Chairman  
International Accounting Standard Board  
30 Cannon Street  
London EC4M 6XH  

13 March, 2012  

Dear Sir,  

We appreciate the opportunity to comment on the International Accounting Standard Board’s (IASB’s or “Board”) Exposure Draft on Revenue from Contracts with Customers (“the Draft”).  

Background of Infosys Limited (Infosys)  

Infosys is a leading global technology services company headquartered in Bangalore, India. Our equity shares are traded on the Bombay Stock Exchange Limited and on the National Stock Exchange Limited in India. Our American Depositary Shares representing our equity shares are quoted on the Nasdaq Global Select Market. Infosys is a foreign private issuer with the status of a large accelerated filer and, as such, has filed its Annual Report on Form 20-F since its initial public offering in the United States in 1999.  

The financial statements included in its Annual Report until March 31, 2008, filed with the Securities Exchange Commission, U.S.A. (SEC) had been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Pursuant to the final rule issued by SEC, allowing foreign private issuers to file financial statements with SEC in accordance with International Financial Reporting Standards (IFRS), as issued by IASB, without reconciliation to U.S. GAAP, we have transitioned to IFRS as issued by IASB effective fiscal year ending March 31, 2009.  

Comments  

We would like to comment on the following treatments included in the Exposure Draft.  

Combination of Contracts:  

In paragraph 17 the Exposure draft has laid down a few criteria for combining the contracts. Specifically paragraph 17(c) states that the contracts should be combined if the goods or
services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation in accordance with paragraphs 27–30.

As mentioned in paragraph 29, we agree that two or more contracts should be combined and accounted for as a single contract if the contracts are highly interrelated and requires significant integration and the services should be significantly modified or customized. However we feel that mere fulfilling of these factors should not be conclusive in deciding whether the contracts should be combined or not.

Typically in a software industry there are multiple statement of work (SOW’s) issued by the same customer, consecutively but for development of various application. These applications are inter-correlated and in some cases should be performed consequently. However we feel that these should not be treated as a single performance obligation since each of these applications have separate functionalities.

**Contract Modification**

Paragraph 21 of the Exposure draft has laid down two guidelines principles wherein separate contracts can be created for a modification which primarily involve addition to distinct promised goods and services and an entity’s right to consideration that reflects the entity’s stand alone selling price. In the Exposure draft it further states that if the remaining goods and services are not distinct and are partially satisfied then the contract modification would have to be treated on a cumulative catch up basis.

However in some cases there may be operational difficulties if the parameters of creating a separate contract are kept so stringent. For example there may be cases wherein change requests are provided by the customers for changes in prices solely due to productivity and efficiency for maintenance contracts which cannot be quantified at the beginning. Moreover these price changes are only for the future remaining maintenance periods. In those cases a cumulative catch up basis will not be appropriate as the price change is for the future period.

**Bundles of Goods and Services (Paragraph 29)**

BC79 states that it has inserted clause 29(b) in the Exposure Draft to mitigate the risk that all contracts that include any type of integration service might be deemed to be a single performance obligation even if the risk the entity assumes in integrating the promised goods and services is negligible.

The BC79 refers to cases where there are simple installations or modifications. However there are certain contracts where the contract management service and one or more of the critical tasks are performed by one entity and other sub-contractors provide services for the other inter-related tasks. There is significant inter relation and modification required. Are we required to combine all the tasks (the contract management service and performance of a critical task of the contract) into one separate performance obligation even though the entity’s
liability regarding the performance of the task by the other sub-contractors is limited to the project management fees specifically mentioned in the contract with the customer? This principle may debar revenue recognition till the completion of all tasks by all the subcontracts as well since the contract management service is also performed by the entity. We believe that the contract management service should be treated as a separate performance obligation from the other critical tasks performed by the entity and be recognized only on full completion of all the tasks, and the other critical tasks performed by the entity should be recognized as and when that service is performed.

**Non-cash consideration to Customer**

BC161 states that all payments made to the customer should be accounted for as a reduction of revenue, however we believe that the merits of each case should be evaluated before deciding on whether it is actually linked to any contract.

In some cases where there is an identifiable benefit which can be demonstrated at that point in time and not linked to any particular contract, then such payments to customers should be treated as an expense and not as a reduction from revenue.

**Onerous performance obligations**

Paragraph 86 of the exposure draft inter-alia states that an entity shall recognize a liability and a corresponding expense of a performance obligation is onerous.

We understand the explanations given by the board in BC207 for rejecting the views to apply the onerous test at a contract level rather than at a performance obligation level. However we still believe that this approach may be counter-intuitive as losses may be recorded on an individual performance obligation, when a performance obligation becomes onerous, even though the overall contract may be profitable. This myopic approach may mislead investors. Hence we believe that the onerous test should be applied at the contract level and not at each performance obligation level.

**Customer options for additional goods or services**

Paragraph B21 of the exposure draft states that “If an entity grants a customer the option to acquire additional goods or services, that promise gives rise to a separate performance obligation in the contract only if the option provides a material right to the customer that the customer would not receive without entering into that contract. If the option provides a material right, the customer in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires”.

In software licensing arrangements, it is very common for companies to provide unspecified free software upgrades to its customers in the future. There is uncertainty regarding the
timing as well as the nature of software upgrades that will be provided. As mentioned in paragraph B21, the customer receives a material right in this case since the software upgrade is provided free of cost and the upgrade will not be available to the customer if the customer has not entered into the original software licensing arrangement. In such situations when there is uncertainty in the service that will be provided in the future, how will the transaction price be allocated to such future services? Additional guidance for these cases would be appreciated.

These are our views on the Exposure Draft for your kind perusal. Please let us know in case you would like to discuss this matter further or require any clarifications, please do not hesitate to contact the undersigned at +91-80-2852-0440 or by facsimile at +91-80-2852-0754.

Yours sincerely,

[Signature]
V. Balakrishnan
Member of the Board and CFO
Infosys Limited

cc: Gargi Ray, Senior Manager Risk and Compliance, Infosys Limited