



13 March 2012

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH

Dear Sirs

ED/2011/6: REVENUE FROM CONTRACTS WITH CUSTOMERS

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £4 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that IMA members managed holdings amounting to just over 40% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. Therefore, IMA has an interest in the standards governing how such companies prepare their financial statements as users. IMA welcomes the opportunity to comment on the proposals in the ED and the IASB working with the FASB on this as part of the convergence agenda -revenue recognition involves significant conceptual issues and is an important line item in the accounts. We also appreciate that the IASB has considered the concerns raised by respondents to the 2010 ED and made amendments accordingly. However, there are certain areas in the ED where we still have concerns. We set out below our main points and in the attached, our comments on the detailed questions raised.

- IMA commented in its response to the 2010 ED that it did not agree with customer's credit risk being reflected in revenue in that credit provisions should be reported in a separate line in operating expenses. Presenting amounts that are uncollectable due to a customer's credit risk as a line item adjacent to the revenue line is an improvement on the original proposal but revenue should be differentiated from credit issues and users would not expect credit losses to be treated as a component of cost of sales.
- The proposal that if the consideration which an entity is entitled to is variable, the cumulative revenue recognised to date should not exceed that which the entity is reasonably assured to be entitled would prevent revenue being overstated in one period

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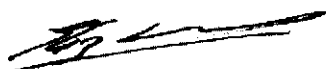
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to be adjusted in a subsequent period. However, whilst the proposed constraints in paragraph 82 are necessary, further clarification is needed on "reasonably assured". This is used repeatedly in the exposure draft and to avoid the possibility of earnings management, clarity is needed over when it is achieved.

- IMA commented on the 2010 ED that it did not agree that onerous contracts should be assessed at the level of the performance obligation as this may not reconcile with the commercial substance of the contract and could lead to the counter-intuitive situation where 'day one losses' are recognized on what is ultimately a profitable contract. IMA continues to hold that view and believes that where a contract has more than one performance obligation, losses should not be recognized on individual performance obligations in, what is ultimately, a profitable contract. Nor do we agree with limiting the test to those contracts where a performance obligation that an entity satisfies is over a period greater than one year. It seems arbitrary to require the test for 13 month contracts and not those of 11 months duration.
- IMA does not agree with the proposal to amend IAS 34 'Interim Financial Reporting' to require the disclosures in the ED. Overspill of what is required in the Annual Report and Accounts to the interim report could be perceived as 'creep' towards the production of two comprehensive reports. Users would be concerned if this would also mean that interim reports are not produced on a timely basis and that IAS 34, in prescribing the minimum content of an interim report, could be compromised. We therefore support the Alternative View that it would be inappropriate to require such disclosures without taking a holistic review of IAS 34.
- IMA raised concerns at the volume of disclosures required by the 2010 ED and remains concerned in relation to the re-exposed ED. The IASB should examine the decision-usefulness of disclosures in addition to those already in related IFRS rather than relying on materiality and aggregation to reduce the volume.

Please contact me if you would like clarification on any of the points in this letter or if you would like to discuss any issues further.

Yours faithfully



Liz Murrall
Director, Corporate Governance and Reporting

ANNEX

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

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?

IMA appreciates criteria being set out for determining whether a performance obligation is continuous or satisfied over time. For services and construction-type contracts the transfer of control can be difficult to ascertain in the absence of clear guidance. Whilst Paragraph 35 sets out a clear framework that can be applied in determining whether performance is continuous in part it may be overly prescriptive and not allow the underlying circumstances to be taken into account – for example paragraph 35b (iii) where it is specified that there should be a “right to payment”.

We agree with paragraph 36 that the customer cannot control the asset if the entity could transfer the asset to another customer or if the contract terms preclude the entity from transferring the asset to another customer.

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?

IMA commented in its response to the 2010 ED that it did not agree with customer's credit risk being reflected in revenue in that credit provisions should be reported in a separate line in operating expenses. Presenting amounts that are uncollectable due to a customer's credit risk as a line item adjacent to the revenue line is an improvement on the original proposal but revenue recognition is a separate consideration from credit issues and we would not expect credit losses to be treated as a component of cost of sales.

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 is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar 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?

IMA agrees the fact that consideration is estimated should not prevent revenue being recognised. Thus we support the proposal that if the consideration which an entity is entitled to is variable, the cumulative amount recognised to date should not exceed the amount to which the entity is reasonably assured to be entitled. This would address the issue of potential overstatement of revenue that would require adjustment in a subsequent period. However, whilst the constraints in paragraph 82 are necessary, we consider that

ANNEX

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

further clarification is needed on "reasonably assured" . This is used repeatedly in the exposure draft and to avoid the possibility of earnings management, clarity is needed over when it is achieved.

For contracts where the entity has granted a customer the right to use, but not own, intellectual property (for example, software, franchises or patents), IMA agrees with the proposal in paragraph 85 to postpone recognition of revenue until subsequent sales occur in situations where additional consideration is based on the customer's sales. Users would have concerns if revenue were to be recognised before the customer had sold the goods or services causing potential adjustment in subsequent periods.

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?

IMA commented on the 2010 ED that it did not agree that onerous contracts should be assessed at the level of the performance obligation. This may not reconcile with the commercial substance of the contract and could lead to the counter-intuitive situation where 'day one losses' are recognized on what is ultimately a profitable contract. IMA continues to hold that view and believes that where a contract has more than one performance obligation, losses should not be recognized on individual performance obligations in, what is ultimately, a profitable contract.

Nor do we agree with limiting the test to those contracts where a performance obligation that an entity satisfies is over a period greater than one year. It seems arbitrary to require the test for 13 month contracts and not those of 11 months duration.

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 assets and 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)**
- **A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfil a contract with a customer (paragraph 128).**

*** In the IASB exposure draft, see paragraph D19 in Appendix D.**

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

ANNEX

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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.

IMA does not agree with the proposal to amend IAS 34 'Interim Financial Reporting' to specify the disclosures above. Users accept that the volume of disclosures in the Annual Report and Accounts can be necessary to ensure that they are comprehensive although they would like to see a focus on 'cutting the clutter' where possible. Overspill of what is required in the Annual Report and Accounts to the interim report could be perceived as 'creep' towards the production of two comprehensive reports. Users would be concerned that interim reports would not be produced on a timely basis and that the objective of IAS 34 to prescribe the minimum content of an interim financial report could be compromised. We therefore support the Alternative View that it would be inappropriate to require such disclosures without taking a holistic review of IAS 34.

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?

**** In the IASB exposure draft, see paragraphs D17, D22 and D26 in Appendix D***

IMA agrees the standards covering the transfer of a non-financial asset that is not an output of an entity's ordinary activities should be in line with the proposals for the recognition of revenue from contracts with customers and that they should be amended. Users would then be confident that all revenue streams have been recognised under the same set of principles.