



<b>SYNTEC INFORMATIQUE's comments on IASB Discussion Paper on Revenue Recognition</b>
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Dear Sir,

Thank you for providing us with the opportunity to comment on the IASB discussion paper dealing with "*Revenue Recognition*".

Please find hereafter the Syntec Informatique's comments on the IASB Discussion Paper on Revenue Recognition. Purpose of the document is to share openly and constructively with IASB members the position of the French IT services industry on the Discussion Paper - *Preliminary Views on Revenue Recognition in Contracts with Customers* ("the DP").

The Syntec Informatique gathers the IT services companies operating in France and over the world through their subsidiaries. It represents more than 21,300 companies, employing altogether approximately 350,000 employees. Total revenues of its members amounted to EUR 40,2 billion in 2007. A working group has been established in March 2009 to prepare a coordinated and complete answer to the Board on behalf of the main French IT services companies. These comments have been endorsed by the Syntec Informatique's Board of Directors on June 10, 2009. Further questions or clarifications should be addressed to David Pierre-Kahn ([david.pierre-kahn@atosorigin.com](mailto:david.pierre-kahn@atosorigin.com)). Our comments were shared with and agreed by other large IT services groups, such as Indra and CGI. Any further comments have been integrated in this document.

Our overall objective is to contribute positively to the financial information quality given to the financial community (shareholders, financial analysts...) and to strengthen the performance management of each entity.

Before addressing our main comments on the discussion paper, it appears necessary to understand the type of IT services companies' businesses. Business objectives of IT services companies are to provide full comprehensive services and solutions to their clients, ranging from supporting strategy development through to enterprise and technology solutions. IT services companies deliver a service which integrates innovative solutions and best practices for technology, processes and people to ensure high value outcomes for their clients' businesses now and in the future. IT services companies manage large-scale and complex IT-related projects to meet their clients' expectations and business needs.

**In general, IT services companies do not apply a standardised blueprint to any client. Instead, they aim to understand each client's individual objectives, and then find ways to empower their people to deliver optimized performance, increased productivity and efficiency through specific solutions.**

The Syntec Informatique members conclude various contracts with public and private customers, offering a range of services that can be presented as follows. :

- 1) Services that are rendered and consumed immediately by the client (maintenance services for example)
- 2) Services for which the company works during a period of time and deliver a solution or a “product” to the client

Among this second category, we may distinguish:

- a. **Standard** products, solutions or assets,
- b. **Specific** products, solutions, assets or projects. These specific products can be fully developed for a client but can also integrate some standard products that are specifically integrated to meet the client’s needs. In all cases, they are specifically designed and adapted to fit the specific needs of a client at a specific moment.

Most of IT projects are specific, as described in Appendix 1.

Specific projects are conducted according to the “V model” concept. Refer to Appendix 2.

This project management model describes and illustrates the fact that a joint work is conducted by the IT services company and its client during the life of the project. This cycle breaks down a business need expressed by the client into functional needs and technical specifications developed by the IT Company.

At each stage of the cycle, each step performed and each item developed by the IT Company, the client can ensure that the development corresponds correctly to the functional needs expressed upstream. This process is not systematically formalized under the same way. All steps can be documented and formalized. In most cases, progress reports are very detailed précising additional remarks, conditional approval, exceptions, add-ons, etc.

Although the final and complete solution is delivered at the end of the cycle, the client receives the IT services company’s continuous response to its expression of needs throughout the cycle. A collaborative business approach is engaged between the client and the IT Company during the life of the project.

### **Introduction to our comments**

The DP proposes a model where revenue is recognized only when a performance obligation is satisfied. An entity’s obligation performance is defined as a promise in a contract with a customer to transfer an asset.

The Syntec Informatique welcomes the project and agrees with some of the proposals included in the DP, which are developed hereafter.

**However, the Syntec Informatique has a fundamentally different view on when revenue should be recognized. The Syntec Informatique considers that the definition of a performance obligation and the recognition of revenue when the entity is “transferring an asset” to the customer does not properly translate the relationship between IT services companies and their clients.**

We foresee the following main reasons:

*1. The proposed model is not adapted to the development of a collaborative solution with a client.*

The concept of “transfer of control of an asset to the customer” for revenue recognition purposes appears suitable for the sale of goods (transfer of control on delivery) and services rendered on an ongoing basis (e.g. “run” services (outsourcing, maintenance and BPO)). However, Syntec Informatique believes that the model proposed in the Discussion Paper cannot be applied to two main types of specific services, where IT service companies work in close conjunction with their clients during a given period in order to deliver a solution:

- **“Design” advisory Services:** these are services consisting in accompanying the client in a specific project. Consulting services are aimed at improving the strategic intent, overall design, efficiency and effectiveness of IT capabilities or building and improving client's strategy. Consulting services can also consist in processes re-engineering and transformation that necessitate on site, intensive interaction with client executives. A report is frequently delivered to the client at the end of the contract.

For these services, Syntec Informatique does not believe that there is actually a transfer of control during the execution and that the completion method to recognize revenue is a valuable method that provides useful information as developed hereafter.

- **“Build” integration services:** these are services consisting in developing a specific solution for a client. They can be defined as a project, or set of projects, focused on design, development and implementation of a custom or packages (software or system) solution on behalf of a client. At the end of the contract, the IT Company delivers a solution to the client.

For these services, there is a continuous relationship where the IT Company translates the client’s needs and expectations into a technical solution. Even if there is no continuous transfer of control, Syntec Informatique believes that the percentage of completion is an appropriate method to recognize revenue on these projects. Syntec Informatique believes that the revenue should be recognized during the service and not only at the end.

For these two types of services, during which the IT services company works in close conjunction with its client during a given period in order to deliver a solution, the client does not actually obtain control of the underlying asset during the development of the solution. An ongoing collaborative process between the IT Company and the client is engaged. During this process of constant interaction with the client, the rights and obligations of both parties are changing progressively as the solution is defined and developed, even if the control over the solution is not formally transferred. There is no actual transfer of control of asset to the client but a continuous collaboration with the client to develop the solution he needs.

In the event of early termination of the contract by the client, IT services companies are paid for part of the work performed until termination irrespective of the terms of the contract. This situation does not result from the terms of the contract or from legal rules, but are common in the IT services sector. This illustrates the fact that the rights and obligations of parties have progressively changed during the contract execution.

Depending on local legislation and industry practices, IT companies may also include milestone payments in contracts. Those are not, by themselves, the evidence that a control has been transferred but are related to project funding.

The “transfer of an asset” concept is not accurate to this type of services; we do not believe this should be the basis for a new standard on revenue. Percentage of Completion remains the most appropriate method to record Revenue.

## ***2. Percentage of completion method provides accurate information under IFRS***

### ***a. Current method***

Specific projects or assets are currently recognised in accordance with the percentage of completion method. As developed hereafter, this method is considered appropriate by the Syntec Informatique members and is not criticised by analysts or other users of financial statements. Syntec Informatique believes that revenue recognition in line with the progress of work performed by the IT services company under contract is appropriate and properly reflects services rendered to the client.

#### POC method is used for internal reporting purpose

The percentage of completion method is aligned to the way IT companies manage their projects internally. For their internal needs, IT services companies will continue anyhow to manage their revenue and margins based on the percentage of completion method for this type of contracts.

Indeed, consistent with their business model, IT services companies are focused on the final profitability of managed projects as opposed to an analysis of each of the milestones of a defined project.

#### Simplicity

The percentage of completion method is based on the analysis of two KPIs (key performance indicator):

- total project revenues at completion and
- total costs at completion

which makes the follow up easy and shared by the project managers.

#### Auditability

As those two KPIs are periodically reestimated, they are easily auditable by internal or external auditors, any change having to be substantiated and documented.

#### Basis for employees' remuneration

Most companies use revenues and margin calculated based on the percentage of completion method to determine incentives and bonuses.

#### Identification of onerous contracts

Doing so is essential to identify and assess potential loss-making contract provisions.

We believe this approach provides more useful information and shows how IT services companies manage their revenue, margins and cash flows. Aligning accounting methods to internal needs is relevant because it is likely to strengthen internal control over projects. Changing the current generally accepted accounting principle will create disconnection between external financial information and internal reporting rules.

### ***b. Proposed model***

According to the model proposed in the Discussion Paper, revenue related to specific projects described above would only be recognized upon delivery of the final solution. Published revenue and margin figures would probably “rise and fall” as specific projects are completed. Syntec Informatique believes such information would not be relevant to users and would also create uncertainties.

It would also probably generate inconsistent positions taken in various entities of a same group. These arguments had already been developed by the French Accountants Organization (“Avis OEC n°25”).

Syntec Informatique also believes that a contract based-approach would not be accurate. As already mentioned above, **the form of contracts can be radically different** from a services contract to another, in terms of prices, terms and conditions, milestones, legal terms etc. Within the same group, two entities can provide the same nature and substance of services to their clients, while concluding strongly different contracts in terms of form. Terms of contracts may vary significantly from one country to another. However, IT companies believe that in such cases, the form of the contracts does not have any influence on the substance of services provided to their clients.

Finally, payment terms are generally the only value given to each of the milestones but do not represent the value of the work achieved. This is because the payment schedule is primarily the outcome of a bargaining process which cannot be the basis for a revenue recognition principle.

**In conclusion, the Syntec Informatique believes that the revenue is a measure of activity carried out to fulfill a contract in cooperation with a customer; in other words, the revenue has to be recognized as the entity progresses towards performance obligation fulfillment, rather than just on fulfillment. Percentage of completion is the most accurate accounting method to record revenue in the IT services industry.**

Please find hereafter our detailed answers to some of the Discussion Paper questions:

## **CONTRACT BASED RECOGNITION PRINCIPLE**

**Question 1—Do you agree with the board’s proposal to base a single revenue recognition principle on changes in an entity’s contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?**

Adopting a unique standard is a satisfactory objective if it leads to a relevant presentation of activities and of the way margins and results are generated by all companies. Syntec Informatique believes that the model proposed in the Discussion Paper is not appropriate and relevant to translate some activities of IT services companies where they work continuously with their client to develop a specific service or solution (refer to introduction to our comments).

A single revenue recognition principle needs to be relevant for goods and services, but also for specific activities (leading to delivering of goods or services) consisting in a continuous collaboration between the client and the provider to develop a solution that meets specific requirements of each client.

For these specific services, there is not actually a transfer of control during the execution of the contracts but the rights and obligations of the parties are changing progressively. The model proposed in the Discussion Paper does not appear appropriate to account for these activities that, we believe, should be recognized using the percentage of completion method.

In conclusion, we do not believe that any “unique” principle should be based on the concept of transferring control over an asset. This concept seems inappropriate and difficult to apply to specific IT services.

***Question 2 -- Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?***

For the types of contracts for which the IT Company works continuously with the client to develop and deliver the appropriate solution, Syntec Informatique believes that the board's proposed principle would not provide decision-useful information. IT companies will continue to follow their revenue and margins based on the percentage of completion method which seems more appropriate to manage the projects and to understand how revenue and margins are generated during the project (and subsequently assess potential loss-making contracts provisions).

Refer to introduction to our comments.

***Question 9—The board propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide example.***

The concept of a « performance obligation » is not accurate and do not apply to specific IT services where the IT company works continuously with its client during a period of time to develop and deliver a solution. Among a specific project, it appears very difficult and highly judgmental to identify separate performance obligations.

Each step and milestone of a project does not systematically constitute a performance obligation (refer to introduction to our comments). However, the performance obligation of the IT Company is not only to deliver a solution at the end of the project. In these specific projects, the performance obligation consists in working continuously and in strong collaboration with the client in order to develop progressively and to deliver the solution that will meet the client's specific business needs. Intermediate steps and milestones (technical validations, payments, meetings, etc) are not evidence of the transfer of control over the solution to the client. They illustrate the continuous collaboration between parties and the continuous changes in their respective rights and obligations (refer to introduction to our comments).

***Question 3 - Do you agree with the board's definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.***

Syntec Informatique agrees with the definition of a contract proposed in the Discussion Paper: "A contract is an agreement between two or more parties that creates enforceable obligations". Syntec Informatique also agrees on the fact that such an agreement does not need to be in writing to be considered a contract. The absence of any written agreement is however very rare in the IT services sector, especially for complex projects. It should also be noted that the form of contracts and agreements can vary strongly depending on the complexity of the contract, legal environment, local practices, wishes of clients, etc. The form of the contract should not influence the accounting method.

## **PERFORMANCE OBLIGATIONS**

***Question 4—Do you think the board's proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract***

The Board's proposed definition of a performance obligation would not help IT services companies to identify consistently the components of a contract. This concept does not appear appropriate to

translate the continuous collaborative processes engaged between the client and the company in a contract. IT service companies are not in a position to measure the revenues that should be allocated to each of the milestones.

We refer to previous questions and to introduction to our comments.

***Question 5 – Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?***

Syntec Informatique agrees on this principle for the sale of goods and services that are rendered continuously and immediately consumed by the client (e.g. maintenance services).

However, for types of services where the IT companies develop a specific solution in continuous cooperation with the client, Syntec Informatique believes that the Discussion Paper does not provide answers and solutions for separating performance obligations (refer to introduction to our comments).

In these kinds of contracts, Syntec Informatique believes that the performance obligation consists in rendering the continuous collaborative work with the client in order to develop and deliver the final solution. For these services, the performance obligation is not related to an asset but to a process aiming at developing a specific asset. Syntec Informatique believes such a performance obligation cannot be separated into several components. When a client chooses a specific project or asset, it purchases a **comprehensive service**. The effective business interest in the project is represented by the whole project and not the sum of several individual components. A project sold to a client cannot be broken down into components, in terms of services rendered to the client or price and margin.

This observations leads to the **inability to provide an appropriate breakdown of a specific IT project into several “performance obligations”**

**The service is delivered to the client throughout the duration of the project and not merely on project completion.** The client expresses functional needs on an ongoing basis throughout the project. Project progress and the delivery of an “asset” to the client is represented by this ongoing expression of needs by the client and the regular translation of these needs, by the IT services company, into technical specifications. The client does not purchase an asset to be delivered once finalised on completion of the work of the IT services company. It purchases the ongoing adaptation of an IT system to its functional needs, expressed on a continual basis throughout the duration of the contract.

#### ***Questions 6&7***

Not applicable.

#### **SATISFACTION OF PERFORMANCE OBLIGATIONS**

***Question 8 – Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred***

Syntec Informatique agrees with this principle for goods and standard services like maintenance services for example. However, as previously explained, the concept of the transfer of control over an asset does not seem appropriate and relevant for IT services consisting in developing a specific solution for a client.

## MEASUREMENT OF PERFORMANCE OBLIGATIONS

***Question 10(a) -- Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?***

We agree.

***Question 10(b) -- Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?***

***Question 10(c) -- Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristics of the obligation make that approach unsuitable? Please provide examples.***

***Question 10(d) -- Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.***

Syntec Informatique believes that a performance obligation should not be re measured even if the contract becomes onerous. We do not believe that a re measured revenue would provide useful information and we also believe that it would create additional judgmental positions in revenue.

IT service companies are not in a position to measure the revenues that should be allocated to each of the milestones.

Specific IT services proposed to clients, as detailed in part "Introduction to our comments", are designed and delivered on a specific and individual basis to meet the client's business needs at one moment. In this context, contracts and services are hardly comparable and we do not believe it would be feasible to find a relevant basis for re measurement. In the absence of any comparable or market value of a contract, we do not believe that a re measurement would provide useful and reliable information.

***Question 11 -- The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.***

***(d) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?***

***(e) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.***

In the IT services sector, two different natures of costs can be engaged prior to signing a contract:

- Commercial pre sale costs engaged to sell standard goods or solutions. These costs should be recorded as expenses.
- Technical pre sale costs engaged to sell a specific solution to a client. Technical pre sale costs consist in starting to understand the client's needs and starting to engage the collaborative business solution that will be developed after the contract is signed. During the pre sale phase of such contracts, the IT Company starts to design the solution with the client who needs this preliminary collaborative work to be able to decide to work further with the IT Company.

In such conditions, Syntec Informatique believes that pre sale costs engaged to sell a specific solution to a client represent a project expense that should be recorded in the balance sheet and depreciated if the contract is not signed at balance sheet date.

***Question 12 – Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity’s stand-alone selling price of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?***

As previously explained, we do not consider that a performance obligation can be segregated in several components for contracts where a specific solution is developed with the client. When some components can be identified in large multiple elements contracts (several specific solutions delivered for example), Syntec Informatique believes that the transaction price should be allocated to each solution on the basis of contractual individual prices. As detailed previously, comparables are rare for specific solutions and services.

Moreover, in the IT services industry, contractual prices are generally very close to the “fair value” of each component. Clients have frequently the right to compare prices of each component during the life of the contract and to ask for a decrease in tariff in case the provider would appear more expensive than some of its competitors (“benchmark clauses”). Allocating the price of a contract on a different basis than the fair value of each component would create a risk for the IT Company after a few years. In this context, IT services companies usually indicate the fair price of each component in the contracts. This is why we believe that the transaction price should be allocated on the basis of the contract.

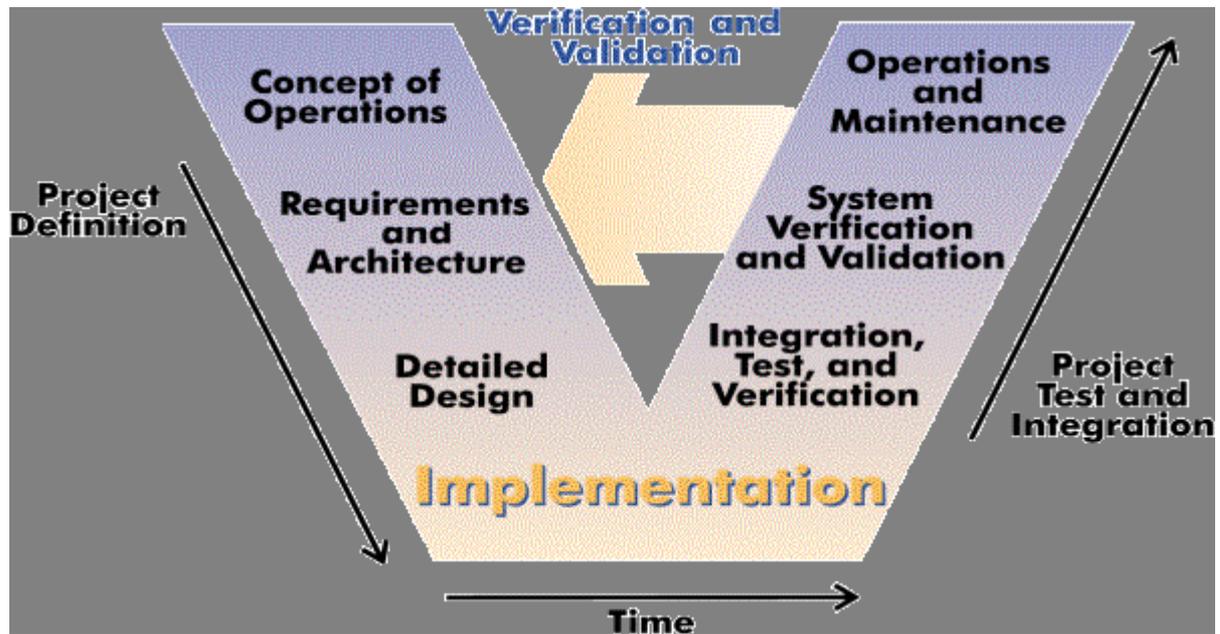
***Question 13 – Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?***

Syntec Informatique believes that goods or services that are never sold separately should not be segregated. We do not believe that a specific solution can be segregated into several components that have no individual value for the client. We refer to our answers to previous questions (especially question 5) and to introduction to our comments.

Appendix 1

Services lines	Segments	Examples	Definition	Current accounting treatment under IFRS
<b>Consulting / "Design"</b>				
	Delivering of solutions	Technology consulting, strategy consulting	Consulting services aimed at improving the strategic intent, overall design, efficiency and effectiveness of IT capabilities or building and improving client's strategy	Revenue recognized according to completion at the reporting date. In most cases, the percentage of completion is measured based on hours spent.
	Accompanying services	Transformation, PMO, change management	Consulting services focused on business outcomes, processes re-engineering and transformation that necessitate on site, intensive interaction with client executives.	Fixed price projects : Revenue recognized according to completion at the reporting date The percentage of completion is measured based on technical progress usually reflected by costs incurred (most cases) "Time and material" projects : Revenue is recognized upon time spent acknowledged by the client (most cases)
<b>Integration / "Build"</b>				
	Solution (build)		Project or set of projects focused on design, development and implementation of a custom or packages (software or system) solution on behalf of a client.	Revenue recognized based on technical completion at the reporting date. The percentage of completion is measured based on technical progress usually reflected by costs incurred (most cases)
	Roll out (ERP type)	Standard SAP, Oracle etc... Specific Banking systems...	Project or set of projects focused on design, development and implementation of a custom or packages software solution on behalf of a client.	Revenue recognized based on technical completion at the reporting date. The percentage of completion is measured based on technical progress usually reflected by costs incurred (most cases)
<b>Outsourcing / "Run"</b>				
	Outsourcing of infrastructures		Outsourcing services which provide ongoing infrastructure management of a company's IT capabilities or functions. It includes transition, integration, transformation and service management and governance.	
	Outsourcing of systems and applications		Ongoing maintenance and support of an application or group of applications	Fixed price projects : Revenue recognized according to completion at the reporting date The percentage of completion is measured based on technical progress usually reflected by costs incurred (most cases)
	Corrective applications maintenance Evolutive applications maintenance Business Process Outsourcing (BPO)		Outsourcing services that provide management and execution of a client activity, processes or functional areas. This may include transition and run portion.	"Time and material" projects : Revenue is recognized upon time spent acknowledged by the client (most cases)
	Time based Helpdesks Transaction based Card processing, call centers			

Appendix 2 : The V model



The V-model is a graphical representation of the systems development lifecycle. It summarizes the main steps to be taken in conjunction with the corresponding deliverables within computerized system validation framework.

The *VEE* is a process that represents the sequence of steps in a project life cycle development. It describes the activities and results that have to be produced during product. The left side of the *VEE* represents the decomposition of requirements, and creation of system specifications. The right side of the *V* represents integration of parts and their verification. *V* stands for "Verification and Validation".