4 October 2012
Hilary Eastman, CFA
IASB
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Hilary,

The Chartered Financial Analyst Society of the UK (CFA UK) welcomes the opportunity to respond to the IASB's latest request for feedback on revenue recognition, covering the time value of money and uncertainty about collectability and amount.

CFA UK represents more than 10,000 investment professionals working across the financial sector. For advocacy purposes on accounting and auditing issues, they are represented by the Financial Reporting and Analysis Committee (FRAC). Our members have not been surveyed for this response.

About CFA UK and CFA Institute

CFA UK serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession. Founded in 1955, CFA UK represents the interests of approximately 10,000 investment professionals. CFA UK is part of the worldwide network of member societies of CFA Institute and is the largest society outside North America.
CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 110,000 members in 139 countries and territories, including 100,000 Chartered Financial Analyst® charterholders, and 136 member societies.

The aim of CFA UK's advocacy initiative is to work with policy-makers, regulators and standard-setters to promote fair and efficient-functioning markets, high standards in financial reporting and ethical standards across the investment profession. The society is committed to providing members with information regarding proposed regulatory and accounting standards changes and bases its responses on feedback direct from members or relevant committees.
Members of CFA UK abide by the CFA Institute Code of Ethics and Standards of Professional Conduct (enclosed). Since their creation in the 1960s, the Code and Standards have served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. The Code and Standards are fundamental to the values of CFA Institute and its societies.

Revenue from Contracts with Customers

Response to IASB request for feedback September 2012

Time value of money

Slide 6: Is it appropriate to account for some advance payments as financings?
Yes.

Slide 8: Should entities be allowed not to account for the effects of financing where timing between payment and transfer of goods or services is less than 12 months?
Yes.

Uncertainty about collectibility

Overall comment: there seem to be two models:

a) The entity does not know on day 1 what the default rate will be and so will account for the losses as they are incurred;
b) It will use past experience to estimate the expected losses and make provisions for them. This would be in line with the expected loss (EL) proposals for IFRS 9.

There is a case for conformity with IFRS 9 ie using an EL model and there is informational value in having the prediction. But where should that information go? The FRAC supports extracting it from the bundle of "other expenses", but has doubts about putting the impairment immediately below the revenue line since this would compromise calculations of gross margin.

Slide 14: The staff are considering whether to present revenue net (with breakout in the notes) if the impairment loss is not material.

Since the FRAC prefers option a) in answer to Q2 on slide 16, the response to this is effectively 'no'. If the IASB goes for this option, it would lead to two types of impairment: the regular immaterial charges that are left out of the net revenue line but recorded in the notes, and the additional material ones that go through the income statement in a line on customer credit risk. This sounds complicated and would have the usual problems of structuring/subjective management judgments either side of the line affecting the income statement. Useful information may be lost if revenue is top-sliced with an assumed credit loss. Management can be better held to account by investors if revenue is declared gross and failure to achieve the full amount is explained.

Slide 16
Q1: If there is significant uncertainty about the customer's ability to pay the amount due...in a given period, would you prefer:

a) no recognition of revenue until the uncertainty is resolved?
b) recognition of both revenue (invoiced amount) and an impairment loss in the amount estimated uncollectible?

The new revenue recognition model does not seem compatible with a) since the sale is related to the transfer of goods/services NOT to when the money comes in, or is likely to come in. So b) looks logical and is in line with IFRS 9, but exacerbates the problem of how to deal with uncertainty over the amount and timing of collection in the income statement. Of course, the cash flow statement provides complementary information on this.

Q2: Would you prefer:
a) Revenue on a gross basis (invoiced amount) with an adjacent line item for customer credit risk?
b) Revenue on a net basis (invoiced amount less an impairment loss for customer credit risk)?
Does your preference for (a) or (b) change if the impairment loss is material?

The FRAC prefers a) but not necessarily with the credit risk line adjacent (see point above about gross margins). Our concern about b) is that information about customer credit and the entity's ability to collect is important, and the division of impairment into two categories – immaterial and material – looks problematic.

<u>**Uncertainty about the amount**</u>

Slide 24
Q1: When there is uncertainty about the amount of revenue that an entity will be entitled to [the examples include money-back guarantees and performance bonuses]...is it most useful to recognise:
a) no revenue until cash is received?
b) an amount based on a reasonable estimate of the total consideration to which the entity will be entitled?
c) a minimum amount that an entity is virtually certain of receiving?
Should this be adjusted as new information arises?

We prefer b) because a) is not in line with accrual accounting and c) builds in a conservative bias and we prefer the accounting to be neutral. We assume "a reasonable estimate" means the same as "probable" in today's accounting terms.

Q2: When there are costs related to the uncertain amounts, is it most useful to recognise revenue up to the related costs if the entity can reasonably estimate that those costs will be recovered? Does you answer change for services (ie when revenue and costs are recognised over time)?

The FRAC supports recognising revenue to the extent that it can be reasonably estimated (see answer to Q1), but disagrees with including the concept of costs here. The overriding principle should be that revenue should be recognised on a reasonable estimate basis, without reference to cost. (In a previous response we reluctantly noted that, for pragmatic purposes, the "input method" for revenue recognition maintains certain current practices – similar to percentage of completion – for revenue recognition over time.)

We hope that the CFA UK's response is helpful to the IASB and would be open to further discussions with the IASB about any of the points we have raised.

Yours,

Jane Fuller
Chair, Financial Reporting and Analysis Committee
CFA Society of the UK

Will Goodhart
Chief Executive, CFA UK