IASB  
30 Cannon Street  
London EC4M 6XH  
UK  
Paris, 23 March, 2012

Exposure Draft ED/2011/6 Revenue from Contracts with Customers

Dear Sirs,

We thank you for the opportunity to provide comments on the second version of the ED dealing with “Revenue from Contracts with Customers”.

Overall we welcome most of changes made in this second ED and we think it will permit to more appropriately reflect the underlying economics of the business and the performance of the entities.

We particularly appreciate the changes made in the following areas:

- combination of contracts
- distinguishing performance obligations
- recognition of revenue in the cases of transfer of control over time
- possibility to apply the most likely method in determining the amount of variable consideration
- treatment of warranties
- treatment of costs for obtaining contracts.

However, we would like to raise some concerns we have regarding the Energy/Utility business.

a) Our first concern is about the scope of the ED
  - First, leases are not included in the scope of the ED. As pointed out in our answer to the ED Leases, we feel that the definition of a service contract and a lease contract should be addressed in view of the consequences on the IFRIC 4 accounting. The interaction between the ED’s guidance on distinct goods and services and IAS 17 / IFRIC 4 should be clarified. Regarding the ED on Leases, as stated in our answer, we consider that the proposed unique accounting model (all leases should be accounted for on the balance sheet) does not deal with the issue raised in IFRIC 4 “whether an arrangement contains a lease”. This question is critical from a balance sheet point of view but also for revenue recognition as capacity contracts is quite common in our industry.
  - Operations under the scope of IFRIC 12 or so called “Rate Regulated Activities” are one major concern of the Industry. In such environment a third party is “invited” in the Contracts with Customers. This third party is frequently called the Regulator or the Grantor. As you know a large part of the Contract with the end-users and consequently the tariff and to some extent the timing of revenue recognition, are fixed by the Regulator and/or the Grantor. Therefore, it would be helpful to make clear that the "regulated business" is in the scope of the ED.

b) Our second concern deals with the recognition of contract assets and liabilities.
  - As raised in several occasions, our industry supports in substance accounting principles and considers that accounting should reflect the performance of the regulated activities. Therefore, when criteria of recoverability are expected to be fulfilled, rate regulated assets and liabilities should be recognised in the balance sheet. We are of the opinion that recognition of such
assets and liabilities are consistent with both §1 "Conceptual Framework" and §3 of the ED and thus, with the new notions of contracts assets and contract liabilities of the ED.

As our second concern is clearly interrelated with the scope issue, we encourage the IASB to tackle this question if objectives listed in lN2 of the ED are to be achieved.

c) A concern is about the bulk of information to be given in the notes particularly the reconciliation of contract balances.
- First we think that the wording and examples should be clarified as we experienced that many people have a different understanding of what exact information is to be disclosed.
- According to our understanding however, most of our IT systems running contracts with customers should have to be modified to give this information. We have not been able to estimate the costs of those changes by now.
- Anyway, we think that the IASB should specifically check with users and document that this information will be useful for them.

Should you like to discuss any of these matters please do not hesitate to contact us.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Should you like to discuss any of these matters, please do not hesitate to contact us at Pascale.Mourvillier@gdfsuez.com or +33 1 44 22 42 89.

Kind regards,

Pascale MOURVILLIER
Head of Accounting Standards Expertise Center
ANSWER TO THE SPECIFIC IASB QUESTIONS

PERFORMANCE OBLIGATION RECOGNISED OVER TIME

**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 recognises 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 appreciate the new guidance given by the IASB about the transfer of control of a good or service over time.

We think that the criterion (set up in § 35 and 36) is reasonable and workable.

COLLECTIBILITY

**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 were one of the few respondents agreeing with the concept of the transaction price reflecting customer credit risk.

We agree that an entity should apply IFRS 9 (or IAS 39) to account for uncollectible promised considerations.

However regarding the presentation of corresponding amounts in profit or loss as a separate line item adjacent to the revenue line item we are sceptic. In today applicable IFRS and in IFRS 9 there is no guidance on the P&L classification on the customer credit risk losses and we wonder why there should be a difference between financial assets derived from Revenue from contracts with customers and other financial assets. Consistency has to be addressed by the IASB.

Finally, we reiterate our comment made to question 5 of the first ED: it should be stated in the core of the standard, and not only in the basis for conclusions, that the effect of the customer credit risk can be ignored if not material.

**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?
We agree with the limitation of recognition of revenue to the cumulative amount to which the entity is reasonably assured to be entitled.

We think that the criteria of paragraph 81 and the indicators of paragraph 82 are relevant.

We appreciate the clarification given by paragraph 83 about the necessity for an entity to consider all facts and circumstances to exercise its judgment to determine whether its experience or other evidence is predictive.

**ONEROUS PERFORMANCE OBLIGATION**

**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 agree with level at which the onerous test has to be performed and with the scope.

We agree with the onerous test being performed at a Performance obligation level because we think it is consistent with the new proposed model of identifying separate Performance Obligation. In fact we think that the refined way of separating and bundling performance obligations should permit to adequately account for the economics of the transactions.

Concerning allocation of the transaction price we share what we think is the objective of the Board: to faithfully depict the different margin (C.f. BC 176). However this objective is not clearly stated in the standard and price allocation based on margins of the performance obligation is the only one estimation method to be used in absence of observable stand alone selling price. Moreover, we think that a contractually stated price should be presumed to be the stand alone selling price unless this price has no commercial substance.

Finally, we agree with the scope the onerous test because we think it is a reasonable practical expedient to address cost benefits concerns.

**INTERIM FINANCIAL REPORT**

**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 recognized 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 think that the requested information for interim financial report is in line with the disclosure requested for annual financial and the IAS 34 principle of giving less information than in annual statements.

However we have to reiterate our strong opposition to the disclosure of the expected timing of recognition of remaining performance obligation. This disclosure is not workable for a lot of long term contracts (until 50 years) whose performance obligations would qualify as being satisfied over time (IFRIC 12 concession contract, regulated activities...) in application of paragraph 35.

Furthermore, even if we can imagine that some information would be useful for analysts as the reconciliation between revenues accounted for and cash flows, we are not convinced that benefits of the information will exceed costs. We think that a field test should be performed to assess in the one hand costs generated in entities and on the other hand the real users' need for this information.

**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 agree.
MAIN CONCERNS

As raised in our cover letter we have 3 main concerns:

Our first 2 concerns are related to our Utility Business:

- The scope of the ED and the relations with IAS 17/IFRIC 4 and IFRIC 12
- The accounting for Regulated Business (RRA or IFRIC 12)

The third one is related to the production of disclosures especially on cash items. IT is not designed to produce direct cash flow information.

a) Our first concern is about the scope of the ED and application in our Utility Business:

- First, leases are not included in the scope of the ED, while as pointed out in our answer to the ED Leases we consider that the definition of a service contract and a lease contract should be addressed in view of the consequences on the IFRIC 4 accounting. The interaction between the ED’s guidance on distinct goods and services and IAS17/IFRIC4 should be clarified.

- Operations under the scope of IFRIC 12 or the so called “Rate Regulated Activities” are one major concern of the Industry. In such environment a third party is “invited” in the Contracts with Customers. This third party is frequently called the Regulator or the Grantor. As you know, a large part of the Contract with end-users and consequently the tariff and to some extent the timing of revenue recognition, are fixed by the Regulator and/or the Grantor. Therefore, it would be helpful to make clear that the “regulated business” is in the scope of the ED.

b) Our second concern deals with the recognition of contract assets and liabilities:

- As raised in several occasions, our industry supports in substance accounting principles and considers that accounting should reflect the performance of the regulated activities. Therefore, when criteria of recoverability are expected to be fulfilled, rate regulated assets and liabilities should be recognised in the balance sheet. We are of the opinion that recognition of such assets and liabilities are consistent with both § 1 “Conceptual Framework “and § 3 of the ED, thus with the new notions of contracts assets and contracts liabilities of the ED.

As our second concern is clearly interrelated with the scope issue, we encourage the IASB to tackle this question if objectives listed in IN2 of the ED are to be achieved.

c) Third concern: disclosure

Disclosing as detailed information as asked may be useful to the users of the financial statements. However, it would take time and will be costly to change the processes and amend the IT systems currently used. Our opinion is that this matter should be further investigated by the Board. Guidance should be clarified, need of users documented and field test should be performed to check the cost/benefits balance.
Matching principle
If accounting for revenue is key, accounting for margin is also very important to reflect performance of the business. Therefore we are satisfied that the matching of revenues and costs which is included in IAS 11 and IAS 18 is implicitly maintained in paragraphs 91 to 93 of the ED.

However, we think that it would be preferable for a principle based standard to explicitly state the principle. In fact, if the accounting of costs relating to future POs or partially unsatisfied POs is very clear, the accounting of costs relative to past POs (or partially satisfied POs) is ambiguous. Doubtlessly already incurred costs relative to past POs must be recognised as expenses, but what about not yet incurred costs of sales relative to past POs?

A lot of our long term operating and maintenance contracts in power generation/utility business should be considered as a single PO satisfied over time in accordance with paragraph 28, 29 and 35 of the ED. Consequently, revenue relative to the single PO should be accounted for according to a flat pattern. However, major maintenance which can cost hundreds of million units is usually incurred every 5 years. Should we account for those costs only when incurred? We would then account for a big loss in year 5 after having accounted for 4 profitable years.

If it was the board intention this should be clearly stated.

Separating performance obligation
In line with above issue and as already commented in our answer to the first ED, we consider that the IASB should require an additional condition for contract dividing. This condition exists in IAS 11 (§ 8c) and IAS 18 (§14c and 20d) and is quite relevant to account correctly for revenue of goods and services sold and related profit margin: the cost that relate to the contract can be identified and measured reliably.