THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

23 April 2008

Our ref: ICAEW Rep 55/08

Mr Stig Enevoldsen
Chairman
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

By email: commentletter@efrag.org

Dear Stig

IFRIC D24 CUSTOMER CONTRIBUTIONS

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to respond to EFRAG's draft comment letter on International Financial Reporting Interpretations Committee (IFRIC) Draft Interpretation D24 *Customer Contributions*, published in March 2008.

We share EFRAG's broad support for the proposals D24 and have no major differences of opinion with the draft comment letter. We also share EFRAG's main reservations, namely:

(a) the draft Interpretation should clearly state in the consensus and basis for conclusions that it is dealing with deferred revenue and advance payments, and base the analysis of the issues on IAS 18;

(b) although the consensus assumes that the access provider accepts an ongoing obligation to provide access in return for the contribution, this is only one of many possible scenarios.

These points are made in our own response to the IFRIC, which gives further explanations of our views and is attached.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

Desmond Wright

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ICAEW

THE INSTITUTE OF CHARTERED ACCOUNTANTS

IN ENGLAND AND WALES

23 April 2008

Our ref: ICAEW Rep 54/08

Your ref:

The International Financial Reporting Interpretations Committee
30 Cannon Street
London, EC4M 6XH

By email: ifric@iasb.org

Dear Sir

IFRIC D24 CUSTOMER CONTRIBUTIONS

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on International Financial Reporting Interpretations Committee Draft Interpretation D24 *Customer Contributions*, published in January 2008.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours faithfully

Desmond Wright

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ICAEW Representation

ICAEW REP 54/08

IFRIC D2 CUSTOMER CONTRIBUTIONS

Memorandum of comment submitted in April by The Institute of Chartered Accountants in England and Wales, in response to International Financial Reporting Interpretations Committee Draft Interpretation D24 *Customer Contributions*, published in January 2008.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on International Financial Reporting Interpretations Committee Draft Interpretation Draft Interpretation D24 *Customer Contributions*, published in January 2008.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Support for the initiative

4. We are not altogether clear why the IFRIC chose to address the accounting for customer contributions received by an access provider. In the UK we are not aware of significant diversity in accounting practice, although different facts and circumstances necessarily lead to different accounting.

5. We take issue with two particular aspects of the Draft Interpretation:

   (a) We do not agree with the underlying assumption that in return for the contribution the access provider invariably takes on an obligation to provide ongoing access to a supply of goods or services: this is only one of many possible arrangements, depending on the specific facts and circumstances (see paragraphs 11 - 12 below). The Interpretation should make it clear that certain arrangements may not fall within its scope.

   (b) The Consensus and the Basis for Conclusions should specifically state that the Interpretation is dealing with deferred revenue and advance payments, and base the analysis of the issues on IAS 18 (see paragraph 13 below).

   Having said that, and subject to our various comments below, we are broadly content with the Draft Interpretation.

DETAILED COMMENTS

6. The Draft Interpretation is not always easy to follow, and is not closely argued. We note that it does not set out specific questions for consideration

by commentators. We set out here our comments on the four issues addressed by the Draft Interpretation (as enumerated in paragraph 7).

Recognition of the asset

7. We accept the need to decide whether the resource received is an asset, and it is important that the Interpretation does not generate new rules about when and when not to recognise an asset. However, the Draft Interpretation only considers the control approach of IAS 16. It would be helpful if the Interpretation could discuss why the control approach was given priority over the risks and rewards, given that it is necessary to determine whether an ongoing arrangement is or contains a lease using the risks and rewards approach of IAS 17

8. On the matter of determining whether an arrangement contains a lease, we note that IFRIC 4 and the draft interpretation both deal with the right to use property, plant and equipment. Consequently, it should be clarified as to which interpretation takes precedence when an arrangement might fall into both. For example, a customer may contribute an asset in exchange for the entity assuming an obligation to provide access to a supply of goods or services.

9. Assets may be contributed between entities under common control for the purpose of providing services. Such transactions should be excluded from the scope of the Interpretation.

Measurement of the asset

10. We agree that the asset should be measured on initial recognition at its fair value.

Accounting for the resulting credit

11. We agree that the liability corresponding to the asset should be recognised simultaneously with the asset. We do not necessarily agree that the obligation is to provide ongoing access to a supply of goods or services: different facts and circumstances will lead to different conclusions. Nor do we agree that the amount of the liability will always be equal to the amount of the asset.

12. The up-front contribution may simply be for a subset of customers to obtain access to the goods or service at the market rate - as for example, when the service provider cannot otherwise make an economic return on creating the necessary infrastructure. In these circumstances, the provider is being paid for access alone, and not the actual supply of goods or services, so it is not clear why the revenue should not be recognised immediately. Paragraphs 17 and 18 of the Appendix to IAS 18, dealing with Initiation, entrance and membership fees and Franchise fees respectively, discuss situations in which the up-front fee is not spread over the period of the service. These examples could usefully have been explored in the Draft Interpretation. The Interpretation needs to present a more cogent case for the treatment it proposes in such circumstances, or make it clear that there will be circumstances in which immediate recognition is appropriate.

13. In our view, where payment is received in advance of performance, the resulting credit is deferred revenue under IAS 18. This is not addressed explicitly in the Draft Interpretation, and a number of important related issues are therefore unexplored. For example, we do not agree that, as stated in paragraph 22, 'the time value of money should be taken into account in measuring the revenue that is recognised'. Following initial recognition of the deferred credit at fair value there should be no subsequent discounting. The draft Interpretation should clearly state in the consensus and basis for conclusions that it is dealing with deferred revenue and advance payments, and base the analysis of the issues on IAS 18.

Cash contribution

14. Subject to our comments about accounting for the resulting credit and in paragraph 15 below, we agree that a cash contribution should be treated as an asset if it meets the relevant criteria, and otherwise as a sale.

15. Paragraphs BC27 - BC29 conclude that the construction of an item of PPE as a result of a cash contribution is fundamentally different from the construction of an asset by a service concession operator: the recipient of a cash contribution constructs its own asset for its own use and therefore the interaction with the intangible asset model in IFRIC 12 is irrelevant. We do not accept this over-simplistic analysis, and believe that the Draft Interpretation would have benefited from a more detailed exploration of the control over the asset in different circumstances.

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