

International Accounting Standards Board
30 Cannon Street
London
EC4M6XH

22 October 2010

Dear Sirs,

Exposure Draft: Revenue from Contracts with Customers

The Investment and Life Assurance Group (ILAG) welcomes the opportunity to comment on this draft standard.

ILAG is a trade body representing members from the Life Assurance and Wealth Management industries. ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

In summary, our main comments are:

- Not allowing for the deferment of acquisition costs, which will be recovered from future margins, will make reporting less useful and seems to be inconsistent with current IAS18 and the proposals of the Insurance Contracts ED. A consistent approach should be applied to both.
- It is not clear where the boundary between acquisition costs (not eligible as an asset) and set up costs (which may be eligible) would lie. Clarification in the application of this should be included.

Our specific responses to the questions listed within the paper are noted below.

If you would like to discuss our response in more detail we would be happy to do so.

Yours faithfully

Lynda Maynard
Administration Team

Telephone: 01844 273630
Mobile: 07950 327513
lynda.maynard@ilag.org.uk

Appendix

Responses and comments to 'Revenue from Contracts with Customers' Exposure Draft

Recognition of Revenue (paragraphs 8- 33)

Question 4: The boards propose that if the amount of consideration is variable, an entity should recognise 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.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

Given that many entities which apply the revenue recognition standard may not have the capacity or experience to apply probability weighted cashflow techniques the proposal does seem sensible.

Question 6: Paragraph 44 and 45 propose that an entity should adjust the amount of proposed 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?

Paragraphs 44-45 propose that the time value of money is allowed for where a contract contains a material financing component.

For up-front fees which are recognised over the lifetime of a contract (such as a bid offer spread on units purchased under a single premium unit linked investment contract) the proposals, (in particular taking into account paragraph B84 of the application guidance), would require interest to be accrued on that part of the up-front fee which has not yet been recognised in revenue. This interest would increase the amount of the obligation in respect of the "outstanding" up-front fee (and be recognised as an expense in the income statement). Similarly the interest accrued on the up-front fee would be recognised over time as revenue - in proportion with the up-front fee as it was recognised (and so it would not offset the interest expense in each and every period - being likely less at first and greater in the later periods). Some further guidance here would be welcome - perhaps by way of another example (in addition to example 22 in paragraph B84) where an up-front payment is in respect of goods or services that are transferred continuously over a number of consecutive time periods.

It is not clear whether any interest rate applied in allowing for the time value of money would be locked in at contract inception or re-measured at current value. There should be specific guidance on this point.

Where payment is received in advance or arrears the interest rate to apply in determining the transaction price should reflect the consideration that would be used in a financing transaction between the entity and its customer(s). Where payment is in advance this means the interest rate would reflect the risk to the customer that the entity preparing the financial statements fails to meet its obligation to that customer (consistent with example

Telephone: 01844 273630
Mobile: 07950 327513
lynda.maynard@ilaq.org.uk

22). Determining such an interest rate may be difficult in practice - and for regulated firms such as insurers providing investment services (in the form of a savings product or other contract which wouldn't fall within the scope of the insurance standard) the own credit risk to policyholders may be deemed to be very small.

Contract costs (paragraphs 57 – 63)

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with to other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), and entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for costs or fulfilling a contract are operational and sufficient: If not, why?

See question 9.

Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

If costs do not give rise to an asset under another standard (such as IAS 2 or IAS 16) they will give rise to an asset if and only if they relate directly to a contract, generate or enhance resources of the entity that will be used to meet the obligations under the contract, and are expected to be recovered. Acquisition costs are expensed as incurred - and do not give rise to an asset. Only direct costs will be allowed for when determining which contracts are onerous.

Not allowing acquisition costs which are expected to be recovered from future margins to be recognised as an (intangible) asset will make the financial statements less useful, in as much as losses will be recorded (in respect of the incurred acquisition costs) which are expected to be reversed in future reporting periods. And it will be inconsistent with IAS 18 now (where direct and incremental acquisition costs can be recognised as a deferred acquisition cost asset) and the proposals of the Insurance Contracts ED (where such incremental acquisition costs will be allowed for in the calibration of the residual margin). A consistent approach should be taken across both standards.

Any direct initial set up costs (not being acquisition costs - and creating necessary resources to fulfil the contract such as a customer's details / contract documentation etc) are probably eligible for treatment as an asset under the standard as contract management costs- but it is not clear exactly where the boundary between acquisition costs (not eligible for an asset) and set up costs (which may be eligible) would lie - and clarification in the application guidance is needed.

Only allowing for direct costs when determining which contracts are onerous (paragraph 54-56 and 58) would seem to be misleading. If for example a firm was just writing contracts

Telephone: 01844 273630
Mobile: 07950 327513
lynda.maynard@ilag.org.uk

which were (only just) covering their direct costs - but not making a contribution to overheads - we would expect losses in later periods, but would not recognise them until that time.

Some allocation to overheads should be made when determining whether a contract is onerous.

Disclosure (paragraph 69 – 83)

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 proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligation?

The ED proposes that an entity discloses the amount of its remaining performance obligations - and the expected timing of their satisfaction.

Given that for investment (and investment management) contracts ongoing fees (such as those levied as a % of funds under management) would not normally be anticipated or recognised before the period in which they were levied we assume that for such contracts this disclosure would only apply in respect of the as yet unrecognised amount of any up-front fees.

Ends