

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

22 October 2010

Dear Sir David,

**Exposure Draft ED/2010/6  
Revenue from Contracts with Customers**

Standard Chartered PLC (the Group) is an international banking group, listed on the London, Hong Kong and Bombay stock exchanges. It operates in more than 70 countries principally in Asia, Africa and the Middle East.

We welcome the opportunity to comment on the above exposure draft (ED). We support the International Accounting Standards Board's joint effort with the US Financial Accounting Standards Board to develop a single standard that would apply across industries. We believe such a single revenue recognition model would provide more comparability across entities and be more robust in addressing questions that arise on the application of revenue recognition to new products and industries.

However, we are concerned about the highly conceptual nature of the model, together with the fact that a number of the proposed requirements could add significant complexity to the principles of revenue recognition, in particular in respect of the recognition of service revenue provided by financial institutions. Our observations on the ED and our responses to those questions where we have specific concerns are discussed in the paragraphs that follow.

*Scope*

1. Financial institutions may enter into contractual relationships with customers where no fee is charged for the services provided as benefits are obtained through other means. An example of this would be a no-fee current account which requires a minimum savings deposit to be held. In this instance, a financial institution would derive benefit from the contract from the funding provided rather than through receipt of fees. It is not clear from paragraph 10 of the ED whether this type of contractual arrangement meets the definition of a contract that is within the scope of the ED. If such arrangements are within the scope of the ED, we believe that such depository relationship could result in an onerous contract, which we do not believe represents the true economics of the arrangement.

*Identifying separate performance obligations*

**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 goods or service is distinct. Paragraph 23 proposes a principle for determining when 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?**

2. Financial institutions provide a number of services (outside the scope of financial instruments) in connection with contractual customer relationships, such as depository, credit card, and custody and investment brokerage. Such relationships often involve the provision of multiple services (some of nominal value) and involve complex pricing schemes that are dependent on the variety of services offered and the amounts on deposit from the customer. These typically take the form of monthly payments that renew on a continuous basis. For example, in certain of our markets it is market practice to charge different monthly fees for basic current or savings accounts depending on whether a minimum balance has been maintained in the month. These fees are usually received monthly and are recognised as received to reflect the provision of the overall service package in the month.
3. When applying the requirements set out in paragraph 23 of the ED, however, many of the services connected to these accounts could be considered to be distinct and therefore identified as separate performance obligations. This includes, for example, the provision of ATM and electronic banking services, amongst others. To allocate the fee payable between these different performance obligations (and potentially spreading across different reporting periods if the monthly renewal option is considered, under paragraph B88, to represent a material right to the customer) would add an impractical degree of complexity to the recognition of revenue for these contracts, as often these services are provided on a “stand ready” basis, where the customer has the option whether to use some or any of the services in a particular month. Following paragraph B87(b) of the ED, this may require an assessment of usage (or probability of usage) to be made in order to allocate an appropriate amount of revenue to each obligation. In our view this would not lead to an improvement in the recognition of revenue from these types of contracts. In addition, spreading a portion of the revenue forward from these contracts may confuse rather than improve the users’ understanding of the financial statements and widens the scope for management judgement.
4. We note that the definition in the ED of performance obligations includes both the obligation to stand ready and options to provide additional services. It is not clear whether revenue allocated to the option should be recognised rateably over the period in which the entity stands ready or when the goods or services are actually provided as contemplated by paragraph B25 or when the option expires. We believe that revenue relating to such options should be allocated rateably over the period. Additional clarification should also be provided on what constitutes an option to renew and whether customary business practice or economic compulsion, in the absence of an explicit renewal right, should be considered in identifying renewal options.
5. Further, we also note that there is an inconsistency between the requirements of paragraph 20 of the ED – which requires an entity to determine whether to account for promised services as separate performance obligations based, in part, on its customary business practice – and

paragraph 23(a), which requires consideration of whether a service is distinct by determining whether another entity sells that service separately. We do not believe it is appropriate to assess whether other entities sell similar services as this does not relate to the reporting entity's own business practice. Furthermore, where similar services are provided by many entities on a global basis, the requirement becomes distinctly impractical.

6. To summarise, we believe that where monthly account fees are charged in respect of depositary and other similar contractual relationships, it is more appropriate to recognise the fees as a single performance obligation on the basis that the customer has the option to choose which, if any, of the stand-ready services they utilise over the period. The performance obligation in this respect, based on customary business practice, is to provide a suite of "stand ready" services to the customer for which the customer pays a flat fee. We believe these fees should be recognised over the period in which these stand ready services are provided. We also believe that the ED should provide an example and additional application guidance as to how the revenue recognition model should be applied, in a practical way, to service revenue recognised in connection with these types of contractual relationships.

#### *Satisfaction of performance obligations*

**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 has been transferred to a customer? If not, why? What additional guidance would you propose and why?**

7. The ED proposes that revenue should be recognised when a customer obtains control over the goods or services. We have concerns that determining when a customer obtains control may require significant judgment and lead to disparity in practice particularly in regards to whether the customer has control over specialised services. We believe that a revenue recognition trigger that focuses on the reporting entity (and whether it has met its obligations and has reduced or eliminated its risks associated with the contract) is more appropriate than focusing on the customer's control over goods or services.

#### *Measurement of revenue*

**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?**

8. Paragraphs 35 and 36 of the ED propose that the price of a contract be determined based on a probability-weighted outcome approach. We believe that such an approach is likely to result in an amount of revenue recognised that is less reliable than an amount based on management's best estimate. In addition, such an approach is often impractical and will be subject to continuous revision, generating an additional layer of complexity which will be confusing to the users of the financial statements.

**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 recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?**

9. We do not believe that credit risk should be considered in determining the initial amount of revenue to be recognised for performance obligations that do not purport to be the advancing of credit. Credit risk and the probability of credit loss arises from a different transaction – being the provision of credit – which only arises if payment is not made at the time of the revenue transaction. As the provision of credit creates a financial instrument, any adjustment for credit arising in respect of this financial instrument should be determined consistent with the requirements of IAS 39 (or IFRS 9 in due course) and accounted for as an impairment or bad debt expense.

*Onerous performance obligations*

**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?**

10. We believe that the definition of onerous contracts in the ED should be consistent with IAS 37 and should be assessed at the level of the overall contract and not in respect of each performance obligation as we believe it is not appropriate to reflect a day 1 loss because one performance obligation within a profitable contract may be underpriced or provided free as part of the overall contract. We also note that the proposals in the ED apply a different definition to IAS 37 in respect of costs, requiring the use of probability-weighted costs rather than the unavoidable costs considered under IAS 37.

*Disclosure*

**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?**

11. We believe that many of the disclosure requirements are excessive in nature and impractical to implement and provide on a continuing basis. This is particularly true as it relates to disclosures set out in paragraph 73 and 74 regarding the timing of future satisfaction of performance obligations which may require a substantial volume of disclosures in order to provide meaningful information to users. The cost of compiling such extensive disclosures – aside from the impractical nature of doing so – may outweigh the benefits ascribed to them by the user community.

*Transition requirements*

**Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?**

**Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.**

12. In regards to the transition provisions, while we understand and generally support the requirements for retroactive application of the proposals, we have significant concerns regarding the effort necessary to implement the proposed changes, particularly for long duration contracts.

We would be pleased to provide any additional information or clarification of our comments if you so wish.

Yours sincerely,

  

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**Chris Innes-Wilson**  
**Head, Group Accounting Policy & Advisory**