

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Paris, 14 March 2012

RE: Exposure Draft ED/2011/6 Revenue from Contracts with Customers

Dear Madam/Sir

We are pleased to comment on the above mentioned Exposure Draft (ED) published by the IASB and the FASB on 14 November 2011 to gather views on their joint proposals related to the accounting of revenue from contracts with customers.

First of all, we welcome the Boards' decision to re-expose for public comment their proposals given the numerous criticisms on the first ED published in June 2010. We also note that various aspects of the June 2010 proposals have been revised in the course of the Boards' redeliberations. We believe it is very important to make sure the new proposals are widely understood and accepted and that they lead to a robust common revenue standard for IFRSs and US GAAP.

In this regard, we note that this project is a joint project with the FASB and is part of the Memorandum of Understanding to achieve convergence on certain major issues between IFRSs and US GAAP. We believe this is a commendable objective, provided this project actually leads to the publication of a common standard. Should the FASB decide not to bring the project to completion, the removal of IAS 11 and IAS 18 would no longer be justified in our opinion.

This being said we note that the Boards have made considerable efforts in addressing the concerns raised following the publication of their first proposals on revenue recognition. Among the significant progresses that have been made, we would like to mention the following ones:

- Identification of separate performance obligations: the revisions to the previous proposals are in line with the comments we expressed in our comment letter on the first ED in that the entity should consider its own business model to identify separate performance obligations and that only one performance obligation should be identified for complex contracts in which the tasks are highly interrelated;
- Transfer of control of a good or service over time: Mazars welcomes the addition of a specific list of criteria to assess whether revenue should be recognised over time. Even if some questions remain, as expressed in our detailed comments hereafter, we understand that the Boards' intention is not to significantly change the current practice in this area even though this analysis needs yet to be confirmed by field-testing;
- Estimate of the transaction price when a promised amount of consideration in a contract is variable: being able to use the "most likely amount method" under certain circumstances is a positive step;
- Effects of the customers' credit risk: we agree with the proposed change from the previous ED since we had expressed that the effects of the customers' credit risk should not affect the revenue line;
- Allocating the transaction price to separate performance obligations: we believe authorising the use of the residual approach under certain conditions is a relief for entities when stand-alone selling prices are highly variable or uncertain.

However, we still disagree with some proposals and believe the second ED could be improved should some modifications be made on some specific issues, so as to guarantee that the final standard is clear and can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contract with customers:

- Onerous performance obligations: we reiterate our view that only contracts that are onerous as a whole should give rise to a liability at inception. This analysis takes into consideration the fact that construction or service contracts are usually negotiated globally without considering the margin expected on each performance obligation. Additionally, we are concerned by the adverse consequences of the limitation brought by the Boards to the scope of the onerous test, in conjunction with the consequential amendment to IAS 37;
- Disclosure requirements: we are strongly opposed to requiring the presentation of the disclosures listed in question 5 in an entity's interim financial statements. We believe neither the relevance nor the usefulness of those disclosures is demonstrated, regardless of the period (whether annual or interim) covered by the financial statements. Moreover, this information will be very costly to obtain because it will require significant adaptation of an entity's information systems. In this regard, the results of EFRAG's field-testing activities will be crucial to assess the cost/benefit effect of the proposals.

Furthermore, we find that the ED is sometimes not easy to read, the use of the basis for conclusions being really necessary to understand the underlying accounting consequences of the proposals that are made. We invite the Boards to provide the necessary details in the standard itself each time it is necessary, in order to avoid divergent interpretations of the future standard.

These are examples of subjects where the recourse to the basis for conclusions is essential to a correct understanding of the Boards' proposals:

- how to read the criteria to be met so as to be able to consider that an entity transfers control of a good or service over time: in particular, paragraph BC 101 enables to better understand the criterion 35 (b) (iii) as regards the right to payment for performance completed to date;
- how to apply the constraint on revenue recognition: the Boards could make it clearer that their intent is that the constraint apply when the promised amount of consideration in a contract is variable. Reading paragraph 81 without reading paragraph BC 200 might lead one to ask about the level at which the constraint on revenue recognition should be applied (ie at contract level or at the level of each performance obligation);
- how to justify the specific accounting treatment for revenue recognition as regards sales-based royalties (paragraph 85): paragraph BC 203 provides relevant arguments to better understand the Boards' rationale on this matter.

Our answers to the specific questions raised in this ED are presented in the appendix 1 attached below. We have also made some additional comments, as presented in the appendix2.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarifications or additional information.

Yours sincerely



Michel Barbet-Massin
Head of Financial Reporting Technical Support

Appendix 1: detailed answers to the questions raised in the ED on Revenue from Contracts with Customers

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 note that the Boards have maintained their initial proposal that an entity would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. In practice, a good or service is transferred when (or as) the customer obtains control of that good or service.

However, the Boards have now made a distinction between performance obligations satisfied “over time” and performance obligations satisfied “at a point in time”. In contrast, the June 2010 proposals provided only a list of indicators to assess whether a customer had obtained control of a good or service. In general, we support the new approach since the indicators proposed in the first ED did not seem to be workable when applied to construction contracts or service arrangements.

Paragraph 35 (to be read in conjunction with paragraph 36) thus specifies when an entity transfers control of a good or service over time. As a general comment, we believe the criteria given in this paragraph would be easier to understand if they were also presented using a decision tree included in an appendix to the future standard (as application guidance). Besides, we understand that these criteria generally permit to recognise revenue associated with construction contracts or service arrangements continuously over the contract period. Thus, we do not anticipate major changes in practice compared with the accounting treatments under IAS 11 or IAS 18 which we feel consistent with the business models of the related entities.

This being said, we would like to raise the following issues as regards the criteria presented in paragraph 35:

- Criterion 35 (a) indicates that *“the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. An entity shall apply the requirements on control in paragraphs 31–33 and paragraph 37 to determine whether the customer controls an asset as it is created or enhanced.”*:

We understand that few contracts do stipulate that the work in progress is controlled by the customer as the entity is performing. Thus, this criterion will probably mainly apply where an asset is built on a land on which the customer already has legal title.

When the transfer of control of the asset to the customer over time is not obvious, i.e. evidenced by clear contractual terms or the legal environment of the contract, we wonder whether it is relevant to look at paragraph 37, which presents indicators that an entity should consider in order to assess whether the transfer of control occurs at a point in time. In our opinion, this may lead to the same weaknesses as those noted while analysing the June 2010 proposals. Besides, since one of those indicators is that *“the customer has the significant risks and rewards of ownership of the asset”* (paragraph 37 (d)), it is unclear as to whether the principle of transfer of control is essential and is a determining factor for recognition of revenue over time (compared with existing requirements in IAS 11 and IAS 18).

This being said, as a more general comment we believe that presenting paragraph 37 relating to performance obligations satisfied at a point in time before the paragraphs relating to performance obligations satisfied over time (35-36) would improve the clarity and the relevance of the requirements as regards satisfaction of performance obligations.

- Criterion 35 (b) indicates that revenue is recognised over time if *“the entity’s performance does not create an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met”*. We would prefer that criterion (b) be written as follows: *“the entity’s performance creates an asset with no alternative use to the entity (...)”*. In our opinion, the sentence would be easier to understand this way. Besides, we are not sure paragraph 36 is clear enough to assess whether an asset has an alternative use to an entity. Actually, some assets created may be standardized until a specific milestone and become customer-specific only near the end of the construction phase. Would such assets be regarded as having an alternative use until a specified stage of completion or would they be regarded as having no alternative use during the whole construction phase? We also wonder to what extent contractual provisions have to be considered. For instance, where the contract does not specify which asset under construction has to be transferred, should the entity’s inability to redirect the asset under construction to another customer without breaching its deadline obligations be considered as creating no alternative use?

When an entity’s performance does not create an asset with an alternative use to the entity, one of the following additional criteria has to be met in order to be able to recognise revenue over time:

- Criterion 35 (b) (i) indicates that *“the customer simultaneously receives and consumes the benefits of the entity’s performance as the entity performs”*:

We have no difficulty understanding this criterion which, in our opinion, typically applies for long-term services arrangements.

- Criterion 35 (b) (ii) indicates that *“another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer. In evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in progress) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity”*:

This paragraph is obscure and its practical implications are not easy to grasp.

As we understand it and in the light of paragraphs BC 97-99 this criterion is workable only in case of transportation activities. We wonder whether it is relevant to have a criterion that is specific to only one particular business. Besides, transportation activities are not long-term by nature.

Besides, we wonder why an entity should disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity. The terms of the contractual agreement may force the customer to buy the work-in-progress and thus obtain control of the asset. In this case, it seems logical to us to consider that the first entity actually transfers control of that asset to the customer over time. In case the first contract is terminated by the customer and the customer mandatorily obtains the work-in-progress (usually against a penalty), the second entity may be able to finish the work without re-performing the work that the first entity has completed to date.

- Criterion 35 (b) (iii) indicates that *“the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity’s failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity’s costs plus a reasonable profit margin) rather than compensation for only the entity’s potential loss of profit if the contract is terminated”*:

We understand that, in practice, this criterion is seen as enabling in most situations recognition of revenue over time.

However, we are unsure what is meant by *“right to payment for performance completed to date”*. Actually, in most situations, the contracting party is entitled to obtain advance payments as the work progresses usually when specified milestones are reached.

It is unclear how to determine whether such progress payments should be regarded as mere financing of the work performed or if they do compensate the entity for the work performed to date. In our opinion, criterion 35 (b) (iii) should make it clear that such payments represent a right to payment for performance completed to date except if when the customer terminates the contract it can obtain reimbursement of some or all the progress payments made to date (leading to a penalty which does not approximate the selling price). On the contrary, even if no progress payment has been made to date, we would consider that if the entity can obtain a payment for the work completed to date which approximates the selling price, the criterion 35 (b) (iii) would be met.

This being said, when the customer has the option to terminate the contract at his convenience, we would also like the Boards to specify whether the right to payment should take into account the probability that the customer may terminate the contract. Actually, when highly specific and complex assets are constructed, the outcome that the client will terminate the contract before the entity delivers the product is often a remote possibility. What if no or a token compensation is due and all other criteria of paragraph 35 (b) are not met? We are aware of the existence of such contracts in the industry where the client is a government-related entity. In this particular case, revenue recognition over time may depend on contractual terms that are purely theoretical.

Besides, we understand that even if a contract stipulates that early termination at the customer's convenience would mean for the entity only a right to receive a penalty which does not approximate the selling price, a court decision may rule the matter differently. It is unclear whether the right to payment shall be assessed taking into account all the entity's remedies to be paid for the work completed to date. In this regard, we consider that the legal environment of the contract should also be taken into consideration.

Eventually, since this criterion is to be used notably when the entity expects to fulfil the contract as promised, we believe in general the final acceptance of the works from the customer should not be considered as the unique criterion for recognising revenue. Thus, not recognising revenue over time in case advance payments are partially or fully refundable if the customer terminates the contract before its end at its convenience would not, in our opinion, effectively communicate to users the economic substance of the contract, if this early termination is unlikely.

Both Boards, as they finalize the standard on revenue recognition, should make sure that the criteria presented in paragraph 35 cover all situations where the recognition of revenue over time is justified from an economic point of view. Moreover, the criteria should be clarified to the maximum so as to ensure that all stakeholders will eventually come together on a convergent analysis of its practical consequences.

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 understand that, contrary to the June 2010 proposals, an entity would no longer recognise revenue at the amount of consideration that the entity expects to receive from the customer. Instead, an entity would recognise the amount to which it is reasonably assured to be entitled, regardless of the risk of uncollectibility. Thus, when determining the transaction price, the entity should no longer consider the effect of the customer's credit risk. We welcome the change from the June 2010 ED since it is in line with the comment we expressed at that time.

Regarding the presentation as a separate line item adjacent to the revenue line item of the amounts of promised consideration that the entity assesses to be uncollectible because of customer's credit risk, we believe such presentation is relevant to assess whether the revenue recognised is secure, depending on whether the entity has an aggressive commercial policy. As well, this presentation should enable users to assess the overall "quality" of revenue. Should this proposal be confirmed after the redeliberations, a consequential amendment should be made to IAS 1 regarding the minimum line items to be presented in the statement of comprehensive income.

This being said, we have the additional following concerns:

- We understand that according to paragraph 68, an entity shall account for the effects of a customer's credit risk on a contract asset similarly to what is done for a receivable. The November 2011 ED refers to IAS 39/IFRS 9 to account for any impairment. Yet, paragraph 2 (k) of IAS 39 would be amended so as to specify that assets and liabilities within the scope of the future IFRS on Revenue from Contracts with Customers are excluded from the scope of IAS 39. It would not make sense to exclude receivables from the scope of IAS 39: as they meet the definition of a financial asset, they are currently within the scope of IAS 39 and the ED does not introduce any accounting change that justifies such a scope exclusion. Besides, if the impairment provisions of IAS 39/IFRS 9 should also apply to contract assets as defined under paragraph 104, we believe what is needed is an impairment-scope inclusion for contract assets, rather than a scope exclusion for receivables. Eventually, we recommend that the IASB, as part of the completion of its financial instruments project, addresses the specific consequences of referring to the impairment provisions of IFRS 9 to account for a customer's credit risk on a contract asset;

- We also understand that the presentation of any impairment in profit or loss as a separate line adjacent to the revenue line item applies only if the contract does not have a significant financing component in accordance with paragraph 58. Actually, when it is necessary to adjust the promised amount of consideration to reflect the time value of money, paragraph 61 specifies that the discount rate to be used by the entity would notably reflect the credit characteristics of the party receiving financing in the contract. Thus, in case the party receiving financing is the customer, the revenue recognised would reflect the customer's credit risk. We question whether such distortion in the presentation of the credit risk is relevant, depending on whether the promised amount of consideration has been adjusted to reflect the time value of money.

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?

We agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations. We believe the general principle of paragraph 81 is clear. However, since the constraint on the cumulative amount of revenue recognised to date applies if the amount of consideration to which an entity expects to be entitled is variable, we believe it is necessary to specify the situations that are addressed here. For instance, we understand that if the promised amount of consideration for a specific performance obligation in a contract is variable, but the promised amount of consideration for the other performance obligations in the contract are fixed, that constraint would nonetheless apply to the contract as a whole.

As regards paragraph 85, we agree with the principle of not recognising revenue if the amount of consideration depends on future sales to be realised by the entity's customer. This is because in such case the entity is not reasonably assured to be entitled to an amount of variable consideration which is highly susceptible to factors outside the entity's influence. When the entity has granted to a customer a licence which gives rise to a performance obligation that could be considered satisfied at a point in time but would make its revenue dependant on the customer's sales, revenue should be recognised once the entity's customer has generated sales.

However, this paragraph should not be presented as an exception to paragraphs 81-83 because we believe it is consistent with the general principle given shortly before. As we understand it, sales-based royalties are received each time the entity's customer makes subsequent sales to its own customers. We consider that this demonstrates that the entity is performing each time its customer is performing. Thus, sales-based royalties are the consideration received in exchange for the satisfaction of multiple "point in time" performance obligations. For this reason, it is relevant that no revenue be recognised by the entity as regards sales-based royalties until the customer's subsequent sales occur, which will demonstrate that the entity licencing intellectual property has also performed.

This being said in our view there is no reason for making a difference between the accounting treatment of sales-based royalties and the accounting treatment of trailing commissions as presented in example 14. In both cases, the additional amount of revenue is contingent on future events which are outside the entity's influence. If the Boards do believe that making a difference in the accounting treatment as regards these situations is justified, we believe they should better explain the reasons why in order to avoid diversity in practice.

Thus, the scope of paragraph 85 should, by itself, be sufficient to understand the need for a specific constraint on the amount of cumulative revenue recognised to date. In this regard and as mentioned above, we believe such scope should be expanded so as not to limit it to sales-based royalties relating to intellectual property licences. For instance, production-based royalties should also be included in the scope of this paragraph. We see no reason why similar sales should be accounted for differently.

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 disagree with the proposals on onerous performance obligations for various reasons.

First of all, we reiterate the comment made on the June 2010 proposals that only contracts that are onerous as a whole should give rise to a liability at inception. Thus, in our opinion, it makes no sense to recognise a liability at inception for a separate performance obligation which is onerous if it is part of a contract which is overall profitable. This is because the contract has been negotiated as a whole with the client.

In practice, this view implies that if the allocation of the transaction price of the contract to the separate performance obligations leads to identifying a loss at contract inception for at least one performance obligation, the allocation principle described in paragraphs 70-71 should be adapted in order to allocate to the performance obligations which are onerous an amount of consideration which equals the expected costs to be incurred to satisfy those performance obligations plus an appropriate margin.

Such margin should either be the global margin of the contract or the customary margin on the sale of such goods or services if the latter is lesser than the former. The residual consideration of the contract should then be allocated to the other performance obligations (i.e. those which were profitable according to the first step allocation) on a relative stand-alone selling price basis. If, following this allocation, another performance obligation appears to be onerous, an expected cost plus a margin approach should once more be used for this performance obligation and the allocation of the residual consideration to the other performance obligations should once more be made, until no further performance obligation is identified as being onerous at contract inception.

This being said, we consider that the Boards should clarify that the allocation of the transaction price to separate performance obligations should be disconnected from the prices that are presented in the contract for each separate performance obligation since those prices do not always reflect stand-alone selling prices.

Secondly, we also strongly disagree with the scope of the onerous test. As a “practical expedient”, the Boards have decided to limit the test to performance obligations that an entity satisfies over time and that the entity expects at contract inception to satisfy over a period of time greater than one year. This limitation has, in our opinion, unfortunate consequences, since it prevents an entity from accounting for a liability as regards onerous performance obligations that an entity satisfies over time and expects at contract inception to satisfy over a period lower than one year, and as regards performance obligations that an entity satisfies at a point in time. Besides, since IAS 37 would be amended to exclude from its scope the rights and obligations arising from contracts with customers within the scope of the future IFRS on Revenue Recognition, no standard would ever require a liability to be recognised, even though a loss is expected eventually. We see no rationale for this. If the Boards’ objective when limiting the scope of the onerous test was to answer the criticisms made on the June 2010 proposals as regards the unit of account to perform such test, we believe the answer that is delivered today is not the right one.

Thirdly, we believe paragraph 87 is improperly drafted. We believe that an onerous performance obligation should be defined on the basis of the comparison between “*the amount of the transaction price allocated to that performance obligation*” and the “*the costs that relate directly to satisfying the performance obligation by transferring the promised goods or services*”, instead of the “*lowest cost of settling the performance obligation*”.

The “*lowest cost of settling the performance obligation*” should be the amount at which a liability for onerous performance obligation is recognised, and should be defined as the lower of (i) “*the amount that the entity would pay to exit the performance obligation*”, and (ii) the excess of “*the costs that relate directly to satisfying the performance obligation by transferring the promised goods or services*” over “*the amount of the transaction price allocated to that performance obligation*”.

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.

Before answering this specific question, we would like to say that in our opinion, the disclosures about revenue and contracts with customers that are required in the annual financial reports will probably represent a major cost for companies while the benefits for users are not demonstrated. We wonder if those disclosures meet an urgent demand from users of financial statements and whether this information will really be able to satisfy them completely. For example, the reconciliation of contract balances which is required in accordance with paragraph 117 will not, in our opinion, enable users to understand the link between the revenue that is recognised over time by measuring progress towards complete satisfaction of a specific performance obligation, and the amount of cash already recognised as regards this performance obligation. In practice, we do not understand example 19 given in paragraph IE 17. Besides, we note that under IAS 11, many companies did not give the reconciliation to explain the “due to / due from” customers’ amounts presented on the face of the statement of financial position because this information was not deemed relevant nor useful. Eventually, as the information which is required is not the one used by the chief operating decision maker, its relevance for the users of the financial statements may necessarily be called into question.

For these reasons, we strongly oppose requiring an entity to provide in its interim financial report each of the disclosures listed in question 5. In our opinion, this requirement is in contradiction with the general principle set out in IAS 34, and reaffirmed with the improvement issued in May 2010, according to which:

“15 An entity shall include in its interim financial report 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. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

15A A user of an entity’s interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.”

In case revenue recognised for one interim financial period is in line with revenue recognised for the same comparative period, we see no legitimate reason to overrule the general principle of IAS 34.

According to paragraphs BC 273 of the second ED, we note that the Boards have rejected an alternative approach consisting in requiring to disclose in interim financial statements only a disaggregation of revenue and to specify other disclosures that an entity might need to disclose only if that information significantly changes from period to period. Actually, the Boards believe this alternative approach might have created diversity in practice because entities would have been required to exercise their judgement. On the contrary, we believe this approach is the right one and is consistent with IAS 34. Besides, this approach would be more reasonable as regards the costs incurred by preparers to gather the information. Lastly, as the IFRS set of standards is principle-based, we do not see much rationale not letting preparers use their judgment to choose the level of information they deem appropriate.

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?

We understand that the purpose of the consequential amendments that would be made to IAS 16, IAS 38 and IAS 40 is to have consistent requirements among these standards and the future standard on Revenue from Contracts with Customers as to:

- the date when to recognise the loss of control of the asset;
- the amount of revenue to recognise upon the sale of the asset.

Overall, we support the Boards' efforts to ensure consistency within IFRSs. Besides, these amendments will ensure continuity with the accounting treatment applied today for such operations.

We would nonetheless suggest that the Boards devote time and resources to addressing issues that are not currently addressed by IFRSs. For instance, it is not clear which principles apply for the transfer of investments in associates that are recorded in accordance with IAS 28. Should such transfers be recorded using the standard on revenue recognition or the standard on financial instruments?

Appendix 2: additional comments on the ED on Revenue from Contracts with Customers

Combination of contracts (paragraphs 16-17):

We welcome the change from the previous ED with the removal of the “price interdependence” principle. However, we believe the Boards should add guidance to assess the limit time frame beyond which a combination of contracts should not be possible. Actually, in our opinion, the principle according to which an entity shall combine two or more contracts entered into “at or near the same time” as long as other conditions are met is not clear enough to avoid diversity in practice.

Contract modifications (paragraphs 18-22):

Paragraph 19 states that if the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply the future standard on revenue recognition to the modified contract when the entity has an “expectation” that the price of the modification will be approved. In our opinion, a modification to a contract should be accounted only when the customer has approved (in writing, orally, or in accordance with other customary business practices) the price of the modification. Indeed, the right to payment for the additional work performed should be clearly demonstrated. Otherwise, there is a risk that an entity accounts for revenue related to contract modifications to which it is not entitled.

Besides, even if we are supportive of the fact that fewer contract modifications will be accounted for on a cumulative catch-up basis compared with the June 2010 proposals, we find the requirements of paragraph 22 complex and not easy to apply. At least, we recommend that a decision tree is added as implementation guidance so as to clarify how the requirements should be applied.

Identifying separate performance obligations (paragraphs 23-30):

We believe that a decision tree (presented as implementation guidance) would also be helpful in order to assess whether two or more distinct goods or services promised in a contract should be accounted for as a single performance obligation or not.

This being said, we look favourably on the modifications brought by the Boards to the criteria for identifying separate performance obligations. We believe this will result in a better depiction of the economic substance of an entity’s contracts with customers.

However, we also consider that applying paragraph 29 which defines the notion of a “bundle of promised goods or services” will require a significant amount of judgment. Moreover, when a long-term contract is aimed at providing a customer with several identical products that will be constructed over different time periods and which will require significant development costs at the beginning, it is not clear whether such contract will be treated as corresponding to only one performance obligation or not. Paragraph BC 81 seems to indicate that it is possible to consider that performance obligations related to a single contract which are satisfied one after the other and which present the same pattern of transfer may be regarded as only one performance obligation. Should this be the case, we recommend that the Boards clarify paragraph 30 on this issue.

The time value of money (paragraphs 58-62):

The general principle set out in this ED as regards the fact that an entity should, among others, consider the effect of the time value of money to determine the transaction price of a contract is satisfactory. There is currently great diversity in practice as regards this issue. The future standard on revenue recognition should thus ensure more consistency on this subject.

However, we wonder if those proposals will be workable for complex contracts that are satisfied over time when adjustments between the work performed to date and the cash received to date are frequent. To illustrate how to adjust the amount of consideration to reflect the time value of money if a long-term contract has a financing component that is significant to the contract, we would recommend that the Boards add an additional example following example 9 to address situations where performance obligations are satisfied over time and the entity receives advance payments throughout the contract which are disconnected from the measurement of progress towards completion.

Besides, even though we are generally supportive of practical expedients since they provide a welcomed relief to preparers, in the particular situation of paragraph 60, we are against excluding in all cases the need for an adjustment of the promised amount of consideration if the entity expects at contract inception that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less. This is because, in some particular situations, the contract may nonetheless have a financing component which is significant. In our opinion, the fact that the period between payment by the customer of all or substantially all of the promised consideration and the transfer of the promised goods or services to the customer will be one year or less is simply a presumption that the financing component may not be significant to the contract. Thus, we believe paragraph 60 should be amended by adding at the end the following: “*unless there is clear evidence that a financing component is significant to the contract*”.

Non-cash consideration (paragraphs 63-64)

We question whether the requirements of the second ED on non-cash considerations are sufficient since the future standard on Revenue Recognition will supersede IFRIC 18 *Transfers of Assets from Customers*.

Besides, we wonder when the measurement at fair value of the non-cash consideration received from a customer should be made: at contract inception, when (or as) the entity performs or when the goods or services contributed by the customer are actually received by the entity?

Allocating the transaction price to separate performance obligations (paragraphs 70-76):

In our opinion, the principle of allocating the transaction price to separate performance obligations may lead to resort to judgement significantly, first while determining if a stand-alone selling price is directly observable or not, secondly while estimating the stand-alone selling price when necessary. We fear that in practice, some may be tempted to adjust the stand-alone selling prices to control the amount of revenue to be recognised in a specific financial period and to prevent from identifying onerous performance obligations during the life of the contract, should the Boards decide to maintain the ED requirements as regards onerous performance obligations.

In particular, we wonder whether the definition of a “stand-alone selling price” given in paragraph 71, which is “the price at which an entity would sell a promised good or service separately to a customer” - the best evidence being “the observable price of a good or service when the entity sells that good or service separately in similar circumstances to similar customers” according to paragraph 72 - is relevant for all businesses. In B2B transactions, the price lists available rarely represent a stand-alone selling price because each price is determined in the context of a specific customer relationship. Thus, we question whether those price lists should always be used only because they exist.

Besides, as auditors, we believe it will not be easy to exercise our professional judgment on the relevance / verifiability of the estimations made in accordance with the methods listed in paragraph 73 (this list being not exhaustive), considering the free choice granted to companies (except as regards the application of the residual method). We fear that the flexibility granted by the Boards’ proposals lead some companies to adjust the margin on each separate performance obligation of the contract if need be, by using the most appropriate estimation method.

Presentation (paragraphs 104-108):

According to paragraph 104, when either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract liability, a contract asset, or a receivable depending on the relationship between the entity's performance and the customer's payment. As far as we understand it, this requirement will lead to present on a net basis the remaining rights and performance obligations in a contract. We question whether this presentation is relevant for all categories of revenue, i.e. no matter what the timing of transfer of goods or services is (at a point in time or over time). Besides, we wonder whether the reconciliation of contract balances required in paragraph 117 is a way to compensate the loss of information arising from this presentation on the face of the balance sheet.

For contracts for which revenue is recognised over time, we understand that costs that relate directly to satisfying the related performance obligations would be presented as assets as long as they are in the scope of IAS 2, IAS 16 or IAS 38, or as long as they meet the conditions listed in paragraph 91 to be considered as "costs to fulfil a contract". Thus those costs, when incurred before the related revenue is recognised, would be presented separately from the contract assets / liabilities to which they refer. This is a major difference compared with IAS 11. The future standard should make it clear how all the amounts recognised on the face of the statement of financial position are dependent on each other, so that users of financial statements may have a comprehensive view of the situation for one specific contract. In this regard, we do not believe the information required in paragraph 128 concerning assets recognised from the costs to obtain or fulfil a contract with customer will be useful.

Warranties (paragraphs B10-B15):

In our previous comment letter, we had indicated that should the Boards consider that legal warranties are not separate performance obligations, we would prefer the entity to account for a provision in accordance with current IAS 37. Thus, we agree with the new proposal in this respect.

However, we would suggest that paragraph B13 be drafted in order to state that the part of the non-optional warranty which simply represents a guarantee of conformity of the goods sold should always be accounted for in accordance with IAS 37, even if the length of this warranty is longer than the warranty required by law. If services are provided in addition to the assurance that the goods comply with agreed-upon specifications, for instance maintenance, these services should be accounted for as a separate performance obligation.

Effective date and transition (appendix C):

Should the final standard on Revenue from Contracts with Customers be issued by the end of 2012 (we note that no target IFRS date is given in the IASB's work plan), we believe entities should be required to apply this IFRS for annual periods beginning on or after 1 January 2016 at the earliest. This is because the new requirements will demand from entities considerable time and resources to apply.

Should the final standard be issued at a later date, the Boards should ensure that entities will have at least three years between the issuance date and the effective date.

We believe earlier application should be permitted.

As regards transition requirements, we are of the opinion that the Boards should grant entities more relief concerning the disclosures of the comparative periods presented.