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Mr Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London
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Email: ifric@iasb.org

25 April 2008
Our Ref: KW/CF

Dear Mr Garnett,

IFRIC Draft Interpretation D24 *Customer Contributions*

Deloitte Touche Tohmatsu is pleased to comment on the International Financial Reporting Interpretations Committee's (the IFRIC's) Draft Interpretation D24 *Customer Contributions* (referred to as the 'Interpretation').

We have reservations about the IFRIC's approach to this issue. The Interpretation does not clearly establish the principles on which it is based and, accordingly, the appropriate application of the proposed Interpretation is not always clear. In the absence of such clear principles, there is a danger that the Interpretation may be applied as a set of arbitrary rules, and may lead to practices which conflict with the principles of IAS 18.

For this reason, as explained in more detail below, we believe that it is best for the IFRIC not to proceed with the Interpretation but to address this issue for the time being in an Agenda Decision.

It appears to us that the IFRIC initially intended to address, in situations in which an entity receives a specific item of property, plant and equipment that must be used to provide access to a supply of goods or services, whether the recipient should recognise such an asset at fair value and how to account for the resulting credit. The IFRIC later extended this to circumstances where an entity receives cash to fund the acquisition or construction of that specific asset.

However, we believe that the Interpretation as currently drafted has a much wider scope without providing robust principles for all situations that may fall in that scope.

For example, it is not clear to us whether the accounting for cash contributions is limited to situations in which the underlying contract, explicitly or implicitly, requires that contributions must be used to acquire an item of property, plant and equipment. If there is no such limitation the scope would be extended to all situations when an entity receives an initial fee from a customer. This may include situations where the fee is unrelated to an asset (or where the fee paid is not related to the fair value of the assets required), i.e. the underlying arrangement may merely stipulate that a fee has to be paid for receiving access to a supply of goods or services. In such situations the access provider may fulfil the obligation to provide access by acquisition/construction of a new asset, using a used asset or (re-)activating an existing asset already in place.

We also believe that appropriate application of the Interpretation is very unclear for some monopoly suppliers and some regulated industries. Very often in these situations the access provider is required to provide electricity (for example) for an indefinite period and is required to maintain the connection to the property at all times at its own expense. Once a property has been connected, it is charged the same tariff for electricity as anyone else. In these situations a cash contribution may be considerably in excess of the cost/ fair value of the item of property, plant and equipment because the regulator may permit the access provider to treat the excess as a contribution to maintenance of the network. We question how the cash contribution should be treated in these situations; in particular, whether the access provider has an ongoing obligation, or, in other words, whether it is appropriate to recognise the full amount of the cash contribution as an obligation to provide access to a supply of goods or services. Additionally, in cases of monopolies and regulated industries it is difficult to determine the contract period and it is unclear to us whether the initial amount received should be recognised over an infinitely long period (or a very short period).

In the situations outlined above the issues arising are similar to those discussed by the IFRIC in its project on revenue recognition in respect of initial fees. The IFRIC removed this project from its agenda as it was unable to reach within a reasonable time frame a consensus on further principles for determining the extent to which an upfront service had been provided.

In addition, paragraph 20 of the Interpretation, which states that "although the period over which an entity has an obligation to provide access to a supply of goods and services using a contributed asset may be shorter than the useful economic life of the asset, it cannot be longer" appears to us to be an arbitrary rule, unrelated to (and perhaps in conflict with) the principles of IAS 18, which are based on the sale of goods, rendering of services or the use of assets yielding interest, royalties, etc., but not on factors such as the economic useful life of an asset.

As a further illustration of the difficulties of understanding how the Interpretation applies, despite the statement in BC7 that the IFRIC did not intend to develop a detailed guidance to help determine who has control over the asset, paragraphs 10 and 14 of the Interpretation provide guidance that appears to be a set of rules rather than a clear interpretation of the principles existing in IAS 16 and IAS 17.

In our opinion the IFRIC should address these issues in an Agenda Decision and that Agenda Decision should clarify that where property, plant and equipment or cash is received by an entity the entity should (i) consider whether the resource contributed qualifies for recognition as an asset and (ii) account for the credit that arises as a result of recognising a contributed asset following IAS 18. In particular, the entity should consider whether the overall contract includes separately identifiable components that should be given separate recognition in accordance with IAS 18.13 and whether revenue should be recognised by reference to goods and services delivered in accordance with IAS 18.14 and .20 (as appropriate).

If the IFRIC wishes to proceed with an interpretation, we suggest narrowing the scope of the Interpretation to situations where an entity receives a specific item of property, plant and equipment that must be used to provide access to a supply of goods or services or where it receives cash to fund the acquisition or construction of that specific asset, ensuring that the issues we have outlined above in relation to monopolies and regulated industries are addressed. We believe that for all other scenarios the Interpretation as currently drafted would not be helpful but may even generate additional problems and divergence in practice. Further, we are of the view that current IFRSs provide sufficient guidance to address issues that fall within this narrowed scope and consequently any guidance developed by the IFRIC would be more in the nature of application guidance rather than an interpretation.

A proposed wording for an Agenda Decision is provided in the Appendix to this letter.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Yours sincerely,

Ken Wild
Global IFRS Leader

Appendix: Response to Invitation to Comment on D24 *Customer Contributions*

Proposed wording for an Agenda Decision

The IFRIC was asked to develop an Interpretation regarding the accounting in situations where a utility company receives an infrastructure asset that must be used to provide a future service or where it receives cash to fund the acquisition or construction of such an asset. The submission requested guidance on the accounting for such items by the entity receiving the contributed asset (the customer contribution).

The issue was whether the customer contribution should be:

- recognised at fair value by the service provider; and
- the credit arising as a result of recognising an asset should be:
    - recognised as revenue over the period the service is provided
    - recognised in the income statement immediately
    - treated as a receipt of a grant applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in analogy

The IFRIC noted that there were significant differences between government grants and customer contributions including that customer contributions are provided as part of trading relationships. The IFRIC concluded that it was not appropriate to account for customer contributions using IAS 20 by analogy.

The IFRIC noted that an entity that receives a customer contribution shall assess whether the contributed resource qualifies for recognition as an asset. If that resource qualifies for recognition it shall be recognised and measured in accordance with applicable IFRSs. An asset contributed in return for a right to receive future services should be measured at fair value in accordance with paragraph 24 of IAS 16 *Property, Plant and Equipment*.

The IFRIC also noted that the accounting for the credit that arises as a result of recognising a contributed asset should follow IAS 18 *Revenue*. In particular, the IFRIC noted that any credit recognised for the obligation to supply goods or render services should be reduced and revenue recognised as these goods are supplied or services are rendered.

The IFRIC decided in view of the existing guidance in current IFRSs not to take the issue on to its agenda because any guidance developed would be more in the nature of application guidance than an interpretation.