining how to determine contract groupings. Guidance is also required whether materiality is in the context of the contract or of the entity.

The selection of the discount rate will create subjectivity and create opportunities for manipulation of profit. We believe this is a further reason to restrict the circumstances in which an entity should adjust the amount of promised consideration to reflect the time value of money.

Question 7

We agree that in theory an entity should allocate the transaction price to all separate performance obligations in the manner suggested in the Exposure Draft.

Question 8

We agree that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient.

Question 9

We agree with the costs specified for the purposes of recognising assets and liabilities for onerous performance obligations.

Question 10

We strongly oppose the proposed disclosure requirements. The body of standards developed by the IASB have resulted in exceptionally lengthy financial reports that are not widely read and poorly understood by investors. Financial reports should not be required to disclose every piece of information from an aggregated wish list of what each user of financial reports would like to have.

The disclosures proposed in the Exposure Draft appears to be a "wish list" of every piece of revenue-related information that an extensive group of users might suggest. The IASB needs to consider how it canvasses the views of users. Of course, a user will state that he or she requires more rather than less information. That however does not mean that significant numbers of users will actually regularly use such information. However, when the financial report is taken as a whole, it becomes too long, difficult to understand and important information is lost within less important information.

Question 11

We disagree with the proposal 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. We do not believe information should be disclosed about remaining performance obligations pursuant to a specific accounting standard. However, to the extent the entity considers such

information to be important to investors, it should be separately discussed in the management commentary, operating and financial review or equivalent narrative. Greater discretion should be given to highlight important information rather than to create exhaustive disclosure requirements.

Question 12

We do not agree that an entity should disaggregate revenue into the categories suggested. Again, to the extent the entity considers such information to be important to investors, it should be separately discussed in the management commentary, operating and financial review or equivalent narrative.

Question 13

We agree that to the extent the proposed requirements are adopted, an entity should apply them retrospectively.

Question 14

We have indicated in our responses to the preceding questions, areas where further application guidance might be appropriate, and provide further comments below.

It is conceivable that an entity might have an obligation to provide goods or services to one party in return for a right to receive consideration from a different party. An example, would be a bus operator that is obliged to provide bus services free of charge to an elderly person and in return the entity would have entitlement to receive consideration from a local government body. The definitions of "contract asset" and "contract liability" in the Exposure Draft appear only to apply where the right to consideration is from the same party as to which the entity is obliged to provide goods or services to. We recommended that further clarification is provided in this area.

Also, an entity might receive other forms of "income" or "revenue" that do not arise from contracts from customers. Such revenue might include grants, subsidies and similar income from government bodies or others. Such income might be necessary to make the provision of goods or services by an entity economically viable but do not in themselves give the provider a right to obtain goods or services that are an output of the entity's ordinary activities. Whilst the definitions contained in Appendix A to the Exposure Draft should be sufficient to make it clear that these other forms of income or revenue are not within the scope of the proposed requirements, it might be beneficial to include application guidance on examples of income/revenue that are not subject to the proposed requirements.

Question 15 and 16

We do not have a particular view on the proposed requirements in respect of product warranties and intellectual property licences.

Question 17

We agree with the proposals for the accounting for gains or losses on the sale of certain non-financial assets such as intangible assets and property, plant and equipment.

Question 18

In our view, the proposed requirements should not be varied for non-public entities.

Other comments

The proposed presentation requirements in a statement of financial position (balance sheet) set out in paragraphs 64 to 68 of the proposed requirements could result in increased confusion amongst users of financial statements. For entities not involved in long-term contracts, the balance sheet concepts of receivables, accrued income (asset) and deferred income (liability) are reasonably well understood by users. The proposed concepts of contract assets and contract liabilities are less well understood and we would prefer that the existing concepts were retained. Also, it is conceivable that an entity might have both a receivable and a contract liability arising from a single contract at a particular reporting date. The proposals are not clear as to whether these two items should be reported separately or whether the amount of the receivable should be reduced to the extent of the contract liability. This could occur when an entity has an unconditional right to consideration before performing its obligations under the contract.

Yours faithfully,

Ross Paterson Director of Finance & Company Secretary Stagecoach Group plc