



The voice of banking
& financial services

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 March 2012

Dear Mr Hoogervorst,

ED/2011/6: Revenue from contracts with customers

This is the British Bankers' Association's response to the above exposure draft, we welcome the opportunity to provide our views.

We view the decision to re-expose aspects of the proposed standard as a welcome sign of the importance the Board attaches to good due process.

We remain broadly supportive of the revenue recognition project but continue to hold a number of concerns about the proposed approach – not least in relation to the scoping of the onerous obligations test and the proposal for a new mandatory list of interim disclosure requirements. Given the link of the proposed guidance with the Leasing and Impairment proposals we also would ask the Board to consider the potential impact on these two projects when finalising the proposals in this ED. Furthermore, we would encourage the Board to consider whether the ED could be restructured to follow the five step approach of revenue recognition as we believe that this would help the understanding of the new standard.

Before commenting further, we wish to comment on the proposed transition arrangements. Whilst we note that the Board is yet to agree an effective date, we believe that the complexity of implementing the standard, which will largely need to be done on a retrospective basis, necessitates an effective date set three years post issuance of the final standard. We also question the operational usefulness of the practical expedients for transition to the new standard. For example, paragraph C3(a) provides relief from restatement for contracts completed before the date of initial application if they begin and end within the same annual reporting period. Most accounting systems do not have the capability to save contract dates and it would therefore be operationally challenging to confirm which contracts crossed an accounting period and those which did not.

Our comments to the specific questions in the ED follow below.

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 support the proposed approach, believing that it addresses the weaknesses in this area of the 2010 proposals.

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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 disagree with the proposal to present credit risk on revenue as a separate line item adjacent to the revenue line. Consistent with the treatment of credit losses in respect of loans and receivables, and on the basis that promised consideration meets the criteria for recognition as revenue, we believe that credit losses should be presented as part of impairment losses and not as a separate line within revenue.

Finally, we observe that the proposed presentation is also not consistent with the view that uncollectible assets represent an expense and we do not believe that it would provide useful information across all industries.

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 reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied 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 in principle that when the amount of consideration to which an entity will be entitled is variable then there should be a link between satisfied performance and the cumulative revenue recognised.

Some are satisfied with the proposal for the 'reasonably assured' test and the indicators proposed under paragraph 82. Others, however, are concerned that this introduces a new criterion which may differ from the 'probable' threshold in IAS 18 and IAS 11. Those holding this view believe that the factors which should influence the cumulative amount of revenue recognised should be based on a broader base of indicators than those identified in paragraph 82. Those satisfied with the proposed 'reasonably assured' test believe that recognition based on a fair value basis as per IFRS 3 could give rise to earlier recognition of uncertain amounts and greater volatility in the income statement.

We would add also that we find some of the drafting in this area of the standard to be confusing. For example, it is unclear why 'Constraining the cumulative amount of revenue recognised' is presented in a separate section from 'Variable consideration' even though it is only relevant for variable consideration.

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 continue to disagree with the suggestion that the onerous obligations test should be performed at the performance obligation level and should be limited in scope to obligations the entity expects to satisfy over a period of time greater than one year.

We note that BC207 records that the Boards had considered requests arising from the 2010 ED for the unit of account for the onerous obligations test to be set at the contract rather than performance level but rejected it on the basis that they 'thought that it would add complexity and be inconsistent with recognising revenue at the performance obligation level'. We find this reasoning less than compelling, not least because there are existing IFRS requirements to perform the test at the contract level which are not in our understanding considered burdensome. Further, although we can accept that the Boards may consider it symmetrical for the test to be performed at the performance level given that this is the level at which the proposed model requires revenue to be recognised, we note that doing so introduces new inconsistencies with IAS 37 which requires an onerous test at the contract level and prohibits the recognition of future operating losses.

Whilst we welcome the Boards' desire to limit the costs of compliance for preparers by excluding performance obligations that are satisfied over less than a year, we note that this proposal is inconsistent with IAS 37 and fear that it introduces a somewhat arbitrary line between contracts either side of the 12 month cut-off.

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 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); and**
- **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 disagree with proposal to add a list of mandatory disclosures to the Interim Report as we believe that it contradicts the principle of IAS 34. IAS 34 requires explanation of events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period. We believe that a list of mandatory interim disclosures would distract the users from other significant disclosure. In our view, the existing requirements of IAS 34 correctly balance the importance of providing users with relevant information and the costs of producing that for preparers.

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 agree in principle with the proposed requirement, although we note that the amendment is limited to the requirements for determining when a performance obligation is satisfied. We would suggest that this reference be widened to all the revenue recognition principles in the ED to address cases where there might, for example, be more than one contract which should be accounted for together.

Yours sincerely

A handwritten signature in black ink that reads "Paul Chisnall". The signature is written in a cursive, flowing style.

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