



October 22, 2010

Lise Croteau  
Vice President, Accounting and Control

Hydro-Québec  
75, boul. René-Lévesque Ouest,  
6<sup>e</sup> étage  
Montréal (Québec) H2Z 1A4  
Canada

International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

**Re: Comments on Exposure Draft – Revenue from Contracts with Customers**

Dear Sir/Madam:

Hydro-Québec is a major producer, transmission provider and distributor of electricity on the North American market, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government.

We generally agree with the IASB's proposals on revenue recognition from contracts with customers. Our detailed responses to the questions posed in the Exposure Draft are attached.

On behalf of Hydro-Québec, I thank you for giving us this opportunity to respond to the Exposure Draft *Revenue from Contracts with Customers*.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lise Croteau'.

Lise Croteau, FCA  
Vice President, Accounting and Control  
Hydro-Québec

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

**Recognition of revenue (paragraphs 8-33)**

**Question 1**

*Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:*

- (a) to combine two or more contracts and account for them as a single contract;*
- (b) to segment a single contract and account for it as two or more contracts; and*
- (c) to account for a contract modification as a separate contract or as part of the original contract.*

*Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?*

We agree with the price interdependence principle. However, we think that the principle should be clarified to avoid accounting treatment disparity in practice. In particular, we recommend to change the sentence in paragraph 15 (b) to the following: the customer receives very little or no discount for buying some goods or services together with other goods or services in the contract.

**Question 2**

*The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate obligations and why?*

We agree with the principle of determining when a good or service is distinct proposed in paragraph 23.

**Question 3**

*Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?*

We think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer. However, the board did not convince us that the notion of control should be applied from the perspective of the customer purchasing that good or service. The board mentioned in paragraph BC63:

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

« [...] Although, in many cases, both perspectives are likely to lead to the same result, the boards have articulated the proposed indicators of control from the perspective of customer. That perspective would minimise the risk of an entity recognising revenue from undertaking activities that do not coincide with the transfer of goods or services to the customer. »

We are of the opinion that the notion of control should be articulated from the perspective of the entity selling the good or service because it can be difficult in practice to apply it to the perspective of the customer purchasing the good or service due, for instance, to lack of information.

Furthermore, the concept of control would need to be in line with the one to be set forth in the conceptual framework.

**Measurement of revenue (paragraphs 34-53)**

**Question 4**

*The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.*

*Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?*

We agree with the principle that an entity should recognise revenue on the basis of an estimated transaction price and we are of the opinion that the criteria proposed in paragraph 38 are sufficient.

**Question 5**

*Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?*

We agree that the customer credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation. In particular, as it is illustrated in example 20, we think that a historic percentage of non-paying customers should be reflected in revenue. However, we are of the opinion that if this amount is significant, it could be presented separately from the total invoice revenue.

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

**Question 6**

*Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?*

We agree with the proposition that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component.

**Question 7**

*Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?*

We agree with this approach and with the possibility of using the estimated selling price.

**Contracts costs (paragraphs 57-63)**

**Question 8**

*Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.*

*Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?*

We think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient.

**Question 9**

*Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.*

*Do you agree with the costs specified? If not, what costs would you include or exclude and why?*

We agree with the costs specified in paragraph 58.

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

**Disclosure (paragraphs 69-83)**

**Question 10**

*The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?*

We do not agree with the quantity of proposed disclosure requirements, especially the ones of paragraphs 77 and 78. These disclosures are expensive to produce and we do not believe that the benefits to financial statement users will outweigh the costs. In particular, we do not see the usefulness of the disclosure requirements of paragraph 78 to financial statement users who do not have information on the cost of performing these obligations. However, disclosure on onerous performance obligation is understandable when a liability is recognised.

**Question 11**

*The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.*

*Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

See our comments at question 10. We do not agree with the proposed disclosure requirement. We do not think that the disclosure of information about the remaining performance obligations will give pertinent information to financial statement users.

**Question 12**

*Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?*

We are in the opinion that the information required in paragraph 74 is already covered in IFRS 8, *Operating Segments*.

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

**Effective date and transition (paragraphs 84 and 85)**

**Question 13**

*Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?*

*Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.*

We agree that an entity should apply the proposed requirements retrospectively. However, a longer than normal timeframe should be given to apply them.

**Application guidance (paragraphs B1-B96)**

**Question 14**

*The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?*

We think the application guidance is generally sufficient. However, we think there is a lack of guidance concerning disclosure requirements and we suggest adding guidance.

**Question 15**

*The boards propose that an entity should distinguish between the following types of product warranties:*

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.*
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.*

*Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?*

We agree with the proposed distinction between the types of product warranties and the proposed accounting for each type of product warranty.

**Exposure Draft**  
**Revenue from Contracts with Customers**  
Comments to be received by 22 October 2010

---

**Question 16**

*The boards propose the following if a licence is not considered to be a sale of intellectual property:*

- (a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfied that obligation over the term of the licence; and*
- (b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.*

*Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?*

We agree that the pattern of revenue recognition should depend on whether the licence is exclusive and with the patterns of revenue recognition proposed by the boards. We agree that an entity that grants a customer an exclusive licence to use its intellectual property has a performance obligation over the term of the licence.

**Consequential amendments**

**Question 17**

*The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?*

We agree with the proposition to apply the recognition and measurement principles of the proposed revenue model in accounting for the gain or loss on the sale of some non-financial assets.