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Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear Sir David

### **Exposure Draft ED/2010/6 Revenue from Contracts with Customers**

Thank you for the opportunity to comment on Exposure Draft ED/2010/6 Revenue from Contracts with Customers (the ED). Our comments on the specific questions included in the ED are addressed in the Appendix.

National Australia Bank (NAB) is one of the four major banks in Australia. Our operations are predominantly based in Australia, New Zealand, the United Kingdom, the United States and Asia. In our most recent annual results we reported net profit after tax of A\$2.6 billion and total assets of A\$654 billion.

We support the Board in its endeavours to achieve greater consistency in the recognition and presentation of revenue through the use of a single, global revenue recognition model based on a single set of principles for recognition and measurement. However we believe more work is required in the exposure draft to establish clear consistent principles and guidance around the criteria for revenue measurement, recognition of onerous performance obligations and accounting treatment of acquisition costs.

While conceptually we agree with the control based principle, in respect of long term contracts, this requires significant judgement to determine whether control passes continuously or at the end of the agreement. As a result, we believe the timing of revenue recognition for long term contracts should be aligned to the work effort of the entity to fulfil the obligation under the agreement with the customer. This would be subject to the satisfaction of current revenue recognition criteria.

We disagree with the use of a probability-weighted approach to estimate the transaction price as it is contradictory to the principle of revenue being reliably measured.

We do not agree that the customer's credit risk should be reflected in the revenue an entity can recognise when it satisfies a performance obligation. Measuring credit risk requires the use of complex systems generally in place in banks and other lending institutions. As a result the varying abilities of non-financial institutions to measure credit risk reliably at inception would potentially result in errors in revenue recognition. In addition, we have reservations in recognising the initial assessment of credit risk as a component of revenue and subsequent changes in credit risk as an expense separately from revenue.

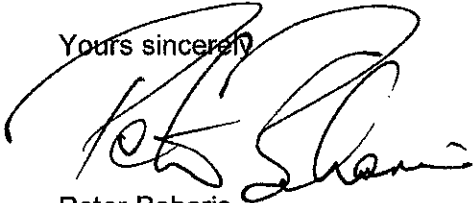
We also do not support the proposal that costs of fulfilling a contract can only be capitalised if the costs are used in satisfying future performance obligations. The requirement to expense the costs of obtaining a contract is inconsistent with:

- (i) the treatment of intangible assets that are ultimately recovered through revenue from customers;
- (ii) the treatment of acquisition costs for financial instruments under IAS 39; and
- (iii) the proposed treatment of acquisition costs for insurance contracts under the IASB's exposure draft ED/2010/8 Insurance Contracts.

The costs of obtaining a contract that are unavoidable and are incremental to the entity's expenses that would not otherwise have been incurred if it were not for the origination of the contract. As such, we believe these incremental costs should be capitalised. We propose the criteria be changed to allow the deferral of incremental acquisition costs, provided these costs are expected to be recovered.

Should you have any queries regarding our comments, please do not hesitate to contact Marc Smit, Head of Group Accounting Policy at [marc.smit@nab.com.au](mailto:marc.smit@nab.com.au).

Yours sincerely



Peter Beharis  
General Manager, Group Finance



**Appendix**  
**Detailed Answers to Questions**

**Recognition of revenue**

**Question 1**

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- (a) to combine two or more contracts and account for them as a single contract;
- (b) to segment a single contract and account for it as two or more contracts and;
- (c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine, or segment contracts, and (b) to account for a contract modification as a separate contract.

We agree with the proposed principle of price interdependence as a means to determine whether to combine or segment contracts.

**Question 2**

The Board propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with the principle? If not, what principle would you specify for identifying separate performance obligations and why?

Yes, we agree with the principle.

**Question 3**

Do you think the proposed guidance in paragraphs 25-31 and related application guidance is sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

While conceptually we agree with the control based principle, in respect of long term contracts, this requires significant judgement to determine whether control passes continuously or at the end of the agreement. As a result, we believe that the timing of revenue recognition for long term contracts should be aligned to the work effort of the entity to fulfil the obligation under the agreement with the customer. This would be subject to the satisfaction of the current revenue recognition criteria where: (i) the entity has a contractual right to recover the revenue from the customer for the work completed to date; (ii) the amount of revenue can be measured reliably; (iii) it is probable that the economic benefits arising from the transaction will flow to the entity; (iv) the stage of completion of work can be measured reliably at the end of the period; and (v) the costs incurred for the transaction can be measured reliably.

## **Measurement of revenue**

### **Question 4**

The Board propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

Yes, we agree with the proposal that an entity should only recognise revenue from satisfying a performance obligation when the transaction price can be reasonably estimated. However, we disagree with the use of a probability-weighted approach to estimate the transaction price as it is contradictory to the principle of revenue being reliably measured.

### **Question 5**

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue. If not, why not?

We do not agree that the customer's credit risk should be reflected in the revenue an entity can recognise when it satisfies a performance obligation. Measuring credit risk requires the use of complex systems generally in place in banks and other lending institutions. As a result the varying abilities of non-financial institutions to measure credit risk reliably at inception would potentially result in errors in revenue recognition. In addition, we have reservations in recognising the initial assessment of credit risk as a component of revenue and subsequent changes in credit risk as an expense separately from revenue.

### **Question 6**

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why not?

We agree that it is appropriate to reflect the time value of money in contracts which include a material financing component.

**Question 7**

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

Yes, we support the proposal that the transaction price should be allocated to all separate performance obligations in a contract in proportion to the stand-alone selling price.

**Contract costs****Question 8**

Paragraph 57 propose that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (eg. IAS 2, IAS 16 and IAS 38), an entity should recognise an asset only if these costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why not?

Paragraph 57 only allows capitalisation of costs if (i) they are directly related to the contract; (ii) recoverable and (iii) generate or enhance resources used in the satisfaction of future performance obligations.

While we agree with the first two criteria, we do not support the proposal that costs of fulfilling a contract can only be capitalised if the costs are used in satisfying future performance obligations. The requirement to expense the costs of obtaining a contract is inconsistent with:

- (i) the treatment of intangible assets that are ultimately recovered through revenue from customers;
- (ii) the treatment of acquisition costs for financial instruments under IAS 39; and
- (iii) the proposed treatment of acquisition costs for insurance contracts under the IASB's exposure draft ED/2010/8 Insurance Contracts.

The costs of obtaining a contract that are unavoidable, are incremental expenses that would not otherwise have been incurred if it were not for the origination of the contract. As such we believe these incremental costs should be capitalised. We propose the criteria be changed to allow the deferral of incremental acquisition costs, provided these costs are expected to be recovered.

**Question 9**

Paragraph 58 proposes that the costs that related directly to a contract for the purposes of

- (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and
- (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

The wording of this question is not clear. However if the question is whether we agree with the specification of the costs that relate directly to a contract, then the answer is yes.

## **Disclosure**

### **Question 10**

The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

While we support the Boards' proposed disclosure requirements to provide more information to help users of financial statements, the resource and time required to collect this information is onerous and does not necessarily improve financial statement users' understanding.

Paragraph 69 requires the disclosure of both qualitative and quantitative information about (i) its contracts with customers and (ii) significant judgements and changes in judgements, made in applying IFRS to those contracts. Paragraph 71 requires additional disclosure of information if the disclosures provided in accordance with this standard and other IFRSs do not meet the objective of paragraph 69. The objective in paragraph 69 is so broad that it is not clear what level of disclosure would be considered adequate. Furthermore, paragraphs 73-83 require more extensive disclosures about the contracts, disaggregation of revenue, performance obligations, reconciliations of contract balances, onerous performance obligations, significant judgements and changes in judgements, the timing of satisfaction of performance obligations and determination of transaction price and allocation between performance obligations. In order to comply with these requirements, an entity would need to breakdown each transaction into the different components in order to compile the required detailed disclosures. In our view the time and effort far outweighs the limited benefit of these additional disclosures.

### **Question 11**

The Boards propose that an entity should disclose the amount of the remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We agree with your proposal.

### **Question 12**

Do you agree that an entity should disaggregate revenue into categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We do not agree as we consider this to be a duplication of the segment disclosures required by IFRS 8. Any further disclosures should be incorporated into the disclosure requirements of IFRS 8.

## **Effective date and transition**

### **Question 13**

Do you agree that an entity should apply the proposed requirements retrospectively (i.e. as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We would prefer entities to apply the requirements prospectively as the process to apply these requirements to all contracts on a retrospective basis would require significant financial reporting system changes both on a time and cost basis and not necessarily yield any significant benefit to entities. We would instead support entities to voluntarily adopt retrospective application if they felt that this improved information to users of their financial statements.

## **Application guidance**

### **Question 14**

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

While the application guidance provides some examples to assist in the interpretation of the standard, we do not believe it is sufficient to make the proposals operational.

## **Consequential amendments**

### **Question 17**

The Boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We agree with the proposal.