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Sent via e-mail: [director@fasb.org](mailto:director@fasb.org)  
Financial Accounting Standards Board  
401 Merritt 7  
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Re: File Reference No. 1820-100

AT&T Inc. is pleased to respond to the Financial Accounting Standards Board's ("FASB") exposure draft on "Revenue from Contracts with Customers". AT&T Inc. is a premier communication holding company with its subsidiaries and affiliates operating in the United States and around the world. We are a leading provider of wireless, high speed Internet and voice services. In addition, we offer business communication services and advanced TV services over our IP based network. Domestically, we are also a leader in directory publications and online advertising sales.

We recognize that streamlining the numerous US GAAP rules and creating consistency with International Financial Reporting Standards could improve comparability of revenue recognition practices across jurisdictions, industries, and capital markets. We are concerned, however, that the exposure draft creates a theoretical model that, in some circumstances, will create inconsistencies in revenue recognition for similar type transactions, actually decrease comparability within individual industries and be needlessly expensive and overly complex to put into practice. We ask that the FASB consider these ramifications as it develops the final standards. We have chosen to comment on a few significant areas of concern rather than answer each of the questions listed in the exposure draft, but have included reference to the Board's questions, where applicable.

Our first comment relates to the proposal that would require a contract's transaction price be allocated to all separate performance obligations in proportion to the standalone selling price of the good or service underlying each of those performance obligations. In question #7, the Board asks when and why that approach would not be appropriate. We believe this approach is only appropriate after giving consideration to the proper recognition of amounts that may be contingent upon undelivered services. Under current US GAAP, the amount of revenue allocated to a delivered good or service in a multiple element arrangement is limited to the amount that is not contingent upon the delivery of additional goods or services in the future. Under the exposure draft, additional revenue could be recognized on certain performance obligations even though a portion of the allocated transaction price may be subject to completion of future performance obligations. Recognition of this unbilled, contingent revenue is inconsistent with several similar areas of U.S. GAAP such as Sections 450-30 Contingent Gains and 805-30-25 Business Combination Contingent Consideration Assets. These and other standards support a view of not recognizing beneficial events such as revenue, assets or income until all performance requirements are met.

Additionally, this proposed allocation process introduces a potential for inconsistency in the recognition of revenue for similar services that does not exist today. For example, in our wireless business, the current standards result in consistent amounts of service revenue being recognized for similar service contracts that are purchased in conjunction with the delivery of a handset, regardless of the sales channel that is used. In our direct sales channel, we may sell handsets at a discount to a customer in conjunction with a service contract. Today, the revenue recognized for the handset is limited to the amounts received, or to be received, that are not contingent on future services. The proposed model would require an allocation of the total contract price between the equipment and service revenue, thereby reducing the future service revenue. In our indirect sales channel, we sell the handset to a third party (who then sells it to an end customer) and sell a service contract to the end-customer. While economically similar (the cash flows in and out of our company are the same), under the proposed standard, this arrangement would require a different allocation of transaction proceeds to the handset which would then result in higher future service revenue recognition than the same contract sold in the direct sales channel. This inconsistency in revenue recognition would create volatility in our wireless service average revenue per user (ARPU), a key industry metric, based solely on the change in mix of phones and services sold in owned stores versus through third party sales agents. As a result, the proposed standard would decrease comparability among wireless service providers in the same economic position solely based on the choice of the distribution channel for its handsets. Current users of our industry's financial statements view handset sales as an ancillary service while primarily comparing ARPU among service providers. The proposed standard would make this comparison more difficult for users of our financial statements and therefore make our financial statements less useful, not more useful.

In question #1, the Board asks for comments on the proposed principle of price interdependence to determine when a contract modification should be accounted for as a separate contract or as part of the original contract. We believe contract modifications are focused on the future relationship with a customer and on the remaining performance obligations. The Board acknowledges that a contract exists when an agreement between two or more parties creates enforceable obligations between those parties. If the obligation did not exist at inception, its effect should not be applied retrospectively as if it did exist. Instead, we believe it is more appropriate to treat contract modifications as new contracts covering the remaining performance obligations and resulting in the allocation of the remaining revenue over those obligations.

The Board's question #5 asks if a customer's credit risk should affect how much revenue is recognized rather than affecting whether revenue is recognized. We believe that the current guidance in Section 605-10-S99 of the Accounting Codification which states that revenue can be recognized if collectability is reasonably assured should be retained. The current guidance allows for a distinction in treatment of issues that are associated with the delivery of the performance obligation, which should be recognized in revenue, versus the subsequent events, such as non-payment of amounts that have been billed, which were not contemplated at the time the contract was consummated or the performance obligations were completed. We also believe that all credit risk adjustments should be recognized in the same place in the income statement. To do otherwise could have the effect, once again, of decreasing the comparability of results among companies.

For example, assume two companies both experience actual credit losses of 1.5% of revenue. Under the proposed standard, Company A perfectly estimates this amount upfront and reduces revenue by 1.5%. Company B, however, legitimately estimates that credit losses will only be 1.25% and reduces revenue by that amount, only later recognizing the additional 0.25% as expense. While both companies would have the same economic outcome as well as the same net income, Company B's revenue and ARPU would be greater, while its operating margin would be lower than Company A. Requiring credit losses to be recognized as revenue or expense based solely on when the loss is recognized (upfront estimate versus actual true up) results in less comparability among companies.

The Board's question #6 asks if we agree that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component. The proposed standard, however, focuses solely on the time between cash flows and revenue recognition in defining a material component. We believe other factors, such as the amount of consideration, are also relevant in determining if a financing component is material and, as such, should be explicitly included in the standard. This may result in diversity of interpretation that may lead to less consistency and comparability between companies. We also believe that it is important that the accretion of this discount, if required, should be reported as operating revenue. While we, like many companies, do not intend to be in the business of financing our customers' purchases, if the Board feels it is important to make more businesses show results as if they were financing companies, we think it is only appropriate to specify that those financing revenues should be categorized as operating revenues like a financing company.

While not specifically addressed in the questions for respondents, we would also like to comment on the proposed guidance for losses on performance obligations (the onerous test). In the Basis for Conclusions, the Board acknowledges that in choosing the accounting unit at the performance obligation level, losses are not offset against the profits in other parts of the contract. The Board considered it preferable because it will not delay reporting adverse changes in circumstances. However, it seems inconsistent with the concept of price interdependence that a contract is negotiated as a package with a single commercial objective. A low or no margin element does not make the commercial objective negative, and measuring loss positions at the performance obligation level misrepresents the agreement to provide goods and services to customers. We believe requiring the upfront recognition of losses on individual performance obligations while also requiring upfront revenue recognition solely due to the combination of performance obligations is inconsistent. We ask that the Board reconsider this issue and allow the onerous test be applied at a contract level.

Based on our conversation with the FASB staff, we believe that the Board intends for companies to have the discretion to aggregate similar contracts in developing estimates that could be required under the proposed standard, which is consistent with financial reporting methods today. In the implementation guidance, however, the Board limited the discussion of grouping contracts to the discussion on recording customer credit risk adjustments to revenue. This guidance might lead to inconsistent application in aggregating contracts as some companies will infer that the proposed model only allows for the grouping of similar contracts when evaluating credit risk while others will make more liberal use of aggregations. We ask that the Board clarify this matter as it develops the final standard.



Finally, it is difficult to respond to the Board's question #13 regarding the retrospective application of these rules without having a proposed effective date and knowing how some of our comments may be addressed in the final standard. While we understand that retrospective application would generally be the preferred method for comparability and trending purposes, we believe it will be quite difficult to implement even with an extended implementation period provided between final standard and effective dates of at least two years. We think that alternative approaches should be considered. We believe treating contracts that exist as of the effective date as commencing on the effective date and applying the standard only to the remaining performance obligations, similar to the way you are proposing to handle leases, generates most of the same benefits as full retrospective application, including comparability among companies, while making the implementation significantly less complicated. Given our company's large contract base which includes many modifications and goes back many years, any solution requiring full retrospective application would be impractical, if not impossible, to implement.

We would be pleased to discuss our comments with the FASB or its staff at their convenience. If you have questions, or need additional information, please contact James Lacy, Senior Executive Director-Accounting at (214) 757-4693 or me.

Respectfully,

A handwritten signature in black ink, appearing to read "John J. Stephens", with a long horizontal stroke extending to the right.

John J. Stephens  
Senior Vice President-Controller