



Member of the Management Board  
Chief Financial Officer

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

Tuesday 13 March 2012

Dear Mr. Hoogervorst,

We appreciate the opportunity to comment on the second Exposure Draft (ED) *Revenue from Contracts with Customers* issued by IASB in November 2011.

As we mentioned in our previous comment letter sent on 22 October 2010 on the first ED published in June 2010, Vivendi is committed to high quality financial reporting. As such, since first adopting IFRS in 2005, we have strictly adhered not only to the requirements of IFRS, but to the principles therein. We also always favor and support IASB efforts to improve the quality of accounting and reporting standards (accuracy and relevance versus local application of IFRS; convergence with US GAAP; and, consistency within and across industries).

We believe that our analysis of the proposals contained in the second ED, and discussions with your staff, merit our commenting formally as these proposals would have a significant impact on Vivendi's accounting related to certain multiple-element arrangements, particularly in terms of application of the measurement principle to:

- Telecommunications: sales of telephone bundles combining the sale of a handset and the sale of a subscription agreement; and
- Video games: sales of boxed software which include a more than inconsequential online service.

We believe the proposed new IASB/FASB revenue recognition model as relates to the telecommunications industry, would, contrary to its initial objective, deteriorate the quality of information provided both to management and to users of financial statements, by imposing a standard that would create:

- Discrepancies across the industry, due to increased areas of judgment, which could lead to inconsistent reporting of key financial metrics, ARPU<sup>1</sup> for example, among telecommunications companies; and
- Inconsistency between financial statements and management reporting, because business is managed using the current accounting model, which is derived from business practice, contrary to the proposed ED.

Indeed, due to the rather mechanical process for allocating the transaction price to separate performance obligations using their respective stand-alone selling price and to differences in the treatment arising from, in particular, sales distribution channel (direct versus indirect), we fear there may be discrepancies in approach and interpretation between preparers.

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<sup>1</sup> ARPU (Average Revenue Per User) is defined as revenues net of promotions and net of third-party content provider revenues excluding roaming in revenues and equipment sales divided by the average total customer base for the last twelve months.



Moreover, because management would rely on the current accounting model derived from business practice, contrary to the proposed ED provisions, preparers of financial statements would need to establish a dual non-GAAP/GAAP reporting for both their management reporting and their communication to the markets. In addition, preparers would also incur unreasonable costs to implement adjustment to their billing/accounting systems to the proposed ED, and to operate a dual non-GAAP/GAAP reporting.

We therefore deeply regret the confirmation by the IASB/FASB in June 2011 of their decision to eliminate the contingent consideration cap. However, if the proposed new ED model were to be maintained, we believe there exists only one practical solution to its application, which is the Residual Method as discussed in the FASB-IASB Staff paper for which the IASB Agenda reference is 4B.

We participated in the field-testing recently organized by EFRAG, and tested the application of the proposed ED on some of our telecommunications contracts. Our comments are based on this practical experience. Among other application difficulties, we would like to stress that the proposed portfolio approach appears to be irrelevant for the telecommunications industry given the many different varieties of bundled contracts.

We also believe there is a need for prospective application of the proposed standard on adoption. This is primarily due to the duplication of resources and effort required in preparing the comparative numbers. However, if retrospective application is required, there must be a restriction on the number of comparative periods required to be presented (i.e., one period at a maximum) and a long lead time prior to adoption.

Please find set out in the Appendix detailed comments on these issues, as well as the follow-up of other issues raised in our previous comment letter and the answers to certain questions posed in the second proposed ED. These comments represent matters that Vivendi believes should be taken into consideration to enhance any future standard.

We remain at your disposition should this letter require any additional comment.

Yours faithfully,

/s/ PHILIPPE CAPRON

Philippe Capron  
Member of the Management Board  
& Chief Financial Officer



## **APPENDIX**

### **Part I – Follow-up of issues raised in our comment letter of 22 October 2010 on the first ED published in June 2010**

#### **I. Improvement maintained in the second ED published in November 2011**

1. Allocation of the transaction price to all separate performance obligations in a multiple-element arrangement – Sales of boxed software which include a more than inconsequential online service

As stated in our previous comment letter, we believe that the pattern of revenue recognition for Vivendi's software businesses is better represented under the proposals contained within the ED. The removal of current US GAAP software accounting, notably SOP 97-2, is welcomed, as this replaces the current VSOE notion (Vendor Specific Objective Evidence) with the best estimate notion.

Typically, our video game Call of Duty is playable as both a standalone, single player experience or online as a multiplayer experience. As the online portion of the game represents more than an inconsequential part of the product, there is a requirement to separate the online multiplayer service from the underlying standalone, single player game. Due to a lack of VSOE, the single player experience and the online multiplayer service are unable to be separated. This results in the recognition of both components over the estimated online multiplayer service period, and a significant deferral of revenue. This is difficult to explain to analysts and investors alike as a significant portion of our performance obligation has already been provided.

Under revised ED, revenue from the sale of boxed software would be recognized in sales of good upon the sell-in date. Revenue from the sale of online service would be recognized in sales of services over the estimated service period, and having taken into account related cost of sales. From our analysis of the proposals in the ED, the use of estimated standalone selling prices would help to better reflect the pattern of revenue from games such as this in the future.

#### **II. Noticeable improvement in the second ED published in November 2011 compared to the first one**

1. Pattern of revenue recognition relating to a license not considered to be a sale of intellectual property

Please refer to our answer to question 3 included in Part II - Answers to certain questions posed to respondents in the second Exposure Draft.



### **III. Concerns on proposals contained in the first ED not addressed in the second ED published in November 2011**

#### **1. Allocation of the transaction price to all separate performance obligations in a multiple-element arrangement – Sales of telephone bundles combining the sale of a handset and the sale of a subscription agreement:**

Paragraphs 70-74 of the ED deal with the allocation of the transaction price in a multiple-element arrangement and can be summarized as follows:

- Allocate the transaction price to each separate performance obligation;
- In proportion to the stand-alone selling price at contract inception of the good or service underlying each performance obligation;
- The stand-alone selling price is the price at which the entity would sell that good or service if it was sold separately at contract inception; and
- If a stand-alone selling price is not directly observable, the entity would estimate it using suitable estimation methods (for example, adjusted market assessment approach, expected cost plus a margin approach, residual approach).

Our understanding of the potential impacts of the proposals contained in the second ED with regards to the sales of telephone bundles combining the sale of a handset and the sale of a subscription agreement is the following:

- The total transaction price, i.e. the amount received for the handset plus the sum of the monthly service charges, would be allocated among the handset and the network services on a relative standalone selling price basis.
  - Any discount granted to the customer on the sale of handset would be then allocated to the handset and the services network, in proportion to their respective values.
  - The amount of revenue recognized upfront would be higher than under the current model.
- Revenue from incoming and outgoing traffic would be recognized similar to the way it is recognized in the current IAS 18 model.
- Incremental costs of obtaining a contract (notably sales commission to distributors) would be capitalized and amortized consistently over the network service period.

Further, a reliable observable price for stand-alone sales of a handset does not exist as such sales are not significant to our telecommunications businesses.

We believe the proposed new IASB/FASB revenue recognition model as relates to the telecommunications industry, would, contrary to its initial objective, deteriorate the quality of information provided both to management and to users of financial statements, by imposing a standard that would create:

- Discrepancies across the industry, due to increased areas of judgment, which could lead to inconsistent reporting of key financial metrics, ARPU<sup>3</sup> for example, among telecommunications companies; and
- Inconsistency between financial statements and management reporting, because business is managed using the current accounting model, which is derived from business practice, contrary to the proposed ED.

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<sup>3</sup> ARPU (Average Revenue Per User) is defined as revenues net of promotions and net of third-party content provider revenues excluding roaming in revenues and equipment sales divided by the average total customer base for the last twelve months.



Indeed, due to the rather mechanical process for allocating the transaction price to separate performance obligations using their respective stand-alone selling price and to differences in the treatment arising from, in particular, sales distribution channel (direct versus indirect), we fear there may be discrepancies in approach and interpretation between preparers.

Moreover, because management would rely on the current accounting model derived from business practice, contrary to the proposed ED provisions, preparers of financial statements would need to establish a dual non-GAAP/GAAP reporting for both their management reporting and their communication to the markets. In addition, preparers would also incur unreasonable costs to implement adjustment to their billing/accounting systems to the proposed ED, and to operate a dual non-GAAP/GAAP reporting.

We therefore deeply regret the confirmation by the IASB/FASB in June 2011 of their decision to eliminate the contingent consideration cap. However, if the proposed new ED model were to be maintained, we believe there exists only one practical solution to its application, which is the Residual Method as discussed in the FASB-IASB Staff paper for which the IASB Agenda reference is 4B.

The restriction currently expressed in Paragraph 73 (c) of the ED limiting the use of the Residual Method only if the stand-alone selling price of a good or service is highly variable or uncertain should be eliminated (this restriction is not applicable to the handset) or additional circumstances under which an entity would be permitted to use the Residual Method should be proposed.

This alternative solution would limit any inconsistency within the industry as the Residual Method would require less estimating than applying the proposed new ED model and enable the application of the revenue model to telecommunications contracts:

- Airtime has at least one observable standalone selling price from a telecommunications company's perspective (SIM only pricing for comparable tariffs is lower than comparable with-handset tariffs; Airtime in a bundle sold by a distributor, i.e., indirect channel of distribution).
- Sales of handsets on a standalone basis by a telecommunications company are infrequent.

We would then suggest the following modifications to the ED:

- Amend paragraph 72: *"If an entity frequently sells goods or services for more than one observable standalone selling price, management should select the most appropriate one and use it consistently for all comparable transactions"*.
- Expand paragraph 73 to include conditions proposed in the FASB-IASB Staff paper for which the IASB Agenda reference is 4B if:
  - The entity has a large number of contracts;
  - Those contracts consist of various configurations of separate performance obligations (i.e., bundles of handset and airtime);
  - For each of those contracts, the entity satisfies one or more performance obligations at or near contract inception (i.e., sale of handset) and has a remaining performance obligation for a good or service that is similar across the contracts (i.e., airtime);
  - The remaining performance obligation in each contract is for a good or service with a standalone selling price that does not vary significantly over time when an entity sells the same good or service to different customers.



2. Retrospective application

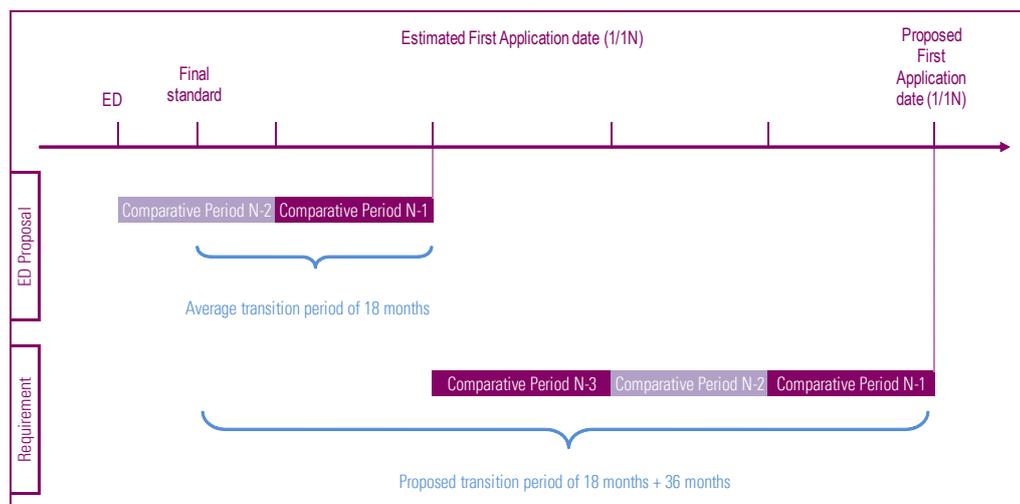
Vivendi continues to disagree that retrospective application of the proposed ED is practical.

Retrospective application implies the application of the requirements to all contracts in existence during any reporting periods presented, i.e., to determine the impact on contracts as of initial application date, including for published comparative periods. We expect significant IT systems implementation impacts due to the large number of contracts involved (duplication of resources and effort required in preparing the comparative numbers).

We strongly support an approach that provides for prospective application of the proposed standard using carryover values for any amounts preceding initial adoption of the proposed standard, i.e., in accordance with IAS 18 current accounting treatment.

However, if retrospective application is required, then 3 years should be added to the standard 18-months lag between the date of final standard's issuance by IASB and the initial application date, i.e., a 4 and a half year transition period at the very least would be necessary.

The 3 additional years would enable us to evaluate on an ongoing basis the impacts of contracts signed after the date of final standard's issuance and before the initial application date.





## **Part II - Answers to certain questions posed to respondents in the second Exposure Draft**

***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?***

At Vivendi, the treatment of intangible content purchased is determined by whether the master copy of such content is owned (i.e., can the entity control the underlying rights of the asset). Where the master copy is obtained, the resulting asset is recorded as an intangible asset. Where the master copy is not acquired, the related content asset is not accounted for as an intangible asset, but rather as a working capital asset, once the contract has begun to be executed.

In the ED, sales of intellectual property focus on control. If a vendor has transferred substantially all of the rights relating to the underlying asset, then the contract is considered to be a sale. Alternatively, if control has not been transferred, the contract is treated as licensing or right to use. As mentioned in paragraph B34 of the ED: "If an entity grants to a customer a license or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights. Control of rights to use intellectual property cannot be transferred before the beginning of the period during which the customer can use and benefit from the licensed intellectual property. For example, if a software licence period begins before the customer obtains an access code that enables the customer to use the software, an entity shall not recognise revenue before the entity provides the access code."

We believe that the proposals contained in the ED are consistent with the economics of the transaction and the way we would account for an equivalent purchase. Under Vivendi's current accounting policies:

- Revenues from film distribution and from video and television or pay television licensing agreements are recognised when the films and television programs are available for telecast and all other conditions of sale have been met.
- When entering into contracts for the acquisition of film, television or sports broadcasting rights, the rights acquired are classified as contractual commitments. They are recorded in the Statement of Financial Position and classified as content assets as follows:
  - Film and television broadcasting rights are recognised at their acquisition cost, when the program is available for screening and are expensed over their broadcasting period;
  - Sports broadcasting rights are recognised at their acquisition cost, at the opening of the broadcasting period of the related sports season or upon the first payment and are expensed as they are broadcast; and
  - Expensing of film, television or sports broadcasting rights is included in cost of revenues.



Moreover, the provisions of the ED on constraining the cumulative amount of revenue recognised set forth in paragraphs 81 to 85 are consistent with our current accounting of revenue. Under the proposals outlined in the Exposure Draft and notably its paragraph 85: “[...] if an entity licenses intellectual property [...] to a customer and the customer promises to pay an additional amount of consideration that varies on the basis of the customer’s subsequent sales of a good or service (for example, a sales-based royalty), the entity is not reasonably assured to be entitled to the additional amount of consideration until the uncertainty is resolved (i.e. when the customer’s subsequent sales occur).”

We believe that the pattern of revenue is thus better reflected as earned.

***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).***

***\* In the IASB exposure draft, see paragraph D19 in Appendix D***

***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.***

The additional disclosure requirements for annual closing as well as intermediate closings would be overly complex to compile, notably due to:

- Reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities;
- Analysis of the remaining performance obligations; and
- Reconciliation from the opening to the closing aggregate balance of any assets recognized from the costs to obtain or fulfill a contract with a customer, by main category of asset.