



17 June 2009

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Dear Madam, dear Sir,

Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the IASB's Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

CEBS welcomes the joint efforts of the IASB and FASB on the revenue recognition project to develop a model intended to improve financial reporting by providing clearer guidance on when an entity should recognise revenue, and by reducing the number of standards to which entities have to refer. We welcome the efforts of achieving consistency of revenue recognition regardless of industry to improve both comparability and understandability of revenue for users of financial statements.

Revenue recognition for entities in the banking industry is connected to recognition and measurement of financial instruments. CEBS believes that recognition and measurement of financial instruments per se (including fees which are integral to an instrument) should be outside the scope of this model, see Appendix for further comments. However, we believe that the IASB needs to clarify whether or not the general revenue recognition model should apply to financial services currently within the scope of IAS 18.

In this response, rather than answering each of the specific questions raised in the discussion paper, we intend to focus predominantly on issues raised in this discussion paper which are of particular relevance and importance from a banking supervisory perspective and notably those that could have consequences for financial reporting in the banking industry.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Commission Bancaire)- in charge

of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Ian Michael of the UK FSA. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20.7066.7098).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Kerstin af Jochnick". The signature is written in a cursive style with a large initial 'K'.

Kerstin af Jochnick
Chair, Committee of European Banking Supervisors

Appendix

General Comments

Scope

The Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers (DP) raises the questions whether the proposed model would provide decision-useful information in particular for contracts including financial instruments, insurance contracts and leasing contracts. The IASB has active projects on its agenda for all these contracts after releasing on 24th of April 2009 the timetable for IAS 39 replacement.

CEBS has noted that the IASB is considering excluding financial instruments from the scope of the ED together with insurance contracts and leasing contracts. Regarding the former in particular, CEBS is of the opinion that financial instruments pursuant to IAS 32 and IAS 39 should not be included in the scope, because they reflect different economic phenomena in comparison to contracts with customers. Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or an equity instrument of another entity. Based on this DP we understand that a contract with a customer is a transaction where at the beginning an entity promises to transfer an asset - good or service - and another entity promises a consideration.

In addition we would encourage the IASB to deliberate further the insurance and leasing projects in the light of the DP.

Currently there are cross-references between the current IAS 18 and IAS 39. According to IAS 18 *Revenue* interest shall be recognised using the effective interest method as set out in IAS 39. In addition, IAS 18 appendix considers three types of financial service fees, i) those that are an integral part of the effective interest rate of a financial instrument, ii) fees earned as services are provided, and iii) fees that are earned on the execution of a significant act. Other examples of cross-reference are subsequent measurement of financial guarantee contracts and loan commitments. According to IAS 39.47c) and d) financial guarantee contracts and loan commitments as defined in IAS 39.9, are to be measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18. CEBS considers that the IASB should largely keep the rules of measurement as they are and instead solve these reference issues.

Another issue CEBS would like to raise is the recognition of dividends. According to IAS 18 dividends shall be recognised when the shareholder's right to receive payment is established. We are concerned about the treatment of dividends in the light of the proposed model suggestions on rights and performance obligations. CEBS encourages the IASB to deliberate this issue further. CEBS favours maintaining the principles of recognition for dividends as they are currently stated.

Even though CEBS is of the opinion that financial instruments per se should be scoped out of the proposed model, we are aware that there are financial instruments which have one or more service elements embedded in the instrument, e.g. when after securitization the originator provides some kind of financial services. We would encourage the IASB to liaise with financial

institutions to explore the revenue recognition implications of single or multiple services embedded in financial instruments.

Control

According to the DP, an entity satisfies a performance obligation and recognises revenue when it has transferred the control of an asset – good or service - to the customer. In our opinion it is not clear from the DP how the notion of control is to be understood: e.g. whether the control of financial services is transferred over the time that these services are provided, or at the time when all services are completely transferred to the customer. CEBS encourages the IASB to clarify this explicitly in a positive definition of the control.

Recognition and Measurement

The proposed revenue recognition model is based on increases in an entity's net contract position with a customer. The discussion paper discusses how an entity recognises revenue when it satisfies a performance obligation and thus transfers a promised asset; however, it does not consider the right to receive a consideration. The DP proposes that performance obligations should initially be measured at the transaction price – the customer's promised consideration. No preliminary views are expressed on how to measure the rights.

However, it is mentioned that the measurement of the rights would be based on the amount of the transaction price. We are aware that various related issues have been discussed, including the measurement of rights in a contract considering effects of the time value of money, effects of uncertain consideration and payment in a form other than cash. The issue of measuring rights requires further examination and CEBS encourages the IASB to deliberate the issue further.

Entities, including financial institutions, may render services which include upfront costs, for example upfront commission of mortgage brokers, intermediaries etc. The DP appears not to discuss the issue of recognition and measurement of upfront costs. We believe that this issue should be further explored.