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Mr Robert Garnett
Chair of the
International Financial Reporting Interpretations Committee
30 Cannon Street

Berlin, 25 April 2008

London EC4M 6XH
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Dear Bob

Comment Letter on IFRIC Interpretation D24 *Customer Contribution*

We appreciate the opportunity to comment on the draft Interpretation IFRIC D24. We fully endorse the IFRIC's aim to support the IASB in establishing and improving International Financial Reporting Standards.

We agree that the issue of providing contributions of property, plant and equipment to "access providers" that must be used to provide access to a supply of goods or services to customers is of importance for some industries for which divergence in practice exists. However, we have serious concerns about the scope of the draft Interpretation and with specific guidance included in the Interpretation, as detailed below.

Scope

First, it should be clearly addressed whether *government grants* and *grants related to assets* as defined in IAS 20, which also meet the requirements as outlined in D24 need to be accounted for under IAS 20 or IFRIC D24. The same guidance should be provided with regard to contributions in kind provided by a parent company, which are accounted for by crediting shareholder's equity.

Further, we believe the scope is not sufficiently specific in respect to the following issues. It appears not to be clear whether

- the scope is limited to be applied by entities of the utility sector (this notion adheres to the draft interpretation due to the earlier discussions about this subject),
- should also be applied by entities of the communication business (as indicated in the observer notes March 2007), or
- even be generally applied by entities of all industries.



According to the current wording, the interpretation could be applied to situations in which an entity receives a cash contribution to construct an item of PP&E (which must be used to provide access to a supply of goods or services), and this item of PP&E requires some R&D components to be done by this entity. For example – in the automotive industry, it is often the case that agreements between the supplier and the manufacturer exist in which the manufacturer provides cash contributions for tooling devices (PP&E) to the component supplier and the supplier has to also perform some R&D services in order to develop these tools. We, on one hand, strongly suggest to exclude such agreements from the scope of the draft interpretation. On the other hand, there is a need for authoritative guidance to address the accounting issues in this context (i.e. customer contributions in cash also including “value-added services” such as tooling development). Such guidance may be provided by the means of a separate Interpretation to be developed the IFRIC.

Additionally, we suggest that the scope of the draft Interpretation should be expanded in such a way that the guidance applies “to all situations in which an entity receives ... cash it is required

- to use to construct or acquire an item of property, plant and equipment
- or to devote to an item of property, plant and equipment it already controls

that must be used to provide access to a supply of goods or services.” The underlined phrase inserted to the quote should be added to the wording of D24.4. In this context the IFRIC should also clarify whether used PP&E may be used to provide access to a supply of goods or services (or whether the scope of the draft Interpretation is limited to new / unused equipment).

Definitions

The definition (para. 5) of a cash contribution should be amended as suggested above for the scope of the draft Interpretation (“ ... or to devote to an item of property, plant and equipment it already controls ...”).

Both, customer and cash distributions are limited to items of property, plant and equipment. We suggest to consider whether a widening of the definition to also include items of intangible assets would be appropriate.

It is also unclear, when and how the cash contribution may be made. Must the contribution be provided at the beginning of the arrangement as an upfront payment? (For example, rather than receiving a cash contribution of 1,000 CU upfront and then providing an ongoing service, a customer may pay the access provider an additional 100 CU p.a. for the ongoing service for 10 years. In addition, instead of actual payments, the agreement may be based on credit notes being granted to the access provider.) We suggest that the definition should be clarified regarding (1) the range of different payment patterns which may exist in practice and (2) contingent considerations.



Recognition of a customer contribution as an asset and determining whether the ongoing arrangement contains a lease

According to D24.14 an entity may determine that it has received an asset as a result of a customer contribution and that an ongoing service agreement entered into at the same time contains a finance lease. The AIC fully agrees with the suggested accounting treatment for such circumstances as laid out in D24.14: in these situations, the entity does not recognize either the contribution or the obligation to provide access. However, the rationale behind this approach should be provided in a more detailed manner. The current elaboration on this matter as provided in D24.BC4-BC7 is not considered to be sufficient.

Obligation to provide access to a supply of goods or services

According to D24.11, an entity receiving an asset that meets the definition of a customer contribution has an obligation to provide access to a supply of goods or services, which according to the draft Interpretation should be recognized and measured on initial recognition at the fair value of the contribution received. In this context it should be made clear, whether the access provider has accepted such an obligation (ie depending on the terms of the transaction and the circumstances involved) and considering objective criteria, whether there is evidence for such an obligation. There may be instances according to which the access provider receives a contribution but has no obligation – in such a scenario the fair value of the contribution received should to be treated as an immediate gain.

D24.BC22 states, that the time value of money should be taken into account in measuring the revenue that is recognized in case of arrangements that arise as a result of a customer contribution which lasts for a significant period. Since it appears not be clear how to account for this in practice, we strongly request the IFRIC to clarify this statement (eg providing a detailed example indicating the accounting entries over a few years of the significant period and which interest rate to apply).

D24.11 states that “the obligation shall be reduced and revenue recognized as access to a supply of goods or services is provided.” We recommend clearly stating that the recognition of revenue may also be based on factors other than time as presented in IAS 16.56.

Regarding the period over which the deferred revenue should be recognized (D24.11 sentence 3), we consider the following issues have not been sufficiently addressed:

- Does ceasing to use the contributed asset result in the accelerated recognition of revenue?
- How to treat options to continue to provide access to a supply of goods or services using the contributed asset, when at the inception of the arrangement it is reasonably certain that the access provider or the customer will exercise such an option?



Accounting for a cash contribution

This section of the draft Interpretation (D24.21 and .22) should be amended to consider the suggested change in scope of the draft Interpretation (“ ... or to devote to an item of property, plant and equipment it already controls ...”).

D24.22 (last sentence) also does not make reference to D24.12-15 (Determining whether the ongoing arrangement contains a lease), which we suggest to change.

Transition

According to D24.24 an entity shall apply the draft Interpretation prospectively with no option to apply it retrospectively. The AIC considers this rule to be problematic since it will not allow companies to be in line with this draft Interpretation for previous periods if they wish to strive for such an approach. We recommend that the IFRIC readdress this issue – a retrospective application may be made optional.

Other Issues

Generally, we recommend using some illustrating examples to clarify key issues of the draft Interpretation. Additionally, we strongly recommend structuring the draft Interpretation principle-based rather than rule-based.

Other suggestions and comments are:

- Throughout the draft interpretation the terms “access provider” and “the entity” are used. We suggest using one term consistently and especially not to use the term “access provider” but - as an example - “the entity having received the customer / cash contribution”, which appears to be much clearer.
- We recommend to the IFRIC to include in D24.18 (first sentence) the term “using the contributed asset” for clarification purposes.
- We further recommend to the IFRIC to also provide accounting guidance for the “contributor” since there will not only be private households not being subject to public accounting but also entities being subject to this requirement. In this context, we especially consider it necessary to provide guidance on
 - the contribution act in connection with the required recognition of the “access right”,
 - the treatment of this right in case an entity contributes an asset and then another entity receives access to the ongoing service, and
 - the treatment of this right in case an entity contributes an asset but does not enter into a contract to receive an ongoing service.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Prof. Dr. Manfred Bolin
AIC, Chairman