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The Technical Director,

FRS Foundation / IASB,

30 Cannon Street,
London, EC4M 6XH,
United Kingdom.

12 March 2012

Dear Sir/Madam,

**<u>Exposure Draft: (ED/2011/6): "Revenue from Contracts with Customers"</u>**

**Comments on exposure draft on "Revenue from Contracts with Customers"**

**<u>General</u>**

We note that many of the proposed requirements in this exposure draft are similar to the proposed requirements in the earlier ED issued in 2010.
The core principle of the model is that an entity should recognise revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration the entity receives, or expects to receive, in exchange for those goods or services. This contract-based approach focuses on the assets and liabilities that are created when an entity enters into and performs under a contract. We agree with this general principle and are of the view that it has been adequately addressed in the standard.
However, we have reservations on the following aspects of the ED, which we have addressed in more detail in the answers to the specific questions:

- The merit of the guidance on onerous performance obligations and its interaction with IAS 37; and
- The proposed change in the level of disclosure detail in interim financial statements relating to revenue.

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**Question 1 – Guidance on continuous transfer**
Paragraphs 35 and 36 deal with guidance where control of goods and services is transferred gradually over time, rather than at a point in time; an aspect that was not very clear in the previous ED.
*We agree with the proposals in the ED. However, we suggest that the Board considers rewording the paragraphs to simplify them.*

**Question2 - Customers' credit risk**
Contrary to the previous ED, the revised ED proposes that revenue should be reported as the gross amount of consideration excluding credit losses. The ED proposes that the entity should apply IFRS 9 or IAS 39 to account for amounts assessed to be uncollectible because of customer's credit risk. The corresponding charge is however presented as a separate line item adjacent to the revenue item.

*We agree that that impairment should be determined in accordance with IFRS 9 / IAS 39 and also that revenue should be reported gross. Most entities report impairment losses as part of operating costs and not within gross profit. However, we accept that where recovery of consideration is apparent at the point of providing goods or service, the credit loss can be presented as a reduction to gross profit.*

**Question 3 – Variable consideration**
Where the amount of consideration is expected to be variable, paragraph 81 requires that the cumulative revenue recognised to date should not exceed the amount that the entity would reasonably be assured to be entitled to. What is reasonably assured is based on the entity's past experience with similar obligations and whether that experience is predictive of the outcome in respect to the current transaction.

*We agree with the proposal. However, the experience need not be limited to the entity's own past transactions, but may also, where appropriate, be based on industry practice or experience of other entities.*

**Question 4 – Onerous performance obligation**
Paragraphs 86 – 89 contain very specific guidance that relates to onerous performance obligations over and above guidance in IAS 37. The proposed assessment in the ED is based on the performance obligation rather than on the whole contract as required by IAS 37. The proposal is that performance obligations that are satisfied continuously over a period of more than 1 year should be separately analysed to see whether they are onerous. The costs used in assessing whether the performance obligation is onerous should be the fully loaded cost of the contract inclusive of allocated overheads (as per paragraph 92).

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Guidance on onerous performance obligations was originally included in the revenue standard to increase convergence with US GAAP which has no equivalent general onerous contract guidance to that in IAS 37.

*We question the merit of putting guidance on liabilities in a revenue standard, and how this guidance interacts with the onerous contracts guidance in IAS 37 (performance obligations are a sub-set of contracts). Our view is that this matter is adequately addressed by IAS 37 and that any proposals need to be completely consistent with IAS 37.*
*In addition, the fully loaded cost base may lead to a performance obligation that contributes a positive margin being deemed onerous.*

**Question 5 – Consequent amendment to IAS 34; interim financial reporting**
The ED proposes to make an amendment to IAS 34 to significantly increase the level of disclosure of revenues in interim financial statements. On the whole the ED has significantly increased the amount of required disclosures in full financial statements compared to IAS 18. Most of these disclosures will also be required to be included in interim financial statements if the proposals in the ED stand.
The guidance in IAS 34 on interim financial statements is based on the presumption that anyone who reads an entity's interim report will also have access to its most recent annual report. Consequently, virtually none of the notes to the annual financial statements are repeated or updated in the interim report. Instead, the interim notes include primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

*We consider the proposed consequential amendment to IAS 34 as introducing onerous requirements in IAS 34 that are contrary to the spirit of IAS 34 and that do not achieve an appropriate balance between the benefits to users of having the information and the costs to entities of preparing the information. We suggest that if any additional disclosures have to be added to IAS 34, they should be limited to information on disaggregation of revenue.*

**Question 6 – Transfer of non financial assets**
The proposed amendments to IAS 16 and 40 cross refer those standards to the guidance on transfer of control of non financial assets to the guidance contained in the new ED.

*We fully support this proposal.*

*Thank you.*