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9 March 2012

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH United Kingdom

Dear Sir,

Response to the IASB Exposure Draft ED/2011/6: *Revenue from Contracts with Customers*.

This letter sets out the response from AMP Limited (AMP) to the International Accounting Standards Board's (IASB's) Exposure Draft ED/2011/6 *Revenue from Contracts with Customers* dated November 2011 (the revised ED).

AMP is generally supportive of the improvements in the revised ED, particularly in relation to areas of concern in the original ED which AMP had provided feedback on in October 2010.

In particular, AMP supports:

- the notion of recognising revenue over time when a performance obligation is satisfied over time; and
- the deferral of costs of obtaining customer contracts.

We do not, however, support the proposal that revenue from contracts where the consideration amount is variable should only be recognised to the extent that the amount is "reasonably assured." In our view this approach is overly conservative and is an unnecessary departure from the IASB *Framework for the Preparation and Presentation of Financial Statements* (the Framework). We recommend that revenue from contracts where the consideration amount is variable should be recognised to the extent that entitlement to the amount is "probable", consistent with the recognition criteria for assets, liabilities, equity, income and expenses, as set out in paragraph 83 of the Framework.

The Appendix to this letter sets out our responses to the specific questions for respondents included in the revised ED.

About AMP

AMP is a leading Australian and New Zealand wealth management company, with a retail banking business in Australia and a growing international investment management business. The company merged with the Australian and New Zealand businesses of AXA Asia Pacific Holdings Limited in March 2011. AMP Limited is dual-listed on both the Australian and New Zealand stock exchanges.

AMP would like to thank the IASB for this opportunity to provide input on the changes proposed in the revised ED.

Please do not hesitate to contact Graham Duff on +61 2 9257 6784 or graham_duff@amp.com.au or myself if you would like to discuss any of these matters further.

Yours faithfully,

Colin Storrie
Chief Financial Officer

Cc: Kevin Stevenson, Chairman – Australian Accounting Standards Board

Appendix – detailed responses to IASB's specific request for comments

***Question 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?*

We agree with the proposed criteria in paragraph 35 and 36 of the revised ED.

***Question 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?*

We agree that for many entities, presenting 'gross' revenues separate from customer credit risk losses is relevant to users of the financial statements. In our opinion, it is appropriate for this information to be included in the notes to the financial statements.

We do not agree, however, with the proposal to explicitly require presentation of customer credit risk losses as a separate line item on the face of the income statement. For many entities, such impairments will not be significant enough to warrant such prominent presentation. In addition, for entities which also have types of revenue which are outside the scope of the revised ED (such as insurance contracts, financial instruments and leases), a combined credit loss impairment disclosure covering all revenue streams may be more relevant to users.

***Question 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?*

Paragraph 83 of the Framework outlines the recognition criteria for assets, liabilities, equity, income and expenses (the elements). In order to recognise any of these elements, it must be probable that any future economic benefits associated with the particular element will flow to or from the entity. Paragraph 85 of the Framework further states that this concept of "probable" is used to refer to the degree of uncertainty that the future economic benefits will flow to or from the entity, hence in order to recognise any of the elements, an assessment over the uncertainty is made on the basis of the evidence available.

Requiring variable consideration amounts to be "reasonably assured" as opposed to "probable" will generally defer more revenue to subsequent periods, until the amount of revenue is not subject to any uncertainties. We believe this introduces an element of conservatism and is an unnecessary departure from the Framework.

The use of a "reasonably assured" criterion also creates inconsistencies with the recognition criteria adopted in other International Financial Reporting Standards, for example, for liabilities recognised under IAS 37, an outflow of resources embodying economic benefits must be "probable" and for property, plant and equipment to be recognised under IAS 16, it must be "probable" that future economic benefits associated with the item will flow to the entity.

AMP proposal

We propose that this concept of "reasonably assured" be amended to "probable", to be consistent with the Framework and the recognition of other elements as required by other International Financial Reporting Standards.

The revised ED (paragraph 82) outlines indicators of when an entity's experience is not predictive of the amount of consideration to which the entity will be entitled. In our view, the indicators provided are also relevant to an assessment of whether a variable amount is "probable".

***Question 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?*

We agree with the proposed criteria in paragraph 86 of the revised ED.

***Question 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 recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

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 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.

We disagree with the proposed disclosure requirements which are significantly more extensive than the current reporting requirements under IAS 34.

The relevance of this information will vary from entity to entity, in particular depending on:

- whether the entity has types of revenue that is outside the scope of the revised ED (for example, insurance contracts, leases and financial instruments)
- the complexity of the entity's revenue arrangements.

In our view, the volume of disclosure proposed in the revised ED is not necessary and is not consistent with other elements of IAS 34. We would propose the limiting the requirement to disclosure any significant changes from the annual financial statement disclosures would be appropriate and sufficient for most entities.

This alternative approach is consistent with paragraph 15 of IAS 34, which states that at an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period is more useful.

***Question 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:*

Appendix – detailed responses to IASB's specific request for comments

(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?

We agree with the proposed criteria in paragraph IN8 of the revised ED.