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International Accounting Standards Board  
30 Cannon Street  
LONDON  
EC4M 6XH

Dear Sir/Madam,

**Re: Exposure Draft *Revenue from Contracts with Customers***

We welcome the invitation to comment on this Exposure Draft and write on behalf of Cobham plc, a UK based FTSE 250 and S&P Europe 350 company. We operate globally in the Aerospace and Defence sector.

We continue to be supportive of the desire to address some of the inconsistencies between current accounting standards on revenue recognition. However, while we recognise some improvements to the previous Exposure Draft we continue to have significant concern in some areas.

We believe that the disclosure requirements will be particularly onerous and will involve significant changes to our accounting systems, data collection processes and contract management. This will be both time consuming and costly.

For some of our larger contracts it is likely that the application of the proposals, as currently drafted, would create significant differences between the way we manage these contracts and the accounting policies that would be applied. This is particularly relevant to long term contracts for which we currently typically recognise revenue based on milestones signed off by the customer. Milestones which reflect a development phase may not fit neatly into the proposed approach based on the transfer of control rather than risks and rewards. Many of these contracts involve the development of new technologies and therefore we will not necessarily have observable market prices. A possible method of allocating the transaction price would be to use the expected cost plus a margin approach. Such contracts are usually costed with reference to multiple risks, some of which do not correspond directly to performance obligations, which will make the allocation of the transaction price difficult. The allocation of risk based costs at the inception of a contract is likely to make our profit recognition much more volatile over the life of a contract. We can envisage situations where profit recognition would be recognised earlier than a prudently managed business would consider appropriate.

We have addressed the specific questions asked by the Board below.

In addition to the questions asked we would also like to comment on the draft guidance on bill and hold arrangements. Paragraph B53 lists the criteria for recognising revenue and is very similar to that currently contained in IAS 18. However, IAS 18 additionally requires normal credit terms to apply; we believe that the exclusion of this criterion provides opportunity for abuse.



Please contact Stephen Morris or Steve Skinner if you need any further clarification in respect of these comments.

Yours faithfully,

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**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?

This definition appears to capture all major categories of our revenue which we would expect to be recognised over time.

**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 promised 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?

We are more comfortable with an approach which shows credit risk on a separate line rather than being offset against revenue.

However, the ED appears to require the recognition of credit risk only on inception of the contract, not including any subsequent movements in bad debt provisions and expense. This seems inconsistent and we would prefer to see any movements in bad debt expense captured in this line.

We understand that the intention is to capture only material amounts in this line, consistent with the Framework and IAS 1. However, in practise the requirement for a specific line in the Income Statement is likely to result in the inclusion of a line irrespective of materiality. While we understand that the Board is currently considering whether further guidance on materiality is necessary, we believe that it would be useful to specifically point to the concept of materiality in paragraph 69 or in the implementation guidance.

**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 with the broad intention of paragraph 81. The reference to past experience may cause some problems on contracts where performance obligations may be unique to that contract. While other contracts may include similar performance obligations the extent of similarity may be very judgemental. However, we do believe that this level of judgement in the few cases can easily be removed and therefore have no suggested amendments to paragraph 81..

**Question 4:** 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 believe that onerous contract provisions should be made with reference to the overall contract rather than by performance obligation. This could be achieved by a two-hurdle test, with initial reference to the performance obligation but then a second hurdle which would recognise a provision only if the overall contract is expected to be onerous. Under this model we would expect to recognise a provision as soon as a loss is expected. It appears that under the current proposals, if a performance obligation is not recognised over time then the trigger for recognising an onerous contract provision is at the point of transferring control of the good to the customer. This would effectively inflate profits, by not recognising expected contract losses, up to the point of recognition which we believe is inappropriate.

**Question 5:** *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:*

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

*Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.*

We believe that these disclosure requirements are excessive and onerous. For a diverse business it is difficult to see how these requirements can be met without a considerable volume of disclosure such that the user would find the interpretation of the information difficult.

In our opinion appropriate disaggregation of revenue is useful to the user. We also support the proposal to provide disclosures for onerous performance obligations including a table reconciling opening and closing balances but narrative disclosures should be concise and pointed.

We believe that a tabular reconciliation of movements in contract assets and liabilities would be very costly to produce and would involve significant changes to our IT systems in order to capture the information. This, in our view, does not pass the cost benefit criteria. Similarly an analysis of outstanding performance obligations would involve the capture of data not currently produced in a form that would satisfy the proposed disclosures and we are unsure of the value of this information to the user.

The proposed narrative disclosures are potentially onerous although we recognise the efforts of the Board to seek to give flexibility in paragraph 110 on what disclosures are appropriate to each business.

The mandated disclosures in interim financial reports should be limited to disaggregated revenue. Additional disclosures should be required for transactions that are significant in accordance with IAS 34 paragraph 15B.



**Question 6:** *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?*

We have no specific comments on this question.