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(Regn. No.: 198105870H)

Sir David Tweedle Chairman International Accounting Standards Board 30 Cannon Street London EC4M6XH United Kingdom

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Dear Sir David

## EXPOSURE DRAFT ED/2010/6 REVENUE FROM CONTRACTS WITH CUSTOMERS

We thank you for the opportunity to respond to the International Accounting Standards Board's Exposure Draft ED/2010/6 Revenue from Contracts with Customers.

Singapore Technologies Aerospace Limited (ST Aerospace) is the aerospace arm of Singapore Technologies Engineering Limited, a company listed on the Singapore Stock Exchange. Operating a global MRO (Maintenance Repair Overhaul) network with facilities in the Americas, Asia Pacific and Europe, it is the world's largest aircraft MRO provider with a global customer base that includes leading airlines, airfreight and military operators. ST Aerospace is an integrated service provider that offers a spectrum of maintenance and engineering services that include airframe, engine and component maintenance, repair and overhaul; engineering design and technical services; and aviation materials and management services, including Total Aviation Support.

We welcome the Board's initiation to adopt this Exposure Draft as a single reference point with respect to revenue recognition standard for use across all industries.

Our response to the Board's questions in this Exposure Draft mainly looks at the practicality and feasibility of this Exposure Draft for the aerospace industry. We feel that clearer and better guidelines can be provided to help practitioners apply this (draft) standard in their daily operations. In particular:

Question 1: Paragraphs 12-19 propose a principle (price interdependence) to help entity determine whether:

- (a) to combine two or more contracts and account for them as single contract;
- (b) to segment a single contract and account for it as two or more contracts;
- (c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, any why, for determining whether (a) to combine or segment contracts, and (b) to account for a contract modification as a separate contract?





Question 2: The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

Question 3: Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

Question 4: The boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

We look at Questions 1 to 4 in context to our LM (Line Maintenance) and MBH (maintenance-by-hour) programs.

In these programs, we provide customers with continuous service of aircraft line maintenance and aircraft component repair services. Whilst billings are made either based on a fixed price package or the number of flying hours logged by the customers' aircraft, actual work is carried out as and when customers send in their aircraft for line maintenance or unserviceable aircraft parts for repair. There is no direct relationship between customer billings (revenue recognition) and work performed (performance obligation).

We are able to determine the performance obligations (hence revenue recognition) for a particular contract at inception. However, at operational level, we do not agree to use the probability-weighted allocation for revenue recognition for the following reasons:

- i. Billings based on customers' flight hours mean irregular revenue stream through various periods. Applying a fixed probability-weighted ratio to allocate revenue would impose such irregularity revenue pattern unto segment revenue, which should sometime be reported at a fixed income such as branch store or fixed maintenance fee.
- ii. The resources for LM and MBH programs are pooled and costs incurred for any particular period derive on actual work performed. Considering (i) above, the correlation between allocated segment revenue and actual costs incurred may in effect grow weaker with the application of this standard. This in turn causes more margin fluctuations at segment level.
- iii. In view of (i) and (ii) as well as sheer volume of contract and transactions, the application of this standard makes it practically impossible to measure contract performance for any given period.



Question 5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

We suggest to the Board to review the practicality and if this approach would indeed improve the clarity between actual billings and revenue recognized.

Under this method, when actual collections-to-billings exceed the probability-weighted ratio, the difference is recognized as other operating income instead of revenue. This practice may cause confuse the reader if he/she tries to reconcile the contract to the financial statements.

In addition, applying credit risk using a subjective estimate introduces variability to the top line. These estimates allow more leeway for income manipulation across different reported periods.

The existing guidelines under IAS 39 Financial Instruments: Recognition and Measurement stipulating the impairment of accounts receivable seem adequate and practical. The benefits from using the probability-weighted approach to monitor collectability of revenue as suggested in paragraph 43 may not outweigh the effort required to apply this method for daily operations.

Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

Under this standard, it seems that a company that manages to obtained advances from customers to improve its working capital gets penalized with onset interest expenses. Although such interest expenses get normalized over the life of the contract, readers of financial statements may not be able to differentiate such interest expenses against interest expenses arising out from genuine financing activities such as bank loan interests.

There could be several instances whereby customers place security deposits or advance payments in effort to fund their own projects. Such placements may stretch over one year. Small-size entities may not have the resources to administer such time-value-of-money activities arising advances from several customers at operational level.

The current FRS 39 Financial Instruments: Recognition and Measurement already provides strict rules governing the application of time-value-of-money. It is unnecessary in our view to create additional offsetting interest income and expense that do not support any genuine operational activities.



Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract on proportion to the stand-alone price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

Several elements are adjusted to revenue under this standard and this creates traceability issues to monitor contracts that spans over a few years.

Also, the presence of several required estimates to allocate the transaction price of performance obligation proposed by paragraph 50 may not be well received by non-finance users of financial statements. The subjectivity in applying these estimates might also result in a wide spectrum of interpretation.

For the LM and MBH programs as mentioned above, using stand-alone prices to allocate revenue and margin separately may not necessarily reflect the true economic substance of the programs when resources are intentionally pooled to achieve competitive prices.

Question 10: The objective of the Board's proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Disclosure of segmented revenue provided by this standard may give users of financial statements more information for one company. However, as this standard also introduces several estimates such as credit risk, time-value-of-money and warranty, the variability in revenue recognition may cause more disparity amongst financial statements by different companies.

Question 11: The boards propose 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.

Do you agree with the required disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We have several customer contracts with the Ministry of Defense. Mandatory disclosures required by this standard may compromise confidentiality issues. Clearer guidelines must be set for such disclosures.



Question 12: Do you agree that an entity should disaggregate revenue into categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We agree with the rationale of disaggregating revenue for clarity as situation permits. However, the approach recommended in this standard does not seem to work for our LM and MBH business models. We seek better guidelines for application purposes.

<u>Question 13:</u> Do you agree that an entity should apply the proposed requirements retrospectively? If not, why?

We do not agree. Past information may not be available for retrospective disclosure if taken with effect from implementation date.

Grace period should be allowed and/or to apply retrospection only to activities occurring after implementation date.

Thank you

Yours faithfully,

Marguel

Dawn LIT

SVP/ Group Financial Controller

Singapore Technologies Aerospace Limited

c.c. Ms. Eleana TAN – Chief Financial Officer Singapore Technologies Engineering Limited