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Dear Madam, dear Sir,

Exposure Draft ED/2010/6 Revenue from 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 Exposure Draft on Revenue from Contracts with Customers (ED/2010/6).

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 is aware of the differences in revenue recognition requirements between US Generally Accepted Accounting Principles (U.S. GAAP) and those in International Financial Reporting Standards (IFRS). Therefore we welcome the efforts to achieve consistency of the accounting for revenue recognition that cuts across all industries, aimed at contributing to high quality accounting standards.

CEBS expects the proposals in the ED to have a limited impact on the banking sector as a whole and thus comments (in the appendix) only on specific issues considered to be the most relevant from a banking supervisory perspective—although this is not to say that we necessarily agree with the proposals more broadly.

Overall, CEBS believes that there is a need for clarification of the scope of the proposed Standard and recommends introducing more elaborate guidance for financial service fees other than those included in the Effective Interest Rate (EIR).

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, Autorité de Contrôle Prudentiel) - 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 Mr. 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. Guy Haas at the CEBS Secretariat (+44.20.7382.1784).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Giovanni Carosio". The signature is fluid and cursive, with a prominent initial "G" and a long, sweeping underline.

Giovanni Carosio

Chair, Committee of European Banking Supervisors

Appendix

As mentioned in the cover letter and also in the comment letter to the DP “Preliminary Views on Revenue Recognition in Contracts with Customers”, CEBS agrees with the overall purpose of the Exposure Draft.

As mentioned before CEBS expects the proposals in the ED to have a limited impact on the banking sector as a whole, as banks derive much of their income from financial instruments. Nonetheless, some changes to the revenue recognition model may be relevant for financial activities such as asset management services, consulting services, reception/transmission of orders, etc that constitute the bulk (or a significant part) of the income of certain banks and other financial corporations.

Scope

Paragraph 6 of the ED states that the Standard will not be applied to contractual rights or obligations within the scope of IFRS 9 *Financial Instruments* and of IAS 39 *Financial Instruments: Recognition and Measurement*. CEBS welcomes the ED’s proposals to exclude financial instruments from its scope.

However, we are aware that there are financial instruments which have one or more service elements related to them. For example, paragraph 24 of IAS 39 specifies that when an entity derecognises a financial asset but retains the right to service it for a fee, it shall recognise a servicing asset or liability for that servicing contract. Accordingly, it seems that those service elements would in fact be included within the scope of this proposed Standard. It would be useful if the IASB clarified the treatment of such servicing rights.

CEBS believes that the treatment of origination fees linked to financial instruments (often accounted for through the effective interest rate, or EIR, method) and underwriting fees would also benefit from greater clarity as regards the scope of the Standard.

We note that, according to Appendix C, the illustrative example accompanying IAS 18 on determining which financial service fees are an integral part of the Effective Interest Rate (EIR) will be moved to IFRS 9/IAS 39.

Since the proposed Standard covers transactions of all other financial services fees (e.g. fees earned for servicing loans, for investment management services, for consulting services, for reception/transmission of orders, for placing of financial instruments, or on the execution of a significant act such as allotment of shares in a loan syndicate), CEBS believes that more detailed application guidance related to these transactions could be extremely useful.

Another issue CEBS would like to raise is related to dividends. Although it is clear they are excluded from the scope of the new Standard, it would be useful, as explained below, to provide the wording of the consequential amendments to IFRS 7, IFRS 9 and IAS 39. It should be acknowledged that not to include in IAS 39/IFRS 9 a general criterion on when dividends should be recognised will create a gap in the standards. According to IFRS 7.B5.(e), dividends could be either presented separately or as a part of the net gains/losses of each financial instrument category. IAS 39.55.(b) regulates the treatment of dividends for available-for-sale financial asset and IFRS 9.5.4.5 does the same for equities accounted for at fair value through OCI. Thus, if the general criteria currently in

IAS 18 (paragraphs 29 and 30) are not moved, there will be no available criteria to recognise dividends on equities accounted for at fair value through profit or loss.

Allocation of stand-alone revenue

Paragraph 50 and Question 7 refer to the allocation of prices to stand-alone selling prices. In some cases, this may distort the reported profitability of the unbundled products. CEBS would therefore suggest that the IASB chooses a more principles-based approach, requiring entities to identify the most important driver for revenue allocation, thus allowing a firm to align external reporting with their internal management and accounting practice.

Customer's credit risk

Paragraph 43 of the ED proposes that the transaction price should reflect the customer's credit risk if the effects on the transaction price can be reasonably estimated. CEBS believes that the impact of credit risk should be presented separately from interest income – as is the case in the ED *Financial Instruments: Amortised Cost and Impairment* – and that this should be applied consistently across standards.

Amendments to other IFRSs

Appendix C to the ED describes a number of consequential amendments to other IASs/IFRSs. It would be helpful to have the exact wording of those amendments to address questions regarding the scope of the new Standard (in particular, regarding the interaction with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets*). In our view, in the context of amortised cost measurement, the impact of credit risk should be presented separately from other factors. This would be particularly important considering possible consequential amendments to IAS 39 and IFRS 9, especially given the other ongoing developments with financial instrument accounting.

Overall, CEBS is of the opinion that it would be useful if the specific changes to IAS 39 and IFRS 9 could be explicitly provided to help constituents correctly assess potential implications, and urges the IASB to ensure that it follows appropriate due process arrangements when implementing these changes.