



Madrid, 13 March 2012
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Exposure Draft ED/2011/6 – “Revenue from contracts with customers”

Dear Sirs,

Repsol is very pleased to provide comments to the International Accounting Standards Board on its request for views on the Exposure Draft ED/2011/6 – “Revenue from contracts with customers”.

You can find below our responses to the questions of the Exposure Draft and also some additional comments.

Further information about the Repsol Group and its activities is available on our website: www.repsol.com.

If you would like to discuss any of the points we describe in this letter, please do not hesitate to contact us by e-mail to normativacontable@repsol.com.

Thank you for your attention.

Yours sincerely,

Emilio Linares-Rivas Balias

Accounting Policy and Compliance Manager

Question 1

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 agree with the criteria included in paragraphs 35 and 36. From our point of view the application of those criteria would lead to recognition of revenue over time only in contracts whose economic substance evidences that there is a progressive increase of economic benefits for the supplier/vendor and a progressive transfer of goods/services for the customer.
- In this sense, we welcome these new criteria as we consider the ones included in the Exposure Draft issued in June 2010 to be excessively restrictive.

Question 2

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 promise 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?

- As we expressed in our response to Exposure Draft issued in June 2010, we do not agree that customer's credit risk should affect revenue because it does not represent how an entity has satisfied its performance obligations.
- We are not sure that presenting the effect of credit losses in a separate line item adjacent to revenue is more adequate presentation than presenting them as an expense. In general, expenses must be submitted independently of the revenue in the income statement and we do not just understand why credit risk losses should be presented differently. However, for the reasons exposed above, we feel the most critical issue is to maintain gross revenue unaffected by uncollectible amounts or credit losses expectations. In this sense we welcome the amendment made by the IASB in respect of the proposals in the Exposure Draft issued in June 2010 and, therefore, do not oppose to the proposal.

Question 3

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 agree that there should be a constraint on the amount of revenue to be recognised when the consideration of the contract is uncertain.
- However, we have some concerns about the proposals in the Exposure Draft:
 - We think that there are two types of contingencies that may require a different accounting treatment.
 - Indicators to determine whether an entity's experience is predictive of the amount of consideration to which the entity will be entitled, may be too restrictive in certain circumstances (paragraph 82)

Types of contingencies

- From our point of view, entities face two types variable consideration in their contracts with customers:
 - Variable consideration: occurs when an entity has the right to obtain consideration and the amount to which the entity will be entitled depends on subsequent events or other variables. However, the right to obtain consideration is not contingent.
 - Right to consideration subject to contingent events: occurs when the entity's right to obtain consideration is contingent on the occurrence or not of certain events. The amount to receive may also (or not) be dependent on other variables / events.
- According to the proposals in the Exposure Draft, it seems that both types of contingencies would be subject to the same accounting principles (paragraphs 53-57 and 81-85).
- We think that there is a higher degree of uncertainty in the second type of contingency than in the first one. That is because in the first case the uncertainty is only a matter of

Experience (or other evidence) indicators

- We consider the experience/evidence indicators may be considered to be too restrictive in certain contracts in which only the amount (but not the right) of consideration is contingent.
- For example, even though none of the indicators are described as necessary, the reference to volatility in markets introduced in paragraph 82 (a) may prevent companies from recognising revenue in wholly performed contracts whose pricing is still contingent on the evolution of certain market variable. In the oil&gas business, companies usually sell oil to a customer, and the pricing is referenced to the average market prices of a specified number of days after control of the oil is transferred (e.g. may be the average price of the following five days after the date in which control is transferred). In this case, we think that it would be appropriate for vendors to recognise revenue at the date of transference of control despite not being reasonably assured of the amount that they will be entitled to. From our point of view revenue recognition would be adequate because there are reliably inputs to make the estimation (e.g. high liquid quoted market) and the contract is going to be settled in a very short period of time (this would match with criterion in paragraph 82b).
- Therefore, we think IASB should include some reference to the possibility of recognising revenue when:
 - The estimation of the consideration is based on objective inputs (e.g. market valuations) that guarantees the reliability of the information, and
 - The uncertainty will be resolved in a very short period of time, so that the market valuation despite being susceptible of volatility will not fluctuate significantly (we acknowledge this factor would be covered by indicator in paragraph 82 b)

Question 4 – Performance obligation onerous test

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 do not agree with the fact that an entity should recognise an onerous liability at a performance obligation level. We do not consider that this accounting requirement

- Pulling forward estimated losses on a multi-year performance obligation to one reporting period; and
- Reflecting a zero margin for that performance obligation in subsequent periods.
- We consider that not recognising an onerous performance obligation at inception provides more relevant information. That is because the accounting implication of that principle would be to recognise a “net loss” during the satisfaction of the onerous performance obligation. We think it reflects better the reality of that performance obligation, because it is loss-making performance obligation satisfied over several periods.
- On the other hand, recognising onerous liabilities at a performance obligation level would be inconsistent with the unit of account that is considered when recognising other onerous liabilities (e.g. executory onerous contracts in IAS 37).
- Additionally, IAS 36 recognises the possibility of evaluating impairment at higher level than asset (even though an asset level or component of an asset level shall be used for depreciation purposes under IAS 16). Due to the reasons stated above, we do not agree with reasons exposed in BC 207.
- Finally, we think that for many preparers this proposal would not be justified on a cost/benefit basis.

Question 5 – Interim Financial Statements Disclosures

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:

- (a) The disaggregation of revenue (paragraphs 114 and 115);*
- (b) A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117);*
- (c) An analysis of the entity’s remaining performance obligations (paragraphs 119–121);*
- (d) 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);*
- (e) A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).*

- Even though we understand the reasons why the IASB has made the proposals, we do not support them.

- We acknowledge that revenue is one of the most relevant figures provided in the financial statements as a performance indicator. In this sense, we feel that current disclosure requirements fail to cover users' needs. In addition, there are plenty of less relevant figures in the financial statements with many more associated disclosures (e.g. financial instruments). As a consequence, we understand that one of the IASB's priorities could be to increase revenue disclosures.
- However, we disagree with the proposals in the Exposure Draft for two reasons:
 - We think that requiring the provision in the interim financial statements of most of the disclosures included in the Exposure Draft is inconsistent with IAS 34 approach.
 - We consider the reconciliations proposed (net contract asset / liability and costs capitalised) are not justified on a cost/benefit basis neither in the interim nor in the annual financial statements.

Interim financial statements

- We think that IAS 34 disclosure requirements are designed on the basis that interim financial statements should 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.
- Disclosure requirements in IAS 34.16A are consistent with the principle mentioned above. The introduction of the proposals of the Exposure Draft, however, would be inconsistent with IAS 34 rationale and with the rest of disclosure requirements included in paragraph 16A.

In addition, it should be noted that associated costs of this requirement may be relevant for some preparers. As stated in paragraph 1 of the Standard, IAS 34 does not mandate how frequent should companies publish interim financial reports. In certain jurisdictions companies are required to publish interim financial reports several times a year (for example, quarterly). Due to the existence of reporting deadlines more demanding, we believe that the provision of the proposed disclosures in those interim financial reports would not be justified on a cost/benefit basis.

Reconciliations

- The Exposure Draft introduces the requirement to provide three different reconciliations: contract balances, onerous performance obligations and costs incurred to obtain/fulfil a contract.
- We think the reconciliations proposed are not justified on a cost/benefit basis. From our point of view, those reconciliations will not provide much relevant information to users, neither in the interim nor in the annual financial statements.

- We think that the disclosure of the amount of contract assets/liabilities at balance sheet date and costs of obtaining/fulfilling a contract that remain capitalized would be enough for users. That information, together with the disaggregation of revenue and with the disclosure of the judgements made in applying the Standard, would provide relevant information to users.

Question 6 – Transfer of non-financial assets

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 derecognition 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?

- Conceptually, we agree that requirements for recognition and measurement of gains or losses on the sale of non-financial assets that are not an output of an entity's ordinary activities should be consistent with the requirements of the revenue recognition standard.
- However, in certain circumstances, it should be noted that sales of non-financial assets are somewhat different from sales of assets that are an output of the entity's ordinary activities. Therefore we consider a deep analysis of IAS 16, IAS 38 and IAS 40 may be needed in order to avoid unintended consequences arising for the application of revenue recognition and measurement criteria.
- In this regard and consistently with our response to Question 3, we think that in case of sales of non-financial assets with contingent consideration the application of the Exposure Draft criteria may be even more relevant, for this reason we do not support the incorporation of the revenue recognition constraint as drafted into IAS 16, IAS 38 and IAS 40.

Additional comments

Comments about whether the proposed requirements are clear and can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers.

About relevance information

- From our point of view, and subject to our responses to questions 1-6, we think that the Exposure Draft proposals would help to communicate to users the economic substance of contracts with customers.

- We also think that this Exposure Draft would help to provide more relevant information than the previous one (issued in June 2010).

Issues to be clarified: presentation of assets

- From our point of view further guidance is needed in relation to the presentation of assets arising from the application of the revenue recognition standard. We have identified three types of assets:
 - Contract assets.
 - Costs to fulfil a contract recognised as an asset in accordance with revenue recognition standard (that is, not in accordance with IAS 2, IAS 26 or IAS 38).
 - Costs of obtaining a contract recognised as an asset.
- We have found little guidance in respect to the presentation of these assets:
 - In respect of contract assets, according to paragraph BC238, the Board decided not to specify whether an entity should be required to present its contract assets and contract liabilities as separate line items in the statement of financial position. Companies will have to apply IAS 1 principles to determine the classification criteria.
 - In respect of costs to fulfil a contract we have not found any guidance at all.
 - In respect of costs of obtaining a contract, it seems, according to paragraph BC235 that shall be presented separately from the contract asset or contract liability, with any other related guidance.
- However, we have noted the proposed amendment made to IAS 38, which leaves assets arising from contracts with customers out of the scope of the standard. We do not know if the intention of the IASB was to scope-out only “contract assets” or also costs to obtain/to fulfil a contract recognised as an asset. According to the amendment it seems that none of the assets mentioned could be presented as intangible assets.
- In short, we think that presentation requirements are not clear enough and in particular have some concerns about the scope of the amendment proposed to IAS 38. Therefore, we think IASB should clarify these issues in the final Standard.