



19 June 2009

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on its Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 25 member organisations representing more than 14,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on this subject.

For users of Financial Statements, Revenue Recognition represents one of the main accounting elements they look for in order to understand and appreciate the past and projected performance of a company. Therefore, Revenue Recognition is a key if not a vital project, and users strongly hope that their views will be taken into consideration.

SFAF highly appreciates the efforts pursued by IASB in renovating its standards related to Revenue Recognition. However, they are not convinced that the project properly encompasses their needs and that the Discussion Paper represents a significant improvement over the present situation.

From our discussion with the financial analysts' community, we would like to stress the following elements.

**General comments:**

- There is a strong need among financial analysts to work with understandable data: financial numbers, and among them, revenues, should be understandable and connected with the companies' economic reality.
- In this respect, financial analysts wish that revenues, as published within the Statements of Profit & Loss, would not depart to a too great extent from cash generation. In other words, they wish that the economic reality of a company could be viewed either through the Statement of Cash Flow or the Statement of Profit & Loss, even if each of these statements has its own merit and don't overlap.

**Single Standard:**

- SFAF appreciates the efforts undertaken by the Board to unify existing standards. However, SFAF has not seen in the new standard a clear demonstration that it would be superior and more robust than the existing one. In addition, we consider that the proposed Discussion Paper does not really start from the needs of users of financial statements. On the opposite, the Board project seems much more related to simplifying US GAAPs.
- SFAF therefore considers 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.

**Contract based approach:**

- SFAF supports a contract-based approach as long as it does not induce companies to manage their contracts by considering their impact on revenues and profit generation. In addition, we consider that several transactions, being identical from an economic point of view, may present different outcomes with regard to revenues generation, if the latter encompasses only contracts terms. This may pose some problems when analyzing companies.
- Fundamentally, we consider that revenues should be generated in connection with the economic activity of the company, and should take into account some key issues such as transfer of risk to the customer. We consider that some transactions could be too complex to analyze from a pure contract point of view and that the result could be only a matter of legal issue, which risks presenting a company revenues not from an economical point of view. In order however to get a consistent and stable standard across all companies, we would expect from IASB to issue some guidance at this level.

**Performance obligations:**

- We consider that the percentage of completion method is useful and well understood by financial analysts. However, the latter have some specific requirements as regards the utilization of this method:
  - Financial analysts do not require that the percentage of completion method lead to a complete smoothing of revenues. On the contrary, they would positively appreciate an application of this method where revenues are generated where obligations are fulfilled, at least partially;
  - More importantly, there is a strong desire among users of financial statements to have access to consistent information in the notes: the percentage of completion method which often appears like a “black box” should be consistently explained and detailed. More generally, financial analysts need a consistent and understandable explanation of the way revenues are generated and disclosed within the financial statements; this should be then disclosed clearly in the notes;
  - The notes to financial statements should disclose the extent to which changes in assumptions or related to the economic environment have an impact on the revenues generated and on the company’s result;
  - From a more general point of view, notwithstanding the complexity of companies’ operations, there is a strong desire among financial analysts to understand the financial data disclosed by companies. This requires in our view a pedagogic explanation of the main financial data provided in their financial statements, including, among others, the revenues generated, going far beyond reporting the current accounting standards.
- With regard to the measurement of performance obligations, we agree with the Board that these obligations should initially be measured at the original transaction price and that they could be measured again only when they are deemed onerous. In the latter case again, we require that understandable and reliable information should be provided to users of financial statements.

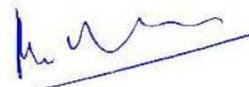
- From a general point of view, except in some circumstances, we consider that the cost of obtaining the contracts should be expensed. We consider that consistent information in the notes would help understand the company's financial profile and therefore alleviate the companies' reluctance to allocate such items within their operating costs.
- We also agree in principle with the allocation of performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations. However, in case of multiple element arrangements, we think that the Board should give more guidance and that, even in this case, there could be some inconsistencies between companies when stand alone selling prices are not available. In addition, revenues disclosed by the company may be too theoretical and therefore far from reality. We consider this subject to be of very high importance, financial analysts requiring also that such a standard allow, as much as possible, for a proper comparability between companies. We think therefore that an in-depth field test analysis is a clear prerequisite before taking a position on this subject.
- Finally, we consider that the Discussion Paper should take into consideration the effects on the company's customer financial statements. It should also not lead to a profit recognition inconsistent with the economic reality. By potentially significantly modifying the way a company would disclose its revenues, the project would indeed most probably have also a significant impact on the company profit.

We thank you for the opportunity given to us to provide our view on such important aspects and remain available for any further information.

Yours faithfully,



Jacques de Greling  
Co-Chairman of Accounting  
and Financial Analysis Commission



Bertrand Allard  
Co-Chairman of Accounting  
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