June 17, 2009

Technical Director
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Sir/Madam:

Verizon Communications Inc. (Verizon) is pleased to provide comments on the Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers (Discussion Paper). The following is an overview of our views on the Discussion Paper. Our responses to the individual questions are attached to this letter.

Verizon is a large telecommunications company with operations principally in the U.S. However, Verizon also has operations in over 40 countries, with operating companies and assets in Europe, the Middle East, Africa, Asia, Australia, Latin America and Canada. Therefore, we are sensitive to global competitive factors and global accounting matters. In this regard, we recently provided comments to the United States Securities and Exchange Commission (SEC) on the SEC’s Roadmap to IFRS transition in the United States which were very supportive of United States public companies adopting IFRS in the near future. Consequently, we believe it is critical for convergence activities such as this project on revenue recognition to result in a high-quality accounting standard that can be applied globally by companies with customer bases of varying size and complexity.

Overall, we believe that while the underlying premise of recording revenue based on a thorough understanding and analysis of the specific rights and obligations pertaining to contracts with customers is appropriate, the resulting proposed accounting guidance represents what would be an overly complicated and ultimately non-operational accounting principle. As the examples in the Discussion Paper illustrate, applying the rules outlined in the Discussion Paper is relatively straight-forward for a single transaction with only a few variables. But attempting to apply those rules to a customer base nearing 100 million, a significant number of which are under contract, and with numerous combinations of variables such as rate plan, equipment purchased, retention programs, activation costs, short message services/texts, data/download elements, among others, is not practicable. The information required to prepare accurate accounting entries for any company with a significant customer base under contracts with multiple terms and combinations of products and services would require changes to point-of-sale systems and billing systems as well as related accounting and reporting systems.
including the general ledger and a separate data warehouse. We estimate that, given the number of information systems this Discussion Paper would impact (if accounting rules were developed based on it), the cost would be material to Verizon’s overall financial results and customer impacting, given the necessary point-of-sale and billing system modifications.

Furthermore, through our detailed analysis of the Discussion Paper in relation to our business as well as discussing the matter with others in our industry globally, we believe that simplifying assumptions applied to the overall customer base will lead to less accurate results than present revenue accounting under United States generally accepted accounting principles and International Accounting Standard 18, Revenue. This conclusion was driven, in part, by the lack of any significant correlation of the customer’s payments to us over the contract period and revenue recognized under the Discussion Paper’s outlined rules if we were to employ such simplifying assumptions. We believe this approach will result in greater account reconciliation concerns, supporting documentation and audit concerns and, consequently, potential increased subjectivity and opportunity for errors, thereby making financial information less reliable.

As a result of the summary of our observations above and additional details attached, we believe that the revenue recognition rules outlined in the Discussion Paper are not the appropriate direction for a converged, principles-based standard. We believe that the proposed rules are more prescriptive than necessary; for example, in describing the allocation methodology in measuring the performance obligation. We support revenue recognition based on pertinent facts and circumstances of contracts with customers and those facts and circumstances should consider the rights and obligations under the contracts. However, we believe that prescribing the calculation of revenues based on a quantification of the contract’s aggregate rights (assets) and obligations (liabilities) does not fit within the construct of principles-based accounting model. Companies should be permitted to account for the rights and obligations of contracts without prescribed rules, and disclose their accounting in detail and prominently to ensure contract rights and obligations are clear to all users of financial information.

We would be pleased to discuss our views and specific comments related to this Discussion Paper at your convenience. You can contact me at (908) 559-1629 or Mark Kearns at (908) 559-2529 or mark.f.kearns@verizon.com regarding this matter.

Very truly yours,

Robert J. Barish
Senior Vice President and Controller – Verizon Communications Inc.

Attachment
cc: E&Y (with attachment)
Question 1
Do you agree with the boards’ proposal to base a single revenue recognition principle on changes in an entity’s contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We do not support an approach that is based solely on the entity’s contract assets and contract liabilities. We believe contract rights and obligations are factors in the determination of revenue recognition, but not the quantification of the amount able to be recognized. As stated in the attached cover letter, we believe this approach is far too complex and not operational for large customer bases with multiple options/variables per contract. We believe that an approach that weighs facts and circumstances, including contract rights and obligations coupled with expanded disclosure, is more consistent with principles-based standards.

Question 2
Are there any types of contracts for which the boards’ proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

Companies like Verizon with a large number of contracts having multiple components would lead to simplifying assumptions which we believe would be inaccurate and not provide decision-useful information to management or other users of financial information.

We believe that an approach that weighs facts and circumstances, including contract rights and obligations coupled with expanded disclosure, is more consistent with principles-based standards.

Question 3
Do you agree with the boards’ definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We concur with the boards’ definition of a contract.

Question 4
Do you think the boards’ proposed definition of a performance obligation would help entities identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We do not believe the boards’ definition of a performance obligation helps entities identify the deliverables of a contract. Companies understand the deliverables and the value of deliverables. We disagree with the prescriptive nature of the Discussion Paper’s approach to valuing those deliverables, particularly relative to companies with a large number of contracts with multiple components.
Question 5
Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We believe companies should appropriately weigh performance obligations in determining the amount of revenue to be recognized, just not as described in the Discussion Paper, for reasons described above and in the attached cover letter.

Question 6
Do you think that an entity’s obligation to accept a returned good and refund the customer’s consideration is a performance obligation? Why or why not?

We believe a returned item and refund are performance obligations that need to be considered in the amount recognized in an accounting period, based on experience and estimated returns.

Question 7
Do you think that sales incentives (eg discounts on future sales, customer loyalty points and ‘free’ goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We believe that sales incentives typically relate to the rights under the contract (as a reduction) and should be considered in the revenue recognition process. An exception is a free good purchased from a third party (or service unrelated to the company’s core revenue-producing goods and services) and delivered to the customer which would be a performance obligation.

Question 8
Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We believe that the transfer of the good or service to a customer is a significant factor in determining rights for payment, as adjusted for returns. But control or receiving the services would not be the overriding factor for when the asset is created (receivable). Returns, customer satisfaction adjustments and other related adjustments would impact the existence of that asset.

Question 9
The boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

We believe that satisfaction of a performance obligation is a significant consideration in determining when and how much revenue should be recorded, but as we have stated above and in the attached cover letter, that is a consideration and not the only criteria for recognizing revenue. Returns, customer satisfaction adjustments and other related adjustments would impact recognized revenue.
Question 10
In the boards’ proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

We believe that transaction price is significant but not the only measurement of the performance obligation.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity’s expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

We agree that onerous contracts should be remeasured and adjusted for the shortfall between expected rights and obligations.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

See our cover letter. We believe that the proposed measurement approach is not operational for a large number of contracts with multiple components such that adopting the proposal would be cost prohibitive or application of simplifying assumptions would not yield decision-useful information.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

We support revenue recognition based on pertinent facts and circumstances of contracts with customers and those facts and circumstances should consider the rights and obligations under the contracts. However, we believe that prescribing the calculation of revenues based on a quantification of the contract’s aggregate rights (assets) and obligations (liabilities) does not fit within the construct of principles-based accounting model. Companies should be permitted to account for the rights and obligations of contracts without prescribed rules, and disclose their accounting in detail and prominently to ensure contract rights and obligations are clear to all users of financial information.

Question 11
The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognize those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.
(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity’s performance obligations? Why or why not?

We believe that revenues associated with customer acquisitions (i.e., charged to the customer) are a part of the determination of the contracts rights and obligations that require revenue recognition consideration as to timing and amount. And we concur with the boards’ approach to recognize customer acquisition costs as expenses.

(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity’s financial position and financial performance? Please provide examples and explain why.

We believe that certain installation costs (and revenues) should be amortized over the contract period, as those costs are closely linked with the contractual rights and obligations over the contract term. An example of this is the installation of a high-bandwidth data network for a customer that interconnects their locations and data centers and requires significant up-front capital and labor (e.g., network equipment and underground cables, etc.) for which a large up-front payment from the customer is required. We believe it is appropriate to recognize the installation revenue and associated costs over the contract term; in this example three years.

Question 12
Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity’s stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

As more fully described in our cover letter, we believe that prescribing the calculation of revenues based on a quantification of the contract’s aggregate rights (assets) and obligations (liabilities) does not fit within the construct of principles-based accounting model. Companies should be permitted to account for the rights and obligations of contracts without prescribed rules, and disclose their accounting in detail and prominently to ensure contract rights and obligations are clear to all users of financial information.

Question 13
Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

See our response to Question 12 above.