Sir David Tweedie,
Chair
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, 27 January 2011

Request for Views on Effective Dates and Transition Methods

Dear Sir David,

We appreciate the opportunity to respond to this Request for Views as over the last two years, France Telecom has been engaged in extensive discussions with the IASB Staff and Board members regarding the impact on the telecommunications industry of both projects on *Revenue from Contract with Customers* and *Leases*.

Hence, while we expect France Telecom Group accounting processes and reporting to be affected by all the IASBs projects that this consultation is in relation to, we expect to encounter significant hurdles and costs in relation to the two above mentioned projects. We refer the Board to our comment letters on those two projects.

In brief

We believe a differentiated approach should be followed between those standards that affect the daily business operations (like *Revenue* and *Leases* in the telecom industry) and the other standards with less pervasive effects throughout the organization or the operating result.

The effective date for the standards that affect the daily business operations should take into account that their implemention is not only about the education of a huge number of company personnel. They will literally transform the way accounting processes are performed today:

- Revenue (for non construction contracts) and lease accounting currently follows broadly transaction accounting (from use to invoice and cash) for which systems & processes are designed. It follows that estimates are limited to cut-off & bad debt and that internal control management focuses on the exhaustivity of transaction recording and on access to cash (fraud & revenue assurance).

- The new proposed *Revenue* and *Leases* standards systematize estimates, in the case of *Leases* create assets and liabilities that need to be linked together although they follow their own accounting, or in the case of *Revenue* creates net contract assets or liabilities that need to be reconciled to the current invoicing and cash collection systems. This will require the design and implementation of systems that are not yet available on the market and of processes involving the routinization of estimates by non-accountants. It will also generate significant pressure on internal control management.

Therefore, unless significant changes are decided by the Boards, we do not believe an effective date before 10 years from now is credible. This raises at the same time the question of the cost/benefits of the proposed changes.

In building this estimate, we also take into consideration the fact that given the number of issues raised by constituents in their comments, we believe the Board should (i) reexpose for comments each new proposal relating to these standards following its current redeliberations, (ii) perform field testing on these proposals that are necessary to demonstrate the quality and operationality of the proposals, and (iii) document an in-depth effect analysis to follow its governance and support endorsement.

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

Yours sincerely

Valérie Thérond (Chief Accounting Officer)

Nicolas de Paillerets (Director of the Group Accounting Principles)

Cc:

Mr. Jean-Pierre Jouyet, AMF
Mrs Françoise Flores, EFRAG
Mr. Jérôme Haas, ANC
Members of the European Telecommunications Accounting Forum

Background Information

Q1. Please describe the entity (or the individual) responding to this Request for Views.
For example:
(a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.
(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.
(c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.
(d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any.
(e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

France Telecom Orange operates in over 30 countries (not taking into account the counties where its Orange Business service and International Carrier divisions are operating) with 85% of its turnover in Europe.

It is listed on EuroNext, on the NYSE and the Tokyo Stock Exchange.

France Telecom Orange prepares consolidated financial statements under IFRS like some its listed subsidiaries e.g. in Jordan, Egypt. In addition, while France Telecom SA individual financial statements are prepared in accordance with French accounting principles, some of its subsidiaries prepare their individual financial statements under IFRS (e.g. Kenya, Botswana etc.).

Among the various projects, those dealing with the business operations like *Revenue* and *Leases* will impact close to 100% of our top line. At the same time, while leases account for less than 6 % of our external purchases or less than 3% of our operating expenses, the number of lease contracts exceeds 200000 as they relate not only to office buildings and retail stores but also to the locations of antennas and street cabinets. In addition, it is possible that depending on the ultimate definition of leases and on the dividing line with services, additional numerous arrangements fall in the scope of the future standard.

Furthermore, the two projects represent a major shift in accounting processes: their implemention is not only about the education of a huge number of company personnel or the inventory of contracts. It literally transforms the way accounting processes are performed today:

- Revenue (for non construction contracts) and lease accounting currently follows broadly transaction accounting (from use to invoice and cash) for which systems & processes are designed. It follows that estimates are limited to cut-off & bad debt and that internal control management focuses on the exhaustivity of transaction recording and on access to cash (fraud & revenue assurance).
- The new proposed *Revenue* and *Leases* standards systematize estimates, in the case of *Leases* create assets and liabilities that need to be linked together although they follow their own accounting, or in the case of *Revenue* creates net contract assets or liabilities that need to be reconciled to the current invoicing and cash collection systems. This

will require the design and implementation of systems that are not yet available on the market and of processes involving the routinization of estimates by non-accountants. It will also generate significant pressure on internal control management. In addition, the consequences of the *Revenue* standard on the accounting of contracts with vendors remain an open question.

Preparing for transition to the new requirements

Q2. Focusing only on those projects included in the table in paragraph 18 of the request for views: (a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt? (b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

The following impacts are based on the current EDs or Staff papers when more recent.

Project	**Typology**	**Expected impact in term of timeline**	**Comments**
Consolidation	Central assessment	Low	Main risks are the uncertainty created by new wording and the loss of converged practice
FV measurement	Central assessment	Medium	More process required
Financial Instruments	Treasury dep't - central assessment	High	New hedge accounting rules to learn -Adapt processes and systems- Alignment to internal management should help
Insurance Contracts	n/a	n/a	
Joint Arrangements	Central assessment	Low	FTO has already elected equity acctg for JVs. It remains unclear whether some arrangements may fall in the scope of *Joint Arrangements*
Leases	Business operations	Very high	Pervasive effect through all geographies and functions (marketing, real estate, technical dp'ts); Requires systematic inventory of leases on the revenues and costs sides; New processes to capture modifications and estimates; Link between the asset and liability sides require new systems; Very high pressure on internal control management on estimates and on distinctions between right to use a tangible or intangible asset and between right to use an asset and services; Impact can be significantly lessened if the Board converge to the alternative

			view and propose a real relief for short term leases
Post employment benefits-defined benefit plans	HR dep't- Central assessment	Low	FTO uses the service of actuary firm to help prepare its pension and OLT benefits accounting.
Presentation of OCI	Presentation	Low	Education of investors
Revenue from contracts	Business operations	Extremely High	Pervasive effect through all geographies and functions (commercial, marketing, controlling, accounting); Significant impact on users; Increased pressure on internal control systems; Risk of disalignment of external reporting and internal reporting; Unresolved systems and process issues; Unclear consequence on the accounting of contracts with vendors.
Low= <18months; Medium= <3 years; High =<5 years; Very High =<10 years; Extremely High=>10 years			

Q3. Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

For those entities which individual financial statements are prepared under IFRS and which income tax returns are based on their individual financial statements, the modifications introduced by *Leases* and *Revenue from Contracts* will impact the profit profile and leverage ratios.

We foresee two potential consequences on:
- the income tax base. It is not possible to predict the reactions of tax authorities to such changes that affect their sovereignty. The changes introduced by the Board might induce tax authorities to disconnect tax returns from accounting, thereby increasing the administrative costs & internal control costs for preparers. It will likely also increase the audit costs of restatements to tax accounting and of deferred tax balances.
- the distribution capacities. This presents a risk to investors and a challenge to the legal framework under which companies are operating. Indeed, distribution capacities are usually highly regulated with the aim to protect creditors. It is not possible to predict the legislative reactions to the changes introduced. It is not unlikely that the standards will ultimately put additional pressures on the civil and criminal law responsibilities of the management.

In addition, the systematization of estimates will cause:
- increased pressures on internal control management for which no assurance of success can be taken for granted. This also leads to increased responsibilities for management.
- new demands from auditors with an uncertainty on how to deal with the estimates that are forward looking and can not be benchmarked to market.

Q4. Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

For leases, we disagree with the limited retrospective transition method:

- We believe a full retrospective method is more appropriate because it lessens the negative profit impact linked to the limited retrospective method.
- Similarly, we disagree with the inclusion of short term leases as we do not believe the proposed remedy to be effective in terms of simplification.

For revenues, we are unable to form a view at this stage:

- Comparability of data for the top line is a cornerstone for users (external or internal); their requirements exceed the one year comparative required by IFRS, with three years being a minimum. Similarly, companies listed in the US like FTO need to provide 3 years of income statements.
- Because a change in revenue accounting has pervasive effects, and because companies with billions of transactions might just not be able to run two different sets of data, it might be useful that the Board consider implementation with no restatement of prior years. It might be also be a way to reduce by two years the implementation timeline.

Effective dates for the new requirements and early adoption

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views: (a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits). (b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why? (c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs. (d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

France Telecom Orange prefers a sequential approach where the standards having an impact on business operations are implemented at the same time and at the end of the transition period:

- Standards that do not affect business operations often affects specialists, support functions and centralized processes: their implementation require a focused effort in a short timeframe; education of users benefit from the tempo of the move by all preparers; users are accustomed to a certain level of periodic changes.
- Standards that affect business operations are characterized by pervasive effects through geographies and organizations; education of the preparers personnel and of users require a significant time; convergence of practice within an industry represent a challenge; systems and processes (not limited to transactions accounting) require significant adaptations.

Determining whether a standard affects business operations is specific to each industry and the Board may find useful to recognize this in its final transitioning strategy.

With a single package,

- the Board will have to postpone the implementation of some standards to the date suitable for the last standard (time to finalize it or to implement it);
- Preparers will have to disperse their efforts: their resources will be stretched on a variety of subjects and over multiple environments while the standards with an impact on business operations will create a challenge that is far bigger than the transition to IFRS in 2004-5;
- Users will not have absorbed the effects of generic standards at the time of those significantly impacting the operating result.

Assuming a single date approach, France Telecom believes such a date should not be set before 10 years if not later because:

- Given the number of comments, the *Revenue* and *Leases* standards should not be finalized before a new round of drafts are exposed for comments and before effective field testing and in-depth effects analysis are performed, fully documented and submitted to comments. In all cases endorsement by jurisdictions usually require such steps. We expect these steps to require at least two years from June 2011.
- Before implementation, preparers will need to form a view on the standards, share those with their peers of the industry in order to reach maximum comparability. Similarly audit firms will need to clarify their positioning. We expect a minimum of 18 months will be necessary for this step, based on the much simpler transition to IFRS.

- Education of internal personnel to be able to design the implementation process in systems and processes requires a minima one to two years given the number of geographies and functions involved.
- Implementation of new systems and processes in all geographies require between 24 months for the simplest one to over five years for complex systems,
- An effective date two years after the end of the former step will be necessary as at least three years of comparative data are necessary; this period can be used to educate investors and to adapt the budget and planning processes.

June 2011 2012 2013 2014 2015 2016 2017 | 2020 2021 2022 2023
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As mentioned in our comment letters, for telecommunications companies, a significant uncertainty remains on feasibility if the Board is to maintain its initial orientations for *Revenue*.

Q6. Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

It all depends on the transitioning strategy that will be chosen by the Board. We believe that allowing early adoption of standards that do not affect the core operations of companies might simplify the transitioning process.

An exception could however be made for first time adopters, who may wish to deal with all the modifications in a single package.

International convergence considerations

Q7. Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

For comparability and a level playing field, similar effective dates are preferable. However such an approach should not be at the expense of endorsement processes to which IFRS are subject in the EU and other jurisdictions.

Considerations for first-time adopters of IFRSs

Q8. Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

Please see Q6