Date: 13 March 2012

International Accounting Standard Board
30 Canon Street
London EC4M 6XH

Subject: Views on Revenue recognition-Exposure draft Nov 2011

Dear Sirs,

We appreciate the opportunity to comment on the proposed exposure draft on Revenue recognition. Revenue recognition is one of the most important elements of effective financial reporting and we welcome the Board’s efforts in creating a comprehensive standard to address the specific rules and industry based guidance on this.

Please see below the response to the questions in the exposure draft on Revenue recognition. Apart from the responses below we agree with the rest of the questions in the exposure draft.

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?

Response:

We agree with the Board’s proposal to show any profit and loss on receivables recognised upon initial recognition of the receivable as a separate line item adjacent to the revenue line item. However we are uncertain as to the accounting for such impairment loss on receivables subsequent to the initial recognition. If all revenue recognition criteria is satisfied, it would seem more appropriate that subsequent reviews of credit risk on existing receivables that results in additional impairment loss should be reported as operating expense as opposed to shown adjacent to the revenue line. It is unclear what is Board’s position regarding the accounting for subsequent impairment losses.

In case if the impairment subsequent to the initial recognition is reported adjacent to the revenue line, this could potentially skew the true results of a reporting entity’s gross margin in a given period and it will be more difficult for a reader to distinguish between actual net revenues earned in a given period verses actual cash expected to be collected.
In addition, in relation to the Banking sector, based on our interpretation of scope Para 9(c), we believe that Paragraphs 68 and 69 are not applicable to the loans and receivable, equity and debt securities and financial instruments. As a result, we imagine that the impairment losses in a Bank's income statement will be presented in two different lines i.e. impairment relating to non financial instruments adjacent to the revenue line (which is normally the other operating income) and impairment against loans, equity/debt securities and financial instruments etc will be presented separately after the operating income.

We believe that presentation of impairment losses across two different lines will confuse user of the Bank's financial statements.

We also require a clarification in respect of our interpretation of the application of Para 9(c) on banks and the consequential presentation of impairment in the Bank's income statement.

**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?

**Response:**

Though generating such information may be a challenge for the construction and telecom sectors however we agree with the Board’s proposed scope of the onerous test to determine whether an entity should record a liability and corresponding expense if a performance obligation is onerous.

**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).
* In the IASB exposure draft, see paragraph D19 in Appendix 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).
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfill 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.
Response:

Conceptually we agree that the proposed interim disclosures about revenue and contracts with customers should be included in an entity’s interim financial statements, if material. However in practice we see following challenges:

- For some industries the proposed tabular reconciliation is either not relevant or it may not be possible to extract the required information due to the nature of the contracts undertaken.
- It would be challenging to extract the information with regards to the roll-forwards for contract assets, contract liabilities, onerous performance obligation liabilities and capitalized costs for obtaining/fulfilling a contract on an interim basis. We feel that the companies would have to incur significant costs (to develop new processes/systems) to simply meet an external reporting requirement that will outweigh any perceived benefits that these disclosures are intended to provide. As an alternative to prescriptive roll-forwards, we believe that the intent of these disclosures could be fulfilled more cost effectively, and in a more principles-based manner through a combination of quantitative and qualitative information.

Further, there is no clear guidance on whether the information relating to the disaggregation of revenue should be presented on the face of the income statement or in the notes to the accounts.

We also request that the Board provide additional guidance on what they would define as “material”, either quantitatively or qualitatively, or both, in such situations.

In addition, we do not expect a significant impact of the above disclosure requirements in the Banking sector based on our interpretation of scope Para (9) and Para 106 (b). See our response on question 2 above.

If you have any questions regarding the contents of this letter, please feel free to contact either myself at surya@emiratesnbd.com or Asim Rasheed (Head of Financial Polices and Technical Standards) at asimr@emiratesnbd.com.

Yours faithfully,
For Emirates NBD PJSC

Surya Subramanian
Chief Financial Officer