BUSINESSEUROPE

Mr Robert J. Garnett
IFRIC Chairman
IASB – International Accounting Standards Board
30 Cannon St.
London, EC4M 6XH

21 April 2008

Dear Sir,

RE: D24: CUSTOMER CONTRIBUTIONS

BUSINESSEUROPE welcomes the opportunity to comment on the draft interpretation dealing with customer contributions.

BUSINESSEUROPE supports the issuance by the IFRIC of an interpretation on this issue, as there are indeed different possible interpretations at present. However we oppose the interpretation as unnecessary/unhelpful, particularly as we disagree that there is always a liability. Furthermore cash contributions (and in some instances customer contributions) are just another up front payments. We note that the IFRIC previously decided in January 2007 that it was not in a position to reach an appropriate interpretation on up front payments in a reasonable timeframe. We provide our detailed analysis below.

We have analysed the issue in the order the consensus was developed:

1- Should the entity recognise a customer contribution as an asset?

Although we agree with the conclusions reached in the consensus on this issue, we feel the consensus is quite difficult to read and to understand. As a result we would recommend:

- the reference to the framework, instead of IAS 16, be explained. We note that neither the definition nor the recognition criteria of IAS16 require an item of PP&E to be an asset. Moreover we acknowledge that the definition of an item of PP&E in IAS 16 is unhelpful in D24 context. We observe that the definition of an item of PP&E as included in the ED IFRS for SMEs is modified and defines an item of PP&E as a tangible "asset" (instead of a tangible "item");

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

- the transfer of an asset from the customer to the supplier be described as potentially resulting in an operating embedded lease, however never in a financial embedded lease. We indeed believe that paragraph 14 should conclude that there is no transfer of asset when the customer retains via the arrangement taken as a whole substantially all risks and rewards of the asset (ie paragraph 14 last sentences should be dropped).

2- If the entity recognises the customer contribution as an asset, does it incur a liability and what is that liability, if any?

We disagree with the consensus reached by the IFRIC on this issue. Indeed whether the entity incurs a liability in exchange for the asset transferred may depend on facts and circumstances. The conclusion by the IFRIC arises from BC17-18 when the IFRIC decides what facts and circumstances are most likely to be encountered in practice. In other words the IFRIC concludes that all transactions that involve a customer or a cash contribution should be dealt with in the same manner, leaving no room for judgement to take into account different possible set ups. We have however been made aware by our constituents of the great diversity of arrangements which would fall within the scope of D24. For example, we believe that situations such as those described in BC17 a) and b) should not be ruled out. The interpretation would in our view be valid only if the accounting outcome of the interpretation adequately meets the specifics of all circumstances. We do not believe this is the case. In situations described in BC17a), the entity may be obligated to provide goods or services beyond the period when it obligates itself to provide the goods or services at a below-market price. In those situations we believe that there is no obligation beyond the period when goods or services are provided at below-market price. In situations described in BC17b), the entity incurs no obligation once the connection has been made. In those sets of circumstances, we believe that D24 would require deferred revenue that would not meet the definition of a liability.

In other words, we believe that the IFRIC should reach a consensus whereby revenue is deferred only if there is objective evidence that the entity is committed to transfer economic resources in exchange for the customer or cash contributions beyond the date the connection is made. In all other circumstances revenue should not be deferred.

Moreover to reach an appropriate consensus, the IFRIC should adopt a principles-based approach. Customer contributions are in our view but one form of upfront payment which should be accounted for in accordance with IAS 18.13. We note that the IFRIC has indicated back in January 2007 that it was not in a position to reach a satisfactory consensus within an appropriate timeframe on the accounting for upfront payments. We wonder whether customer contributions are sufficiently different to allow a principles-based consensus to be reached.

3- Over what period should the entity recognise revenue?

Our response to this question stems from our above analysis. We believe the entity should defer revenue over the period – and in proportion with – the sacrifice of economic resources it is obligated to in the contract. We agree with the IFRIC's conclusion that this period cannot exceed the useful life of the asset. We disagree however that the useful life of the asset would be relevant for determining the period over which revenue should be recognised.

4- Potential overlap with other IFRS

As mentioned in paragraph 2, D24 scope is quite large and encompasses a great variety of arrangements. As a result D24 can potentially overlap with other IFRS, such as IFRIC 12 and IAS 20, and hence result in some confusion and uncertainty as to what accounting requirements should prevail. We urge the IFRIC to consult with preparers in order to define an appropriate restricted scope for D24.

Should you wish to comment on the above further, please do not hesitate to contact us.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department