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ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, Monday, 19 March 2012

Dear Mr Hoogervorst,

Re: Revenue from Contracts with Customers – exposure draft ED/2011/6

We welcome the opportunity to comment on the IASB's second exposure draft dealing with "Revenue Recognition", as it is a very crucial issue for all of the companies we represent.

We are grateful to the Board first of all, for its decision to abandon its original schedule, which was in our view far too ambitious, and secondly for its decision to re-expose the new proposals.

We have structured our responses as follows:

- General comments about the project
- Answers to the specific questions raised in the exposure draft
- Other comments about other technical issues

Should you require any further comments or explanations, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU	François SOULMAGNON	Agnès LEPINAY
Chairman	Director General	Director of economic and financial affairs

General comments about the project

Before considering the heart of the matter, we would like to say a few words about the due process:

Firstly, we welcome the Board's decision to re-expose the entire new exposure draft as this allows us the opportunity to examine thoroughly the complete text. Nonetheless, from our point of view, it would have been much more beneficial to publish at around the same time the forthcoming exposure draft about Lease contracts, as this would have enabled constituents to assess whether the two standards are consistent with each other.

Secondly, and still in relation to the due process, we regret that the Board did not allow a longer period for comments, given the importance of the subject, and in view of the limited availability of staff in both entities and external users during what is the annual reporting period for many companies. Therefore, although we have done our best to perform as much analysis of the proposals as we can during the allotted time, please note that some of our conclusions might change or new comments might be added when further work has been done.

Now, on the draft standard itself, we still have many concerns which cover both technical aspects (see the dedicated part of our comment letter) and the merits of a new standard:

When introducing its new exposure draft, the Board highlighted the following arguments, which in its view justify the comprehensive review of the current IFRS standards:

- *"Making amendments to IASs 18 and 11 would not resolve the fundamental weakness in those standards—i.e. that a company could recognize revenue in different ways depending on which standard it applies. The effect of such inconsistency is pronounced because IFRSs do not clearly distinguish between goods and services and, consequently, it can be difficult for a company to determine whether to account for some transactions in accordance with IAS 18 or IAS 11"*

  We do not agree that there are such fundamental weaknesses in the two current IFRS standards dealing with revenue today.

  Moreover, we have not found any studies or letters from external users who questioned in such a critical way the two incriminated standards, nor has the IASB demonstrated that its new proposals will better respond than the current texts to the need for improvement identified by some external users.

  For example, SFAF [1] said in its response to the Discussion paper *"We therefore consider that improvements to existing standards (IAS 11 & IAS 18) could be a more economical, robust and less risky solution than replacing the existing standards by a new one. At least, we consider that IASB should demonstrate that the improvement of IAS 11 and IAS 18 is not practically feasible if it is persuaded that a complete replacement by a new one is the only possibility"*.

  We therefore believe that before finalizing a new standard, any analysis that the IASB has carried out to compare the existing and proposed standards should be made public in order to allow constituents to assess whether the new proposals really improve the financial information provided to users.

[1] Société Française des Analystes Financiers

Finally, still in respect of the above argument, we note that the Board argues that there are some perceived difficulties in distinguishing between goods and services in the existing standards. **However, we wonder if this intended "bright line" in the current standards (i.e. distinction between goods, services and / or construction contracts) will not be replaced by another one, just as difficult to implement, i.e. the notion of "alternative use", which now appears to be the determining factor for whether revenue may be recognised continuously ("over time") or not "(at a point in time").**

- *"If adopted, the standard would simplify the preparation of financial statements by reducing the number of requirements to which a company must refer"*

  We believe that the Board has unfortunately failed to reduce complexity. In our analysis, the new proposals are in many areas, very complex to understand and to implement (for example, the treatment of options, contract modifications, variable consideration, assessment of the criteria for a continuous transfer and so on …)

  We think that entities and users will experience a real problem of understanding of this standard, as it is far too technical in nature for dealing with an operational subject. Indeed, we have the impression that we are faced with a draft standard that is as technical and complex as IAS 39. However, what is acceptable for Financial Instruments (which are complex by nature and managed by specialists), becomes very problematic for a standard dealing with the core activity of a non-financial entity.

  Finally, these proposals call for estimates in very many instances. On the one hand, this does not simplify the accounting model for revenue, and on the other hand, it does not seem to respond appropriately to the user's need for more transparency. Indeed, many of external users in their previous comments on the first exposure draft were very concerned about this increase in complexity and the increase in the use of estimates and management judgment. For example, CFA UK [2]states "*On measurement, our main concerns are to do with the increased reliance on estimates, management judgment and probability weighting. This represents a move away from an emphasis on reliability of numbers* "

- *"If adopted, the standard would reduce the need for interpretative guidance to be developed on a case-by-case basis to address emerging revenue recognition issues"*

  Firstly, we note that there were few requests for interpretation concerning the current accounting model for revenue recognition in the IFRS environment. In our view, much of the interpretative literature comes today from US GAAP, and we are not certain that it will disappear entirely, despite the new standard. CFA Institute US said in its response to the first Exposure draft that " *We realize and support the imperative of having a converged revenue recognition standard by 2011; however, we believe the proposed standard still requires further development, especially as far as delineating impacts on various industries. We view this project as a first step towards the purported goal of creating a unified revenue recognition framework and expect that the Boards will have to further develop revenue recognition principles in a fashion that will result in consistency in accounting across all type of contracts"*

  We are therefore concerned that there is a risk that the interpretations widely used in the USA will be imposed on IFRS preparers who, faced with a common standard, will struggle to justify their own interpretation.

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2 The Chartered Financial Analyst Society of the UK

Secondly, while we recognize that the Board has worked hard to produce a second exposure draft that fits better for services and construction activities, we note that some industries are still very concerned with the anticipated impact for their business. It is particularly the case for the Telecommunications Industry, which has, from the outset, expressed its serious concerns about the ability of the new standard to reflect its Business model appropriately. This may also be the case for other companies, such as those in the Defence and Security Industry in Europe, for which the proposed standard may jeopardize the percentage-of-completion method and consequently significantly modify the revenue recognition pattern which is currently applied.

We believe that if the standard fails to depict in a relevant manner a specific business, it therefore means **that the Board has not achieved its main objective, which is to develop a single set of principles, relevant for all Businesses and across all jurisdictions.**

Responses to the specific questions raised in the exposure draft

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?*

Firstly, we would like to thank the Board for the efforts made to improve upon the proposals that were developed in the first exposure draft. Nevertheless, we still have some concerns and are uncertain about the interpretation of the new proposals. We believe that the Board should assess very carefully the new proposals to identify which transactions will likely move from an "over time" to a "point in time" model and vice-versa, in order to ascertain if these changes are relevant and provide better information to users. We reiterate the point made in our response to the first exposure draft, that revenue is a very significant figure for financial communication. The Board should be certain that management can clearly understand the new figure resulting from its proposals and will be able to communicate on it appropriately, without using non-GAAP measures. We are not adverse to change, but when it relates to such a fundamental area of reporting it has to be proved to be an improvement.

Our first comment on the section dealing with the distinction between performance obligations satisfied over time and those satisfied at a point in time is that it requires significant redrafting in order to make its application clear. It would be helpful for the reader to be led through the principles to be applied before the detailed criteria are introduced. For example, the discussion included in paragraph 34 appears to be fundamental as it provides the principles behind the accounting. It would therefore seem appropriate to set this in bold font and perhaps integrate it into, or juxtapose it with, paragraph 31.

Overall analysis of criteria in paragraphs 35a) and 35b)

As currently drafted and presented, the purpose and method of distinguishing between these two criteria are not obvious. One might consider that these two criteria are opposed to each other, i.e. that assets covered by § 35(b) are not controlled by the customer, whereas those covered by paragraph 35(a) are. Paragraph 35(b) introduces the notion of assets without an alternative use to the entity, but in fact the first criterion, paragraph 35 (a), also encompasses only assets with no alternative use to the entity since they become an asset of the customer as they are progressed.

It therefore may be useful to incorporate paragraph BC 92 in the body of the standard to clearly explain why criterion 35 (b) was developed.

We understand that the criterion of 35(a) will apply only in the following situations:

- When contracts specify that the customer obtains benefit of the work in progress (or can prevent others from accessing it)
- For construction on land owned by the customer
- For services that enhance assets already controlled by the customer.

In other words, continuous transfer of control is clearly the case.

When the continuous transfer of control is not contractually stated, nor obvious, then we understand that criterion 35 (b) should then be assessed. We have the following reserves about the three following sub-criteria:

i) 1st sub-criterion: We do not understand why this criterion has been put forward as it seems quite obvious that when the customer can immediately consume the benefits of the entity's performance control has been transferred to the customer. This seems to refer back to the first sentence of paragraph 32 for its basis. We presume that this criterion is intended to deal with the provision of services, as it appears to be the equivalent of criterion 35(a). Perhaps this should be a separate criterion on its own merits.

ii) 2nd sub-criterion: We understand, especially from the basis for conclusions (BC97 – BC98), that for the Boards, this criterion has a very narrow scope of application and may perhaps never be applied to construction services, or to long term contracts. In particular, the reference to work in progress controlled by the entity seems at odds with the explanation in the Basis for Conclusions. From our discussion between our members and with other constituents it is clear that there is not a common shared understanding about what this criterion is aimed at and we therefore suggest that its application as specified in the Basis for Conclusions would be better defined within the body of the future standard.

   As a general comment, we wish to emphasise that many of the insights about the Board's intentions or interpretation provided within the Basis for Conclusions are very helpful and should usefully be fed back into the body of the standard, rather than just being mentioned in the Basis for Conclusions.

   As a result of our interpretation of sub-criteria 35(b)(i) and (ii), we expect that in many cases, the more decisive criterion will be the last one, i.e. the right to payment for performance completed to date, and will thus require careful consideration. We do note, however, that this final criterion is similar to that of paragraph 37(a), which is an indicator of a performance obligation satisfied at a point in time, and wonder if that could lead to confusion.

iii) 3rd sub-criterion: Our view is that this notion of right to payment should be interpreted quite broadly. It thus should not be restricted to explicit contractual rights but should also encompass all rights to payment that can arise from local, legal and commercial practice.

   We therefore believe that the Board should make clear that the same indicators as provided to assess whether a contract exists, should also be used to assess whether a right to payment exists. An entity should therefore be required to consider its practices and processes in determining when a contract provides a right to payment, this right being written, oral or in accordance with business practices.

   For example, even if contracts do not have a specific clause stating that the entity has a right to payment for performance completed to date, the entity has to take into account all the acceptances of work performed agreed by the Customer, which ensure that the obligation is performed in accordance with the contractual expectations. Indeed, once these acceptances are obtained, it is likely that in a deadlock situation, negotiations between parties or lawsuits will result in the entity's being entitled to be compensated for the work performed.

To sum up, we do find the articulation between these various criteria to be very convoluted and think that there is scope for a wide range of interpretations and diversity in application. It must be remembered that IFRS are used by many people whose first language is not English and so standards must be as clear as possible. In contrast, we think that paragraphs 20 of IAS 18 (relating to revenue from the rendering of services) and paragraphs 22 and 23 of IAS 11 (in respect of construction contracts) have the merit of being simple to understand and of being consistent between the two standards.

Finally, after analysing all these criteria necessary to fit the "control model" to almost all types of contracts, we feel that the Board is still struggling with its application as soon as a contract deviates from a straightforward sale of goods. We understand that this chosen "control" approach is closely linked to the choice for a balance sheet approach to define revenue (refer to paragraph BC83 (a)).

No- alternative use notion

We also express some concerns about the "no alternative use" notion, as it places a bright line between "percentage of completion" and "completed contract" methods. If this frontier is not clearly defined and uniformly interpreted, the Board will fail to improve the current distinction between IAS 11 and IAS 18, which the Board considers to be a weakness of the current standards.

Our view is that the new model works quite well for construction or services contracts whose revenue can be recognised over time in most cases, to the extent that a right to payment can be identified. However, we are more cautious concerning so-called "long-term contracts" for which demonstrating "no alternative use" may be a challenging criterion to assess and for which we expect the most changes in current practices.

Today, entities can recognize revenue over time either when rendering services (IAS 18) or on entering into a construction contract (IAS 11). IAS 11 defines a construction contract as a contract specifically negotiated for the construction of an asset; its main characteristic being that it is entered into and completed in different accounting periods (long-term contract). The objective was therefore to match contract revenue with contract costs, and not to depict the continuous transfer of control to the customer.

In the following illustrative examples, we expect some changes from the current practices will result from the proposals in the ED, and we would wish to make sure that the Board is aware of this and that the Board will confirm that it is an improvement for financial information:

- Entity A enters into a contract with Customer B to construct a specific asset for a specific geographic area. This could be, for example, a processing unit for a plant covered by specific local environmental requirements. At this date, Customer B is the only potential customer for this specific asset. Entity A therefore concludes that there is no alternative use for this asset (even if no contractual restrictions exist, the entity is in practice unable to direct the asset to another customer) and therefore recognises revenue over time (as it would have done according to IAS 11).

One year later, Entity A enters into another contract with Customer C for an identical specific asset. In the absence of contractual restrictions in the two contracts, the asset may have now an alternative use for Entity A: it can either be delivered to Customer B or to C. We would therefore understand that Entity A should no longer be allowed to recognise revenue over time, at least on the second contract, and even eventually on the first one (for the remaining goods to be delivered)

We have the following concerns about the accounting that will result from this:

- ⇨ Is this accounting treatment relevant? Will it improve financial information and the predictability of cash-flows?
- ⇨ How can we explain that a single contract will be accounted for differently from one year to another, simply because of the existence of a new customer?
- ⇨ What does the term "Largely interchangeable" mean? Interchangeable between many alternative uses? Or interchangeable without major modifications, i.e. close to a fungible asset?

- Entity A manufactures assets for several customers. These goods have a 70% common platform and 30% of final customization for each specific customer. How does the term "largely interchangeable" apply here?
  - ⇨ Should we consider that 30% of final customization is enough to mean that the asset does not have an alternative use, and thus the entity can recognise income over time, from the beginning of the construction?
  - ⇨ Should we consider that the first 70% of common platform is an asset with alternative use, because customization work has not begun?

Although we understand that entities will have to use judgment in analyzing this criterion, we believe the Board should better define what is intended with the notion of alternative use. It may be useful to clearly mention the following statements:

- Alternative use should be obvious; entities should not be required to make exhaustive efforts to demonstrate that an alternative use is not eventually possible. This could be stated thus: "An entity need not undertake an exhaustive search of all possible alternative uses but it shall take into account all information that is reasonably available and take into account the way it operates within its Business model".

- We think that "largely interchangeable" is aimed at identifying goods which are mass-produced for inventory. If this understanding is correct, the notion of "largely interchangeable" should also be specified to apply only circumstances in which there is an active market in which goods can be readily sold to another customer.

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?

First of all, we recognise that the Board has slightly changed its initial proposal that required credit losses to be recognized as contra-revenue. However, we are still not content with these new proposals. In fact, we believe that collectability losses should be differentiated according to their origins and then presented distinctly in the statement of profit or loss:

- ***Contracts for which, upon signature, there is a very low probability to recover the future cash-flows:***

  We have noted the decision to remove the threshold of collectability (currently provided in IAS 18.18) when recognizing revenue. Some interpret this as meaning that the definition of a contract in the proposals includes an implicit reference to the customer's ability or willingness to pay, and thus believe that the final outcome will be the same as today, i.e. there should be no revenue recognition when the entity has a very low expectation of recovering the consideration. We believe that such an outcome is appropriate and is consistent with paragraph 93 of the Framework (or § 4.48 of the framework revised in 2010). If it was the Board's intention, therefore, to integrate such a collectability threshold for recognition through the contact definition, we would encourage the Board to be more explicit about this in the final standard. If it was not the Board's intention to do this, we believe that it would be helpful to use the proposed line adjacent to revenue to depict revenue that the entity is highly uncertain to recover. This accounting model should only be used to reflect specific Business models in which an entity may enter contracts with customers without a high probability of recovering the consideration.

- ***Collectability – impairment for bad debt***

  We agree that credit risk should not impact the revenue line, as we believe it is important to maintain a figure for revenue that represents the consideration the entity is entitled to, under the terms of its contracts with customers and its commercial practice. The risk of non-performance of the customer is of a completely different nature as long as it does not call into question the very existence of a contract (see the previous comment), and thus it should not be mixed up with the revenue figure. We therefore believe that such credit risk should not impact the gross margin whose role is to depict the business activity of the current period, and it should not thus be presented in an adjacent line to revenue but be shown as a cost outside gross margin. [For many entities gross margin is a key performance indicator and thus we regret the Board's unwillingness to define the informational value of revenue. Such a definition would help establish principles for the geography of the income statement.]

Moreover, we do not agree with the [Boards'] view that all entities integrate in their selling prices the expected cost of non-recovery of a portion of receivables. It is thus not relevant to use the argument used about the pricing of financial instruments and present such a cost within the net revenue figure (even if presented on an adjacent line, both figures will likely be summed by some users).

Nonetheless, if the Board persists in the idea of presenting some of the effects of credit risk in a line adjacent to revenue, we believe that it should limit its use only to the expected losses related to revenue recognized in the current period, and not to subsequent re-evaluations of credit risk related to items recognized in revenue in an earlier period. We do not believe that it is helpful to mix expectations about credit loss related to current activity with impairments of receivables relating to activity in a previous period.

Finally, we note that current discussion relating to the impairment model for receivables in the context of the project on impairment of financial instruments held at amortised cost is not yet completed. We therefore reiterate below our main comments concerning that project:

Credit losses tend to be customer-specific, and many entities undertake credit checks before selling to them, thereby reducing the potential scale of losses. Actual losses will become apparent relatively quickly and can be dealt with as they arise. We do not think that the effort and cost involved in setting up statistical provisioning matrices, as suggested in paragraph B16 as a practical expedient, can be justified where credit checks are carried out. For these reasons, and as a practical expedient to deal with credit losses in these cases, we would suggest that the principle should be to recognise these receivables initially at the full transaction price unless there are specific indicators that the receivable will not be recovered. On the contrary, where there is a large portfolio of homogenous receivables a reliable statistical data base could be used to set up a provision on an expected loss basis, but this should not be a requirement for all non-financial entities.

To end on the question of drafting: we do not think it is helpful merely to state (in paragraphs 68 and 69) that the receivable should be accounted for in accordance with IFRS 9. That standard is very complex, and we think that such a cross-reference from the future Revenue standard will inevitably result in a multitude of different interpretations and diversity in practice. In our view, the new standard should make it clear how the receivable should be accounted for: at the transaction price less an allowance for any credit losses, if applicable.

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?*

Before making any detailed commentary on this issue, we wish to alert the Board that this aspect of the standard is one of those topics that we think should not be addressed independently of the Leases project. There is no conceptual reason to have a different threshold for recognising variable consideration, especially since some right of use assets will fall into the scope of the Lease standard, while others will be accounted for within the Revenue standard (rights of use on intangible assets).

We therefore must wait for the second exposure draft on Lease contacts, before we can conclude on this issue of variable consideration.

Concerning the paragraph 85, even if we agree with the result, we are not sure we share the reasoning. Actually, we are of the view that when two entities are in a risk- and profit-sharing model, since the revenue of both of them depends on supply to a third party, it is justifiable to align their fact pattern for revenue recognition (i.e. no revenue for the first entity until the second has sold to the final customer). It is not therefore an evaluation issue but one of recognition.

Nonetheless, if the Board wishes to pursue dealing with this issue from the measurement perspective, we would make the following points:

- Current paragraph 85 is positioned and drafted as applying to only a very narrow specific case, i.e. licences of intellectual property, and may be seen by some as an exception to the main principle stated in paragraph 81. We do not believe it is an exception but an application of a principle.
- We believe that the Board might better use this statement as an illustrative example of circumstances when the entity's experience is not predictive. We therefore suggest integrating this notion in paragraph 82 a): "the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include volatility in a market, judgment or actions of third parties (with variability depending on the customer's consumption or its own sales onwards to third parties).

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?*

- ***Test level***

  As mentioned in our answer to the first exposure draft, we do not agree that the test for onerous performance obligations should be performed at the individual performance obligation level. We understand that the Board expects that some of its new proposals (regarding identifying separate performance obligations or allocating the transaction price to separate performance obligations) should limit some of our concerns. Nonetheless, since these proposals have not been tested on real contracts, we believe that there is always a risk that one be compelled to have more separate performance obligations that are effectively managed as such in the Business Model, or not be able to allocate the whole transaction price in a relevant manner. In this context, we are concerned that some liability for onerous performance obligations will have to be recognized even if this is not a fair representation of the economic effect of the contract as a whole and could result therefore in a wrong message being conveyed to users. If the future standard were to result in such an outcome, it is likely that the management would use IFRS 8 to present revenue in the way it effectively manages its contracts, independently of the accounting income.

  Moreover, performing the test at the separate performance obligation level will require that costs related to the contract as a whole be arbitrarily allocated to the different performance obligations.

  We note that the Board has tried to limit the scope of its decision by providing some scope exclusions which we think have no economic sense (restricting the requirement for tests for onerous obligations to obligations satisfied over time and that are expected to take more than one year to satisfy). We believe that the unit of account must remain the contract at the lowest level. In fact, it is not consistent on the one hand to consolidate contracts because they represent a single commercial package, and on the other hand to perform the onerous test at a lower level within a single contract.

  For these reasons, we therefore support the tentative decision that the Board took in February 2011 (supported by 12 members of the IASB) stating that the unit of account for the onerous test should be the contract.

- ***Measurement of the liability***

  We disagree with the assumption that the amount rationally paid by an entity would be the lowest amount possible. We believe liabilities should be measured at an amount that represents the most probable cash outflows the entity will incur at the time it satisfies its duty, based on stated policy or observed past practice of settling at a higher amount, or based simply on the decision made by management concerning the way the liability will be settled,. Only in this way will the information provided be of any use in helping users to forecast future outflows.

In addition, we believe that the paragraph 87 (b) concerning the notion of "the amount the entity would pay to exit the performance obligation" should be redrafted. Indeed, in view of the debate around Fair Value Measurement and IAS 37 in recent years, it would be useful to reintegrate in the main text, rather than in the basis for conclusion (BC215), the specific point that the exit notion does not require entities to include a margin in this measurement.

- ***Interaction with impairment tests***

  Paragraph 89 of the ED opens up many questions. It is very unclear to us how the different tests that should be conducted interact and what the hierarchy is between them: onerous performance obligation, assets recognized from the costs incurred to obtain or fulfill a contract, other assets recognized accordingly to IAS 16, IAS 38, IAS 2, etc. We therefore suggest that the Boards add comprehensive directions and illustrations dealing with these issues.

  We also wonder about the frequency of testing for onerous performance obligations and its impact on the frequency of the other impairment tests (which are today performed only when there is an indication that an asset may be impaired, which is itself often triggered by the identification of a liability for an onerous contract). We therefore wonder if impairment tests will not become more frequent.

***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 recognized 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 do not support the proposed disclosures for interim financial reports. In our view, the existing guidance in IAS 34 is sufficient and does not need to be complemented by any additional list of specific requirements.

In fact, the main principle as described in IAS 34 paragraph 15 (explanation of events / transactions that are significant to an understanding of the changes in financial position and performance) coupled with disclosures already required in paragraph 16A (in particular, the nature and amount of unusual items, comments about seasonality, changes in estimates and segment information), already strikes the right balance between relevant information for users and costs for preparers.

Moreover, even for annual financial reports, we do not agree with providing reconciliations for assets and contract liabilities, as this information does not meet users' needs (if we can judge by our experience with the "due to / due from" disclosure requirement of IAS 11), and is considered as irrelevant by the management. Obtaining such information will require significant changes in accounting reporting systems and we therefore believe that this cost will outweigh the benefits (if any).

We understand from the comment letters of external users that their main concern is to better understand the link between cash received and revenue recognized. We believe that the proposed reconciliations do not meet this need. Nonetheless, if we had to provide this information, that we understand is requested by users (i.e. a whole picture about the cash effect on contacts), this would lead to providing information concerning the margin which is highly confidential. On balance, we believe that the Board should not maintain its requirement for the proposed reconciliation.

Finally, as a general comment, we are very concerned by the continuous inflation of disclosure requirements. We therefore urge the Board to undertake a comprehensive review of all new disclosures that have been required for some years, to make sure that they are all really necessary.

***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 (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?*

While we understand the rationale for replacing all current references to IAS 18 by the new principles for revenue recognition, we would ask the Board to be very cautious with these amendments and their unintended consequences. Indeed, while the forthcoming standard on Revenue recognition is dealing only with one side of the transaction (i.e. the seller side), both IAS 16 and IAS 38 also deal with the recognition aspect. We therefore wonder how the new principles for revenue will interact with the recognition and measurement of acquired assets. The Interpretations Committee is currently working on some of these aspects (variable payments for assets, time value for inventories …) and we believe that the Board should first study the whole issue and conduct a serious and comprehensive analysis, before amending the above mentioned standards. As we believe that such analysis goes far beyond the scope of the current project, we suggest the Board defers the partial planned amendments to other standards.

Other comments about other technical issues

Please note that the following comments relate only to the aspects which seems to us still need to be cleared up or amended. We therefore will not comment on several issues that the Board has solved since the first exposure draft and that we really welcome.

Definition of a contract

While we do not disagree with the proposals, we note that the enforceable criteria defining a contract focuses, more than today, on the legal aspect of transactions which may require specific legal analysis for each type of contract and for each legal environment (the same contract may not have the same binding nature from one jurisdiction to another).

We also note (and agree) that only enforceable rights and obligations arising from a contract should be recognized. We therefore wonder how this is consistent with the Board's proposals regarding lease contracts to request entities to recognize certain optional future payments as a liability.

Finally, in respect of the last criterion for contract identification laid out in paragraph 14(d), we think that the entity ought to consider all the payment terms relating to the contract. This would not only include what is specifically identified in the contract but also all other factors relevant to payment terms, whether written, oral, or applicable in accordance with customary commercial practice.

Combination of contracts

While we agree that some contracts should be combined, and we welcome the Board's decision to remove its initial proposals, we still have concerns with the way this issue is being dealt with.

Actually, the sine qua non condition is now that contracts are entered into at or near the same time with the same customer; the economic substance is relegated to a secondary role.

- The "same time" constraint for signing two contracts does not currently exist in IAS11; the new "principle" may therefore change the existing practice, and there is no mention about this fact in the basis for conclusions that could demonstrate that it will improve financial information. Some contracts may be entered within a few months of each other but they should nevertheless be combined because they are part of the same commercial package. In such a case, a few months may not be significant having regard to the total period covered by the contracts.

  We therefore believe that it would be preferable to retain the "commercial substance" as the main criterion for combining contracts and to keep the "same time" notion only as a possible indicator. Nonetheless, to avoid entities having to continuously prove that several contracts need not be combined, the "near same time" indicator may be used as a practical expedient: when an entity enters into two or more contracts separated by quite a long period of time, such contracts will be deemed to be independent contracts, unless the entity demonstrates the economic link which will make the combination relevant.

- The "same customer" constraint may also prevent some contracts from being combined even though they are part of a same commercial package. For example, some groups may enter a tripartite agreement with transferring control on goods to customer A, while according some commercial discount to customer B (which is itself a customer of A): presently, the two contracts may be deemed to be a single commercial package and thus may be accounted for as a single contract based on "net revenue". With the new proposals, such contracts will no longer be combined and entities will have to recognize gross revenue with customer A and a marketing expense with Customer B. Once again, we believe commercial substance should be the focus: entering several contracts with the same counterparty should only be an indicator. Furthermore, we suggest that the notion of "related party" should be seen to go beyond IAS 24 and should also encompass economically related parties.

Contract modifications

Our main comment concerning the proposed provisions for contract modifications is that it is overall far too complex. While we appreciate the efforts made to better describe what should be accounted for as a new contract rather than a contract modification, we believe that there is no need for being so prescriptive in paragraph 22. In many groups this standard will also apply to operational people, who deal with an important volume of contracts on a daily basis, and not to accounting technicians. This standard should therefore be as practical and operational as possible and not require the accounting specialist to devote an inordinate amount of time to its interpretation and application within the entity. To achieve this objective, it may be more relevant to provide a single principle for all the modifications, based on what is prescribed for a change in the transaction price – see paragraphs 77 to 80- which is quite flexible enough to fit in very specific circumstances (allocating the change to the whole contract with retroactive adjustment for obligations already performed or allocating the change to only one or more distinct performance obligations if some criteria are met).

Finally, in paragraph 18, when the Board states that a contract modification should only be considered when approved, it would be useful to refer to paragraph 14 b) which explains what "approved" means and in what forms the agreement may be concluded.

On a point of drafting, we find it curious that paragraphs 18 to 22 on contract modifications are presented before the section on identifying performance obligations. We wonder if it is not more logical and helpful to comprehension to deal with modifications later in the standard, for example, close to where options are dealt with.

Customer options for additional goods and services

The proposed accounting model for options is also another source of complexity in this text. It is also not consistent with the definition of contract that encompasses only enforceable rights and obligations. As mentioned in all our comments related to the Lease projects, we believe that options should be considered only when their exercise is highly probable. We therefore suggest a more straightforward model for options:

- The entity should not consider the option as long as its exercise is not highly probable;
- When at contract inception it is highly probable that the customer will exercise its option, then the proposals in paragraph B24 may be applied ;
- When an option is not considered highly probable at the contract inception, but is finally exercised by the customer, it should be considered as a modification of the first contract or a separate contract depending on whether criteria of paragraph 21 are met or not.

Identifying separate performance obligations

We welcome the following improvements from the first exposure draft:

- The Board's decision to remove any reference to other entities' practices when identifying separate obligation performance.
- The Board's decision to develop criteria to identify circumstances in which an entity promises goods or services as a bundle.

However, we still have some concerns with one of the main principles for both identifying separate obligation and recognizing revenue. Indeed, both of these assessments are required to be completed in the "Customer Perspective" not in the "Entity Perspective". In our opinion, it seems more consistent with what we think should be the purpose of the Revenue Recognition standard, which is to depict the performance of the reporting entity. This is why we believe that segmenting the contract into performance obligations must be based upon the Business model of the reporting entity: if an entity considers that some parts of the contracts are mainly marketing incentives, it should therefore be accounted for in this perspective, and not as a performance obligation.

Finally, concerning criteria that define bundles that should be accounted for as a single performance obligation, we believe that the notion of "significant service of integration" should be better illustrated, as we expect some divergence in its interpretation. Actually, we have understood from some outreach conducted by EFRAG and the IASB that when an entity delivers many independent but similar items of equipment which require significant development costs for the first good to be delivered (and are necessary for the provision of the subsequent similar goods), one can conclude that the whole package of equipment should be considered to be a single performance obligation, because the risk of development is shared between all goods in this contract. As we agree with such a conclusion, we encourage the Board to clarify the definition to that effect.

We also encourage the Board to consider the whole issue of learning curve at some time in the not-too-distant future, as mentioned in paragraph BC234 of the ED.

Measuring progress towards satisfaction of a performance obligation

While we agree with both the core principle as laid out in paragraph 3, and the two models proposed ("over time" and "point in time"), we are nonetheless quite concerned about the way that some may interpret some parts of the text, such as in paragraph 39 "an entity shall exclude from a measure of progress any goods for which the entity does not transfer control". It is unclear, for example, whether this refers to the situation of wasted materials etc. described in paragraph 45 or whether it is contradictory to the "reasonable measure of progress" provisions in paragraph 48.

In fact, today many entities recognize revenue based on internal milestones whereas one might judge that nothing has been transferred to the customer. This can be the case for long-term contracts relating to complete train units and aircraft. As an illustration, the completion of a subsystem leads today to the recognition of revenue even if this asset is not delivered to the customer (since it is incorporated into a larger system), nor subject to a specific validation from the customer. If it is not the Board's intention to change current practices in this area, we would suggest that this paragraph be redrafted to clarify its application.

Measurement of Revenue – variable consideration:

- Although we welcome the Board's decision to extend the possible ways to estimate variable consideration to the most likely amount, we believe that the Board should not comment on the adequacy of both methods as it does in the final part of each of the two sub-paragraphs 55(a) and (b). The main principle as described in paragraph 55 ("the method the entity expects to better predict the amount of consideration") is sufficient.

- Finally, we are not quite sure to properly understand how an entity should take into account the commercial discounts it anticipates to provide to its customers, especially if we refer to the principles stated in paragraph 51 which supposes that the contracts will not be modified.

  An entity which enters into a four year contract with a fixed price but that already expects, to grant a 20% discount from the second year, because of its business practices: should the entity integrate this expected discount from the beginning into the price that will be allocated to each year of performance or should the entity wait for the effective contract amendment?

  Finally, still on the matter of variable consideration, we believe that the Boards should better define what this notion means. Paragraph 53 comprises only a list of examples, not a clear definition. It is therefore difficult in some cases to make a real distinction between variable consideration, an option or a contract modification. Since the proposed accounting treatment is not the same for all these cases, it is important that a clear definition of each should be provided.

Measurement of Revenue – the time value of money:

Concerning the discount rate to be used in adjusting the promised amount of consideration, we believe that it could be updated when there are significant changes in the expected future cash-flows (but the rate should remain unchanged for all cases when there is no significant change in the future cash-flows). Such revision will provide more relevant information and will also be more consistent with the Board's decision in the lease project. At present, the Boards have tentatively decided that the discount rate for both lessors and lessees should be reassessed when changes in the lease payments are not reflected in the initial measurement of the discount rate.

If the Board does not accept the above proposal, then we think the Board should provide relief on transition by not requiring the restatement of contracts for which entities have previously updated the discount rate since inception of the contract.

As a final comment on the discount rate to be used, while we understand the rationale behind the Board's decision to require the rate that would be reflected in a separate financing transaction, we consider that it will not always be easy to determine such a rate. We therefore suggest that the Board state clearly that entities may use an alternative rate such as the entity's incremental borrowing rate, as it is the case in the illustrative example 9 (paragraph IE8/IG66).

Contract costs

While we appreciate that the Board has considered some of the comments received on its previous exposure draft, we still believe that criteria proposed for capitalising the costs of acquisition of a contract are too restrictive. Indeed, paragraph 95 states that the contract ought to have been obtained (and not just anticipated) for the entity to be allowed to capitalised incremental acquisition costs. Such wording prevents entities from capitalising some acquisition costs directly related to an anticipated contract even when it is highly probable that the contract will be entered into in the next period and that acquisition costs will be recoverable. We therefore propose that only one single set of criteria should apply to both acquisition and fulfilment costs, i.e. criteria proposed in paragraph 91.

We also have an additional comment concerning contract costs: we wonder whether assets capitalised under paragraph 92 may be considered as qualifying assets under IAS 23 – Borrowing costs. If so, it should be specified either in this standard or in IAS 23.

Finally, we understand that both natures of costs, described in paragraphs 91 and 94, are excluded from the so-called "contract assets / liabilities". However there is some confusion about the nature of these assets (are they fixed assets, work in progress but depreciable?) and their balance sheet presentation. It therefore seems to us that the Board should state more clearly that such assets are not part of the "contract assets". The Board should also either specify the nature of these assets (which will may help for classification) or state that entities have a free choice in selecting the presentation they judge to be the most relevant.

Transition

While we may understand that a retrospective application is more relevant, we would like to draw the Board's attention on the real difficulties, the onerous work and modifications to reporting systems that companies will be faced with.

For this reason we suggest the following relief for the transition:

- Restatement of comparative periods should only be required when there is a real change in the accounting model for a contract (from percentage of completion to completed contract method for example). Changes in the accounting for options, contract modifications, credit risk and so on, should not lead to a mandatory retrospective application. When no significant changes apply to existing contracts, an entity may therefore choose to restate only contracts entered into after the transition date.
- A transition period of at least three years from the date of publication and the mandatory effective date should be provided. This would allow entities to dedicate one year to understanding the standard and preparing for its implementation, and two years for the collection of the information required for the comparative year(s).
- All the new disclosures should not be mandatory for the comparative periods, specifically the assets / liabilities contracts reconciliation.
- Allow entities to analyse contracts using the conditions existing at the date of transition. If the contracts should be treated differently in the light of this analysis, previous periods should be restated.

Finally, concerning the transition date, we urge the Board to align the dates for "Lease contracts" and "Revenue Recognition" projects, since they are so closely related.

Breakage

When the amount of Breakage is reasonably assured, we believe that the portion of the transaction price allocated to expect unexercised rights should be recognized at inception, i.e. as soon as the sale occurs . Conversely, when the amount of such breakage is not reasonably assured, revenue should be recognised only when the likelihood of the customer exercising its rights becomes remote. In other words, Breakage represents a portion of services or goods which will never be provided, and is in excess of the total remaining services or goods to be delivered. Breakage cannot thus be considered to be percentage of revenue as described in paragraph B27.

We do not agree with the arguments put forward by the Board in paragraph BC307 as they do not reflect the economic reality: individual prices are not reduced because of expected breakage, but rather determined according to an economic environment, based on the balance between supply and demand.

In addition, the proposed method as described in the exposure draft seems to contradict the new main principles for recognizing revenue:

- The method specified for breakage combines several individual contracts which do not meet the criteria for combination. In fact, the exposure draft states that "an entity is required to recognise revenue in proportion to the pattern of rights exercised by the customer". However, the specificity of breakage is that the customer will never exercise its right. The proposals lead the entity to recognise revenue when the service or the good is transferred to another customer. It has therefore the effect of combining contracts entered into with different customers (in contradiction with paragraph 17).
- This method modifies the general principle that determines the contribution allocated to a performance obligation: the proposals lead the entity to allocate a price higher than the contractual price for one customer.
- This method also leads to deferring revenue for an obligation that will never have to be satisfied; the only reason to defer revenue is when entities do not have reasonable assurance that the rights will be taken up.

Finally, we wonder why the proposals only deal with non-refundable prepayments as we know that customers may also not exercise their rights, nor ask for the refund they are entitled to. We do not believe that "breakage" on refundable prepayments could be accounted for as a right of return: actually, return implies that something has first been transferred to the customer that is not precisely the case for breakage as customers will never ask the entity to perform the performance obligation.