SYNTEC NUMERIQUE’s comments on IASB Exposure Draft ED/2011/6  
A revision of ED/2010/6 Revenue from Contracts with Customers

Dear Madam or Sir,

Syntec Numérique is pleased to have the opportunity to comment on the new IASB exposure draft dealing with “Revenue Recognition”.

Syntec Numérique (formerly Syntec Informatique) gathers the IT services and Software edition companies operating in France and over the world through their subsidiaries. It represents more than 400,000 employees. Total revenues of its members represented 80% of the EUR 42 billion amounted by the sector in 2011. A working group has been established since March 2009 to prepare coordinated and complete answers to the Board’s proposals regarding revenue recognition on behalf of the main French IT services companies.

Before addressing our main comments on the discussion paper, it is important to remember and understand the type of IT services our constituents are delivering. 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 standardized 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.

For ease of reference, we have included in Appendix 1 extracts from our comment letter to the discussion paper published in December 2008.

Syntec Numérique acknowledges the efforts made by the Boards to address the concerns previously expressed, and particularly welcomes the evolutions introduced in this exposure draft regarding:

- The notion of continuous transfer of control,
- The simplification of the requirements for identifying contracts needing to be combined,
- The identification of separate performance obligations when there is a service of integration,
- The accounting for pre contract costs,
- The presentation of uncollectible amount outside the revenue line.
However, we continue to disagree with some important aspects of the proposals, such as the onerous test requirements and the disclosure in an interim condensed set of financial statements. We believe that further clarifications should be provided on the principles for identifying the existence of a continuous transfer of control, as well as on the principles underlying the reasonably assured test. Absent these clarifications, we believe that diversity would be likely to arise, impairing the usefulness of revenue information. This would not be an improvement compared to the current application of IAS 18 and IAS 11 that have proved to work well for our industry.

You will find hereafter our detailed comments to the questions raised, as well as other comments on other aspects of the proposals. Further questions or clarifications should be addressed to Anne-Dauphine Cambournac.

Regards,

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Finance Commission representative

Laurent Baudart  
Syntec Numérique representative

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Le 13/3/2012
Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We welcome the evolutions in the continuous control concept and agree that it should correspond to situations where either:

• A supplier works on the customer’s asset, or
• A supplier creates an asset that has no alternative use to it.

We believe that these principles would lead typical “design” advisory services as well as “build” integration services described in our previous comment letters to be considered as performance obligations satisfied over time, and we are convinced that it is appropriate.

However, we consider that these principles should not be supplemented by criteria that appear to create rules. As currently drafted, paragraph 35(b) is mixing principles and rules:

• Paragraphs (i) and (ii) should not be presented as criteria because they are in our view illustrations of situations where it is obvious that the customer receives something as the entity performs.
• We do not understand why the right to payment for performance completed to date in paragraph (iii) is a necessary evidence of the transfer of control over time. It is rather an indicator, as it is the case in paragraph 37(a) for the transfer of control at a point in time.

Furthermore, as mentioned in our previous comment letters, most contracts in our industry do not provide for termination clauses allowing a customer to withdraw from the contract at will. If a customer wishes to withdraw, there is a negotiation and as previously explained, the supplier usually obtains payment for the work performed to date. The exposure draft as currently drafted could be read as requiring that contracts contain such termination clauses, or that entities demonstrate that when a contract is terminated at the request of a client, there is always a payment that corresponds precisely to the work performed to date. We believe that the final standard should be clarified:

• Either as suggested above by removing the right to payment criterion in paragraph (iii), stating that such a right is an indicator only, and making a link with the reasonably assured test in paragraph 81 to avoid that an entity recognizes over time revenue that is not reasonably assured because the client may withdraw at will from the contract by paying a mere penalty.
• Or, if the right to payment is kept as a criterion, by clarifying that this criterion is only considered when the contract includes termination clauses allowing a customer to withdraw at will from the contract.
Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

We agree with the proposal to recognize uncollectible amounts outside the revenue line, because bad debt management is a separate activity from sales and therefore a separate presentation will give useful information to users to assess the respective performance of both activities. In our view, and as it is currently the case, amounts not collected because of a quality deficiency relate to the sales activity and should continue to affect revenue, because in this situation, something has not really been transferred to the customer as agreed in the contract, whereas amounts not collected because of client’s bankruptcy or financial difficulties do not mean that something has not been transferred and consequently should not affect revenue. However, we do not believe that it is appropriate to mandate a systematic presentation of uncollectible amounts as a separate line adjacent to revenue. In effect, the amount of uncollectible amounts will often not be material enough to warrant such a highlight on the face of the statement of comprehensive income. IAS 1 requires the exercise of judgment in determining the lines to present separately and we do not believe that this requirement in IAS 1 should be modified by the new revenue standard.

Furthermore, entities currently often present uncollectible amounts as part of other expenses, and we do not understand why it would be better information to present them on a line “adjacent to revenue”. The link between revenue and uncollectible amounts could rather be explained in the notes, especially because uncollectible amounts correspond to revenue recognized in the current period, but also in past periods and therefore a presentation of the total amount in a line adjacent to revenue may be confusing to users.

Finally, we suggest that the final standard clarifies that the revenue line referred to in IAS 1.82 is the “gross” amount of revenue, and not an amount net of uncollectible amounts.
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 recognizes 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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree that variable or contingent revenue should only be recognized when an entity is able to demonstrate that it is entitled to it and is able to measure it. However, we do not believe that the underlying principles are sufficiently clear. In effect:

- Paragraphs 81 and 82 appear to apply only in situations where part or all of the consideration is variable, but the definition of the word “variable” is not provided, which may lead to diversity in practice. For example, the requirements about rights of return in paragraph B3 explicitly refer to a reasonable assurance test in a situation where it is difficult to identify any variability in the amount of consideration to which the entity is entitled.
- The link between the principles described in paragraphs 81 and 82 and the conclusion for licenses of intellectual property in paragraph 85 is not obvious. We do not understand why an entity entering into this type of arrangement would never have experience or why the experience would never be predictive of the amount of revenue to which it will be entitled. Is that because the amount is highly susceptible to factors outside the entity’s influence (paragraph 82(a))? Why is the conclusion on trailing commissions in Example 14 different, as it appears that the decision for the final customer to renew the contract appears to be outside the entity’s influence?

We are therefore unable to conclude on typical arrangements in our industry, whereby a service provider installs at its client’s a new information system with a promise that it will reduce administrative costs, and receives a fix amount and an amount that depends on the actual cost savings experienced by the client. Should the conclusion be the same as for licenses of intellectual property (impossibility to recognize the variable amount until savings are observed) or as for trailing commissions (depending on the experience and predictive value of this experience)?

We further believe that the ED is not clear about the relationship between the requirement to limit the amount of revenue to the amount reasonably assured, and the requirement in IAS 39 / IFRS 9 to recognize a receivable initially at fair value.
Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We disagree with the proposals for the onerous test. We do not understand conceptually why the requirements should be different for various types of contracts. If the proposals were confirmed, there would be various requirements applicable to different types of contracts: IAS 37 would continue to apply for contracts other than contracts with customers, potentially also for contracts for the sale of goods according to BC210 (but it is not clearly stated in the standard), the revenue standard would apply to performance obligations expected to be satisfied over a period greater than one year, and potentially no standard would apply for contracts including performance obligations satisfied over a period of less than one year, even if the loss is material. We believe that it is complex, confusing and not justified.

Conceptually, we are convinced that the onerous test should continue to be performed at a contract level, because we believe that a liability arises as a result of contractual clauses and not merely because of allocations rules in an accounting standard. We do not see how an entity may have a liability towards a customer as long as the expected proceeds under a contract exceed the costs of fulfilling it. When entering into an overall profitable contract, a supplier is in a better situation as immediately before and therefore recognizing a liability upfront would not portray faithfully its economic position.

Thus we recommend not include specific requirements regarding onerous contracts in the final revenue standard, but rather refer to the applicable guidance under both IFRS and US GAAP. Under IFRS, the requirements in IAS 37 would apply to all contracts, being with customers or others, and the test would continue to be performed at contract level.
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).

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.

We do not agree with the proposed amendments to IAS 34. We consider that IAS 34 contains clear principles about the information required in a condensed set of interim financial statements, and that such principles should apply to revenue as well as to other important items. This view is consistent with the approach adopted in the Improvements to IFRSs issued in May 2010 for IFRS 7 disclosures. It is not appropriate in our view that the principles in IAS 34 be modified by the revenue standard. This should be the subject of a separate project on interim reporting, and potentially be linked to a future disclosure framework.

We also want to repeat our comment to the previous ED relating to the disclosure of remaining performance obligations (paragraph 119): “We strongly disagree with disclosing the amount of performance obligations remaining at the end of the reporting period. Such information, being by essence forward-looking, would be very difficult to be made reliable and auditable, particularly in the absence of further guidance. The cost of preparing such information would be very huge and would not outweigh benefits. Therefore we do not believe this information should be disclosed in the financial statements.” We acknowledge that the new ED provides for a possibility to disclose such information by using qualitative information, but then we do not understand exactly what kind of qualitative information may comply with the requirements and be useful to users.

Furthermore, we are not convinced that the reconciliation of contract balances as described in paragraph 117 and illustrated in Example 19 is really useful to users and corresponds to their needs. Lots of entities in our industry have historically accounted for some service contracts under the percentage of completion method as required by IAS 18, and have applied the methodology described in IAS 11 following the reference made in IAS 18.21, but they have not necessarily provided all the disclosures in IAS 11 for construction contracts (particularly the reconciliation). These entities have not until now received requests from analysts to provide such information. Analysts have sometimes asked for additional information regarding some particular and significant
contracts, but not a general reconciliation of balances. Therefore, and because such a reconciliation is very burdensome to prepare, we urge the Boards to check another time with users what are their actual needs, and not to include in the final standard any requirement to disclose information for which it is uncertain that there is an actual need.
Question 6

For the transfer of a non-financial asset that is not an output of an entity’s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply

   a) the proposed requirements on control to determine when to derecognise the asset, and
   b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.

Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity’s ordinary activities? If not, what alternative do you recommend and why?

We tend to agree that derecognition requirements for all non-financial assets should theoretically be consistent, these being or not an output of an entity’s ordinary activities. However we are not sure that the detailed approach in the new revenue standard really suits to other types of non-financial assets, especially the guidance for transfer for a good or service over time, or the identification of distinct performance obligations in a single contract. Similarly for measurement purposes, we are not sure that the reasonably assured test would work and how it would relate to the requirement in IAS 39 / IFRS 9 to recognise a receivable at fair value. We recommend the Boards to perform field tests during the re-deliberation period to consider various real situations and adapt the requirements as appropriate.
Other matters

Scope: exclusion of collaborative arrangements in paragraph 10

We are not sure to understand the actual boundaries of this scope exclusion. For example some subcontracting arrangements may establish a relationship between two entities that seems to correspond to a supplier-customer relationship, but also provide for some sharing of risks and benefits relating to the delivery of a product or service to a final client. What type of subcontracting arrangement would be excluded from, or included in, the scope of the revenue standard? Once a particular type of arrangement is excluded, the standard does not refer to other requirements, nor does it indicate if an analogy with the revenue standard may be appropriate. Without further clarification, we believe that paragraph 10 has the potential to lead to diversity of interpretation in practice.

Contract modifications: paragraphs 20 and 22

The proposals appear to create a difference in the treatment of a modification, depending on whether the modification is limited to the transaction price or also includes an additional good or service. We do not believe that such a difference is appropriate, especially if the additional good or service is insignificant. We suggest that modifications of the transaction price be treated according to the requirements of paragraph 22, i.e. retrospectively only to the extent that it relates to a performance obligation satisfied over time that is partially satisfied.

Licensed and rights to use: paragraph B36

We are not sure that the standard is sufficiently clear to help identifying whether a license should be accounted for separately from other promises in a contract. For example, a license arrangement may grant to the customer the right to use a software during a five year period and the supplier may commit to deliver to this customer any significant upgrade of the software during this period, knowing that significant improvements are likely to be made to the software during this period. We believe that the upgrade is a separate performance obligation, because the customer may continue to use the initial software (albeit with less efficiency), but we are not sure that it is totally clear from the text and if one could not argue that the initial software and the upgrade should be treated as a single performance obligation satisfied over the 5 year period, because in effect the supplier has promised to ensure the best efficiency of the software during 5 years.
Appendix 1: extracts from our comment letter to the 2008 DP

Syntec Numérique 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 2.

Specific projects are conducted according to the “V model” concept. Refer to Appendix 3.

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.
# Appendix 2

<table>
<thead>
<tr>
<th>Services Area</th>
<th>Segments</th>
<th>Examples</th>
<th>Definition</th>
<th>Current accounting treatment under IFRS</th>
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<tbody>
<tr>
<td><strong>Consulting / &quot;Design&quot;</strong></td>
<td>Delivering of solutions</td>
<td>Technology consulting, strategy consulting</td>
<td>Consulting services aimed at improving the strategic mandate, overall design, efficiency and effectiveness of IT capabilities or building and improving clients' strategy.</td>
<td>Revenue recognized according to completion at the reporting date. In most cases, the percentage of completion is measured based on hours spent.</td>
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<td>Accompanying services</td>
<td>Transformation, PMO, change management</td>
<td>Consulting services focused on business automation, process re-engineering and transformation that necessitate on-site, intensive interaction with client executives.</td>
<td>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).</td>
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<tr>
<td>Integration / &quot;Build&quot;</td>
<td>Solution (build)</td>
<td>Project or set of projects focused on design, development and implementation of a customer or packaged software or system solution on behalf of a client.</td>
<td>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).</td>
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<td>Roll out (ERP type)</td>
<td>Standard SAP, Oracle etc., specific Banking systems</td>
<td>Project or set of projects focused on design, development and implementation of a customer or packaged software solution on behalf of a client.</td>
<td>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).</td>
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<tr>
<td>Outsourcing / &quot;Run&quot;</td>
<td>Outsourcing of infrastructure</td>
<td>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.</td>
<td>Ongoing maintenance and support of an application or group of applications.</td>
<td>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).</td>
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<td></td>
<td>Outsourcing of systems and applications</td>
<td></td>
<td>Ongoing maintenance and support of an application or group of applications.</td>
<td>&quot;Time and material&quot; projects. Revenue is recognized upon time spent acknowledged by the client (most cases).</td>
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<td>Corrective applications maintenance</td>
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<td>Ongoing maintenance of a client’s application and system.</td>
<td>&quot;Time and material&quot; projects. Revenue is recognized upon time spent acknowledged by the client (most cases).</td>
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<td>Evolutionary applications maintenance</td>
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<td>Ongoing maintenance of a client’s application and system.</td>
<td>&quot;Time and material&quot; projects. Revenue is recognized upon time spent acknowledged by the client (most cases).</td>
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<td>Business Process Outsourcing (BPO)</td>
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<td>Outsourcing services that provide management and execution of a client activity, processes or functional areas. This may include transition and run portion.</td>
<td>&quot;Time and material&quot; projects. Revenue is recognized upon time spent acknowledged by the client (most cases).</td>
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<td>Time based Helpdesk</td>
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<td>Transaction based Card processing, call centers</td>
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Appendix 3: 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".