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Mouvement des Entreprises de France MEDEF

A F E P

Association Française des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
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Paris, June 19, 2009

Re: *DP "Revenue Recognition"*

We welcome the opportunity to comment on the IASB discussion paper dealing with "*Revenue Recognition*".

While the IASB paper has merits in clarifying the assets and liabilities that arise from handling contracts with customers, we believe that the paper fails to present a relevant single principle for revenue recognition for the following reasons:

1- the IASB has not made any attempt at defining what revenue should portray in the income statement, and therefore when and how the information contained in the revenue line would have usefulness for users of financial reporting;

2- the proposed model for revenue recognition would delay revenue recognition until full completion for some significant long term activities and deprive financial statements in those industries from reporting performance in a relevant fashion; those industries would be forced into non-GAAP financial reporting in order to cope with useless IFRS compliant financial reporting; we do not believe that such an outcome is acceptable;

3- issues not deliberated at the DP stage (list provided in an appendix to the DP) are much too substantive to allow the DP to play its role of launching the appropriate in-depth debate;

4- The most challenging improvement awaited from new IFRS requirements for revenue recognition is a set of principles and related guidance on how to account for multiple element arrangement contracts. We note that the guidelines given in the DP are not robust enough, while the issue is claimed not yet dealt with. We regret not having the opportunity to comment on what is supposed to be a substantive need for improvement today;

5- The transfer of control notion that is supported in the DP is much too legalistic, somewhat away from the economic substance of commercial arrangements and as a result would be quite burdensome to implement.

The approach adopted by the Board is of greatest concern to us, all the more so that the Board is as of today showing all signs of confidence that an acceptable standard can be derived from the DP consultation process and be ready for issuance in June 2011. We do not believe that that is the case:

- major issues (definition of contract boundaries, contingent consideration, impact of customer credit risk, recognition of a contract asset or liability and its presentation in the balance sheet…) would need to be presented at a DP stage; indeed such decisions have fundamental consequences on what revenue is meant to portray; as a result the initial due process step cannot be considered as fulfilled;

- No exposure-draft would be acceptable unless the IASB makes a radical change in its preliminary views.

In addition to these main comments, answers to the detailed questions of the invitation for comment are provided in the appendix.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	**Alexandre TESSIER** Director General	**Agnès LEPINAY** Director of economic and financial affairs

Appendix to our letter on IASB DP "Revenue Recognition". Answers to the specific questions raised in the invitation for comments

Chapter 2: A contract-based revenue recognition principle

Question 1: ***Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?***

1- Some preliminary comments

In its attempt at improving revenue recognition under IFRS, the IASB is, from our point of view, missing the appropriate objective, i.e. to provide users – all users of financial statements whatever the industry the entity operates in – with useful information. Without that objective being pursued as a matter of priority, progress cannot be achieved. Instead, the current proposal will render the financial statements of some entities partly useless. In other words, consistency derived from a single revenue recognition principle is desirable if, and ONLY IF, revenue recognised under that unique principle provides useful information for all types of activities.

In our view revenue recognised pursuant to a contract with a customer should reflect the progress of the entity pursuant to the contract, and not merely the transfer of the control of assets between the entity and its customer, unless the transfer of control of those assets between the entity and its customer characterises that progress appropriately. Activities such as building submarines, warships, nuclear plants, processing nuclear waste, IT services… generate revenue that is appropriately dealt with as of today in compliance with IAS 11. While assets and liabilities arising from the application of IAS 11 may be in need of being more appropriately identified and qualified in order to lift any doubt that the standard complies with the asset/liability approach, and eventually some tidying up, the general thrust of the standard provides relevant revenue information and should not be eliminated.

In its preliminary views, the IASB fails to identify what revenue should convey to make the income statement fully relevant. Complying with the asset/ liability approach does not mean that revenue, which is defined as the increase or decrease of any group of assets or liabilities, even if they are the assets and liabilities arising from contracts with customers, will mechanically ensure that the income statement conveys relevant information.

In our comments on the conceptual framework first two proposed chapters, we expressed the view that, although all financial statements have to be analysed as a set, a separate objective should be acknowledged for each primary statement as is done in the existing IFRS framework. The income statement is assigned the objective of measuring the performance of the entity. When defining when revenue should be recognised, the definition of revenue should be set so that the income statement can reflect the entity's performance. Revenue and gross margin are useful and widely used indicators of performance in many manufacturing operations.

EFRAG in its PAAinE discussion paper on Revenue Recognition has followed that approach and we have broadly supported the definition of revenue proposed in the PAAinE paper. Although the Board acknowledges the importance of measuring performance in the income statement, it does so in a very defensive manner at a late stage in the DP (par 5.13). We believe the search for relevant performance measurement should have been the starting point in the analysis.

Whichever revenue recognition principle is retained, the balance sheet will always appropriately capture transfers of assets between an entity and its customers. There is therefore no risk of loss of information for the users of financial statements. On the contrary reflecting the activity of the entity in the income statement while the entity's contract asset or liability is shown in the balance sheet (and changes in it are displayed in the notes) brings more comprehensive and useful information to users.

2- A single revenue recognition principle

We can understand and foresee the advantages of setting one and only one revenue recognition principle. We are therefore sympathetic to all attempts made at defining a single revenue recognition principle. However those advantages do not trump the need for a fully relevant income statement. We disagree with the IASB approach that makes consistency from business to business a priority without considering the need for relevant information. IFRS existing requirements include two different revenue recognition principles, so that revenue can reflect the activities of entities appropriately. A single revenue recognition principle should not be adopted, unless it can meet the objective of providing relevant revenue information for all entities.

3- No revenue without a commercial contract

We agree with the IASB that a contract between an entity and its customer – in whatever form - is necessary before the entity can recognise revenue. In our view a contract is characterised, basically, as:

- The entity committing to delivering a good or performing a service,
- The customer committing to paying a pre-determined price,

The goods and/or services and the consideration agreed in exchange for them being precisely determined.

Commercial contracts do however include (either explicitly or implicitly, due to legal requirements or common litigation outcomes) detailed clauses that may make the commitment by one or the other party more or less substantive. We therefore believe that limiting the conditions bearing on the existence of a contract as the contract being "enforceable" is not precise enough:

- In our view a commercial contract exists only when the entity and the customer are ***irrevocably*** committed. We therefore believe that revenue should not be recognised before the customer is irrevocably committed to pay the agreed price in exchange for the delivery of the agreed good or service, or, in case of a breach of contract, to pay compensation for the work performed by the entity at an amount commensurate with both the work performed and the price in the contract;

- It follows that the contract boundaries should exclude any arrangement not yet agreed. Unless there is strong economic interrelationships between the initial and the subsequent promises (such as is the case in the insurance industry), renewal options, supplementary offers, included in initial arrangements, should not be considered for revenue recognition purposes[1]. Indeed, they do not differ in substance from offers presented in view of reaching a new arrangement. Therefore they should not be accounted for differently;

- The future standard should rely on the exercise of judgement, so that all facts and circumstances are duly considered. The analysis of how parties to the contract are committed should not be based on a legal analysis only, but also acknowledge that parties are compelled to rational economic behaviour. Indeed B to C operations often handle great numbers of customer transactions, most of which would not result – on an individual basis - in amounts worth recovering in case customers fail to pay amounts due. In those cases, the customer cannot be considered bound to pay the agreed price.

This is because we believe that revenue should reflect the cash flows that the entity either has received or will ultimately receive pursuant to a contract with a customer.

4- The transfer of control notion

The transfer of control notion on which the Board's approach is based appears much too legalistic to result in relevant accounting in all circumstances. Many detailed contractual clauses are agreed in order to limit or delay transferring control of assets to a customer and hence safeguard the entity's best interests in the context of a specific jurisdictional framework. Nonetheless economic benefits may have transferred at an earlier stage. In other circumstances, on the opposite, transfer of control may take place in legal terms while customers are indeed away from enjoying the economic benefits of the promised good or service, and might be at a loss were the service to be suspended before completion. This makes the revenue recognition principle proposed by the Board even less relevant.

5- A contract-based revenue recognition principle

We ***reject the IASB proposed contract-based revenue recognition principle*** because of the reasoning we have exposed in the preceding paragraphs. We acknowledge that many activities could be appropriately reflected if the IASB proposed model was applied. In those activities, the flow of transfer of assets to customers is sufficiently swift and repetitive to reflect – ***as a proxy*** – the level of activity[2] of the entity, or the transfer of assets is taking place on a continuous basis. However other activities are characterised by flows of transfers of assets to customers that are not either as swift or as repetitive, and that do not occur on a continuous basis (please refer to our preliminary comments above). We believe that revenue in those entities cannot be reduced to portraying transfers of assets to customers, if revenue is to bring relevant information to users of financial statements.

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[1] Renewal options may play a role in the remeasurement of the cost of fulfilling some obligations, such as those arising from insurance contracts (please refer to our answer to question 10 and our answers to the DP "Insurance Contracts").

[2] "Activity" as used throughout our comment letter designates the *effective progress* made by an entity towards fulfilling its performance obligations in customer contracts. Any form of ineffectiveness should be reported as a loss, not generate revenue.

For the reasons explained above, we believe that the IASB has failed to identify the appropriate group of assets and liabilities whose increases and decreases would appropriately portray the level of activity of all entities, and hence serve as an appropriate basis for revenue recognition.

Nonetheless, most of the material developed in the discussion paper would still be useful for the depiction of contract rights and obligations. We believe indeed that the IASB preliminary views have appropriately identified the rights and obligations that arise pursuant to a contract with a customer. As such those preliminary views are likely to bring improvement in the timing and depiction of transfers of assets between an entity and its customer and hence help provide more relevant information in the balance sheet. Those transfers may coincide with the recognition of revenue; they cannot – and therefore should not - trigger revenue recognition.

Question 2: ***Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?***

As indicated in our answer to question 1, the Board's proposed principle would not provide decision-useful information in activities such as building submarines, warships, nuclear plants, processing nuclear waste, IT services… We therefore reject the Board's proposed revenue recognition principle.

Unless the IASB is able to formulate a single principle suitable for all industries, the IASB should prepare a final standard encapsulating two different revenue recognition models. While recognising revenue upon transfer of promised assets may lead to a stream of revenue that is a relevant representation of the activity of some industries, the standard should ensure that entities that launch long term lead time manufacturing processes only pursuant to contracts with customers (i.e. do not sell out of inventory) are required to recognise revenue as they progress in manufacturing/ building the promised asset. The in-process asset would be measured on the basis of the agreed price in the contract (or the allocated transaction price as is proposed in the DP). Changes in the measurement of the in-process asset would generate revenue. No receivable – or no decrease in the liability to the customer – would be recognised prior to the transfer of the completed asset to the customer.

We are aware that providing for two distinct revenue recognition models requires the definition of suitable and robust criteria for the application of one or the other. We do not recommend the IASB to attempt to define "long term". We believe that management should be left with the responsibility for selecting the appropriate revenue recognition model for the relevant line of business, the second model having to be applied if and when:

- The entity is able to demonstrate that the two models provide quite different streams of revenue, and the second model is a better representation of the activity of the entity in the period.
- The entity starts work once it has received firm orders from its customers (it does not serve its customers out of inventory),
- Sound project management procedures allow the entity to measure the progress pursuant to contracts with customers in a robust and reliable fashion. We wish to note here that present practice under IAS 11 often – though not in all activities - involves a percentage of completion method that is based on relevant technical milestones that are defined at inception.

We are aware that users involved in long-term contract industries favour revenue reflecting the level of activity of the entity although some of them are not happy with the information content that the application of IAS 11 provides today. This, in our view, does not indicate that the percentage of completion method is, per se, to be eliminated and replaced. We believe that the appropriate direction is to enhance disclosures surrounding its use:

- Information should be provided in the notes, allowing users to assess the uncertainties and risks inherent in the in process contracts;
- Information should be provided explaining how the percentage of completion is being applied.

Question 3: ***Do you agree with the board's definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.***

We note that IAS 32 incorporates already a definition of a contract and we believe that definition is satisfactory. We do not believe that the proposed definition is superior and as a result do not support it. Indeed we support changes only if they are for the better.

For further developments on whether the requirement that a contract exists is sufficiently explained, please refer to our answer to question 1, more particularly in paragraph 3 of that answer.

We agree with the definition of e customer proposed in par 2.21. We believe that in association with the definition of a contract such e definition helps identify those contracts that generate revenue appropriately.

Note to the attention of the IASB:

Questions related to the definition, the satisfaction and the measurement of performance obligations are relevant in our view, irrespective of the revenue recognition model to be retained. As indicated in our answer to question 1, we believe that the IASB preliminary views have the merit of helping identify the nature of rights and obligations that entities and their customers exchange or build up at the inception and in the course of fulfilling commercial contracts. Our answers to the following sections should not be read as supporting implicitly the contract based revenue recognition model proposed by the Board

Chapter 3: Performance obligations

Question 4: ***Do you think the boards' definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.***

4.1 Definition of a performance obligation

We disagree with the definition of a performance obligation as proposed in the DP because we believe it is incomplete. We understand the performance obligation as being a liability of the entity. Therefore we believe that the definition of a performance obligation should be such that it meets the definition of a liability at all times.

An entity incurs a liability when it is faced with the obligation to sacrifice a net outflow of assets. In concentrating on the asset promised to the customer, the Board omits to recognise that the entity incurs a liability at all times. In both examples set forth by the Board of SongCo and TuneCo offering either free online music or a discount on future sales, the DP concentrates on whether the customer receives an asset, i.e. a right to free online music on one side, an option to buy online music at a discounted price on the other. While both items are likely to meet the definition of an asset for the customer (i.e. that they embody a scarce resource that others would not have access to), the promised discount on a future sale does not meet the definition of a liability for the entity, unless the discount makes the binding offer an onerous contract. We therefore do not believe that a performance obligation can be a promised asset in all circumstances.

Other examples provided in the DP suggest that the proposed definition is not likely to be operational and/or bring relevant answers in the circumstances where multiple deliverable arrangements are causing difficulties today.

We refer to example 7 in appendix A that concludes that making the customer a registered member of the health club does not meet the definition of a performance obligation. The reasoning is that the contract transfers only one promised service to the customer, i.e. the access to the health club. That analysis is too short. We refer to IFRIC 18 conclusions that indicate that connecting a client to a commodity network may or may not consist in a separate performance obligation, depending on the specific set of circumstances. If the reasoning in example 7 was to be applied to IFRIC 18 background, the conclusion would be that the contract has promised the customer only a right to access the flow of commodities, and not the benefit of being connected to the network. We believe the answer in IFRIC 18 is superior.

We further note that conclusions reached in example 7 imply that contracts including non-refundable fees would be treated in the same way as contracts that do not, as the non-refundable fee would be presumed to be no more than an advance payment. We do not think such an analysis is relevant in all circumstances. In some circumstances the non refundable fee is the consideration received for performing some service. In other circumstances the non refundable fee is playing the role of a penalty for breach of contract.

We also refer to the issue of up-front fees that IFRIC has decided not to add to its agenda, because no reasonable answer could, based on IFRIC members' assessment, be solved within the existing IFRS requirements. We believe the DP fails to bring valuable material to deal with this issue.

Our answer to question 6 further illustrates difficulties that arise in applying the proposed definition of a performance obligation.

4.2 Indicators of a performance obligation

- *Whether an item can be sold separately:*

In paragraph 3.11 the Board indicates that assessing whether a good can be sold separately in a contract with a customer is a useful way of identifying a performance obligation. The discussion that follows indicates clearly that the Board does not intend to make this characteristic a necessary condition (par 5.48 provides the Board's reasoning). We believe however that only assets which are routinely purchased separately should form the basis of separate performance obligations.

We agree the future standard will help increase the comparability among entities if the presentation and measurement of performance obligations are made on consistent bases. Therefore we agree that the separation of a contract into separate performance obligations should not be dependent on how the contract has been agreed between parties, when the difference in form does not overlap a difference in substance.

However discrepancies between entities cannot arise from failing to recognise separately items that cannot be purchased separately. Let's take the example of a legal warranty. At the time of delivery the entity transfers to its customer a good and the right to having the good repaired if a default occurs, two items that cannot be sold or held separately. From the perspective of the reporting entity, we believe that the legal warranty should be analysed as a contingent additional cost of providing the good to the customer, and that the resulting obligation should be measured on the basis of the estimated cost to fulfil the obligation. Another example is the delivery for free of a piece of equipment that gives access to, for example, a telecommunication network and the equipment is not routinely purchased on a stand-alone basis in the market under consideration.

We believe that such a choice would represent the economic reality more faithfully. In addition we believe that both reliability and comparability of financial reporting would be enhanced. Indeed estimates of stand alone selling prices for items on pure hypothetical grounds are likely to lack a reasonable level of objectivity. Moreover those estimates are more complex to prepare and hence lead to increased costs of reporting while the information decreases in quality.

- *Whether the customer has formally explicitly ordered an item:*

We agree with the Board that identifying performance obligations should encompass implicit promises as well as explicit promises (par 3.12), insofar though as separate promises are the industry practice and the substance of the contract.

We believe however that a standard dealing with revenue recognition should provide appropriate guidance in order to limit the potential proliferation of individual performance obligations with the accompanying need for allocation and estimates:

- Some commercial offers characterise a business and although they theoretically include several components, they should not be, in our view, subject to unbundling, as unbundling would not reflect the substance of the arrangement: this is the case for example in insurance where customers routinely purchase a bundle of life insurance and asset management that are intrinsically interrelated, or in the utility industry where revenue should arise from selling, for example, water only, without any attempt at identifying separate services for the construction and maintenance of the distribution network, as the service sold is a package encompasses delivering water and maintaining the infrastructure.

  Unbundling is useful, in our view, only for comparability purposes. It should therefore not be extended artificially and beyond industry practice and commercial substance in the contract;

- The identification of separate performance obligations should be limited by the rebuttable presumption provided in paragraph 4.56. Where the contract or surrounding facts and circumstances (industry practice should be considered among those facts and circumstances) indicate that no transfer of control can be presumed to take place separately, a rebuttable presumption such as provided in paragraph 4.56 should prevail and no separate identification of performance obligations should be requested. We suggest that the rebuttable presumption plays a role as early as at the identification stage (rather than later at the satisfaction stage) to avoid the unnecessary burden of identification and allocation. This in our view is consistent with par 3.24. We observe that facts that would help rebut the presumption are known at the inception of the contract.

Question 5*: Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?*

We agree with the principle that separate performance obligations in a contract should be identified on the basis of when those separate performance obligations are fulfilled. We acknowledge that in most cases the fulfilment of a performance obligation will take place upon transfer of a promised asset. However as indicated in our answer to questions 4 and 7, we do not believe that performance obligations necessarily coincide with promised assets.

Question 6*: Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?*

We agree that granting a customer a right of return is granting the customer a separate asset, i.e. an option to put the good back to the entity. Therefore we believe that such a contract provides the customer with two distinctive assets, the good on one hand, the option on the other.

We observe however that the put is transferred at the same time as the good is being delivered. The conclusion of applying the definition proposed in the DP would therefore lead to consider that both performance obligations have been fulfilled at the time of delivery (rights to both assets have passed). We therefore believe that qualifying the return right as an unperformed obligation is inconsistent with the DP's proposal.

Nevertheless we believe that the entity has to account for the possible consequences of the customer exercising its option and we agree that the option generates a liability pursuant to the contract with the customer. Unlike other "performance obligations" however, the entity will recognise revenue only if it does not perform!!

We therefore disagree with the return right being analysed as a supplementary service to the customer. Processing the refund is part of the obligation of buying the good back. A restocking service cannot in any way be an asset to the customer. The customer's net assets do not vary depending on whether the entity takes care of the item returned or leaves it unattended. We believe the analysis matters, if an appropriate measurement basis is to be determined later on.

We have also considered the example of the asset that is transferred along with a put option and the free trial period that is granted to customers. Although we understand the reasoning the IASB is following, we believe that these two situations are economically similar in real life. Indeed the distinctive feature is supposed to be that the entity has the ability of claiming the equipment back whenever it wishes to do so. We do not think that this feature is distinctive in substance. As is clearly described in the example, the motive of the entity is to sell its products more easily. As a result the entity *is not interested in claiming the equipment back; keeping control of the asset* in the second example plays the role of a safeguard for cashing in the price of the equipment if the customer decides to buy it ultimately. Both customers are granted a free right of use of the equipment for thirty days; in the first example the price paid serves as a guarantee for the loan of the equipment during the trial period. In that first example the customer has the ability to terminate the trial period implicitly at any time without any further transaction with the entity. In the second example the customer needs to formally indicate its decision and pay the full price.

Question 7*: Do you think that sales incentives (e.g. discounts on future sales, customer loyalty points and "free" goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?*

As indicated in our answer to question 4, we believe that sales incentives give rise to performance obligations if they create a liability of the reporting entity and if the promised good or service can be sold separately.

In the two examples provided in the DP, we believe:

- That SongCo who is committed to deliver online music without any supplementary consideration incurs a separate performance obligation;
- That TuneCo does not bear any obligation, beyond the commitment of a binding offer, unless that binding offer is onerous.

Chapter 4: Satisfaction of performance obligations

Question 8*: Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.*

Reminder: We have rejected the revenue recognition principle proposed by the Board. As a result, our discussion below addresses only when and how a performance obligation extinguishes, independently from revenue recognition.

If a performance obligation is to transfer an asset to the customer, we believe that the principle that the performance obligation is satisfied when the customer has been transferred the control of the corresponding asset sounds robust.

However we believe the attempt at designing guidance to deal with when to assess that the asset has been transferred to the customer is partly confusing, in particular when trying to sort out goods and services.

We do not think that a robust standard can be built on the basis provided in the DP.

1- We believe there is too strong an emphasis on whether the customer has a valid claim on the work in progress

   Agreements that lead to the continuous transfer of an item of PPE while construction or production of the item is in progress exist. Those arrangements are concluded after the customer has carefully selected the entity in charge of the construction or the production. Therefore generally customers are interested in having a claim on the work in progress only if the manufacturing/ construction company defaults.

2- The attempt at drawing a line between goods and services is somewhat artificial

   The whole discussion of whether a customer of a consulting firm is buying a report (considered a good) or a service (of which transfer would be continuous) is no basis for a practical guidance. The discussion indeed does not hint in anyway to the economic substance of the transaction, basis on which judgement could be valuably exercised. And we doubt that it can. As a result we would recommend that all services that are expensed are considered transferred on a continuous basis.

Question 9*: The boards proposed that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.*

We disagree that revenue would be recognised only when a performance obligation is satisfied. Please refer to our answers to questions 1 and 2 when we explain when and how the satisfaction of a performance obligation may coincide with the recognition of revenue, however does not trigger revenue recognition.

Chapter 5: Measurement of performance obligations

Question 10*: In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.*

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Yes, we do. We believe that typically an entity builds its selling prices using the three-block approach described in the DP. Therefore we believe that measuring the performance obligations at the transaction price is objective and simple, at no loss of relevance.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

Yes, we do. We believe that this is consistent with the definition of a liability. We note that this is also consistent with the existing IAS 37 and existing practice.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not. If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

We agree with the view of the majority of the Board that no asset or liability should be recognised at inception, and so as long as contracts remain unperformed, consistently with the existing recognition exemption for executory contracts.

As a result, the only performance obligations that the proposed model would lead to recognise would be, as is the case today, those when customers perform first. Those are generally what the Board has called "stand-ready obligations", performance obligations in which the entity bears some form of risk on behalf of its customer: insurance, warranty, maintenance are examples of activities where performance obligations are recognised as soon as the customer performs, i.e. pays the agreed consideration. Because these obligations are by nature contingent, remeasurement may be necessary to provide for a fair reflection of the cost to the entity to meet its contractual commitments, even when meeting the obligation is not onerous to the entity. Nevertheless such remeasurements should not have any impact on revenue.

(d) *Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.*

We do not believe that possible remeasurement of performance obligations should have any influence on revenue recognition. Revenue should always reflect the transaction price agreed between the entity and its customers.

Question 11*: The boards proposed that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards proposed than an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.*

(a) *Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?*

(b) *In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.*

We believe that selling costs are incurred for the reporting entity's sole benefit, in order to contribute to increasing its profitability generally. We do not see any difference between selling costs and other costs such as development, marketing and general management costs. All concur to making the offer to the customer possible and all are intended to be recovered by the entity when the entity sets its selling prices. The fact that the signature of the contract is the happy conclusion of the selling effort does not single those costs out, in our view.

However, answering this question requires prior and proper identification of the "selling" costs incurred, in order to distinguish those that represent the entity's selling efforts from the consideration paid by the entity to intermediaries that have helped in the agreement between seller and customer and be as helpful to the customer to purchase as to the entity to sell. In some cases such as insurance, part of the whole consideration received from the customers does not correspond to the performance obligation to be performed by the entity but covers payments made by the entity to intermediaries that could have been invoiced to and paid by the customer directly without a change in substance in the commercial relationship.

Those payments should, in our view, be deducted from the whole consideration paid by the customer to determine the actual "transaction price".

Such payments are typically proportional to the price of the contract and incurred contract by contract. In those transactions the entity could validly be regarded as acting as its customer's agent at the time the intermediary is getting paid.

Question 12*: Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?*

We agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices. An entity may offer different stand-alone selling prices for the same goods or services when, for example, some goods and services are provided –either partly or totally – as sales incentives at inception of the contract. We believe that the entity's stand-alone selling prices to be retained in the allocation are those relevant to the context of the transaction.

In other words we disagree that revenue ought to be recognised on sales incentives that are granted at inception of a contract, when the profitability of the contract remains based on contingent sales. This is for example the case at inception of a subscription for press magazines when the customer receives at inception a coffee maker or a pencil set or any other good alien to its ordinary activities in exchange for a leap sum (or for free) and the acceptance of the subscription, while the customer remains free to interrupt the service of press delivery anytime. In those instances we believe that the transfer of the good or service granted – partly or totally – as sales incentive should not trigger any revenue in excess of the cash received, i.e. the amount of revenue recognised should be based on the entity's stand-alone selling price of the good or service when used in a sales incentive at inception of the contract.

More generally we disagree that revenue be recognised on the basis of contingent sales. This is because we believe in the strong link that must remain between revenue recognised and the irrevocable commitment of the customer to pay a given amount of cash or other assets (please refer to our paragraph 3 in the answer to question 1).

Question 13*: Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?*

We agree within the limits of our answer to question 4. We have indicated that only goods and services that are routinely purchased on a stand-alone basis should give rise to separate performance obligations (i.e. to separate recognition of revenue).

Other comments

We have observed and monitored tentative decisions made by the Board in the Revenue Recognition project at last March and May meetings. Some among those tentative decisions have caused great alarm.

- Contract boundaries: as explained in our answer to question 1 (par 3: no revenue without a commercial contract), we do not believe that renewal or supplementary purchase options should be taken into account in the boundaries of the contract, unless there is strong economic interrelationships between the initial and the subsequent promises (such as is the case in the insurance industry).

- Allocation of transaction price among separate performance obligations in the contract should be provided at inception, without any form of remeasurement or subsequent estimate (except for consideration determined on the basis of a formula, and hence variable);

- Contingent consideration should not be taken into consideration prior to the contingency being resolved. However variable consideration should be subject to current assessments;

- Recognition of customer contracts: while the DP suggests that no contract asset or liability would be recognised at inception, further deliberations seem to suggest changes in the contract asset or liability to be subject for recognition independently from either the customer or the entity performing in the contract. We disagree that it be the case;

- Customer credit risk: we believe that whether a receivable is impaired should follow accounting requirements for financial instruments accounted for at amortised cost. No revenue should be presented if and when risk of non-recovery of related consideration would arise.