March 13, 2012

Sent via e-mail: director@fasb.org

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2011-230

AT&T Inc. ("AT&T") is pleased to respond to the Financial Accounting Standards Board's exposure draft on "Revenue from Contracts with Customers". AT&T is a premier communication holding company with its subsidiaries and affiliates operating in the United States and around the world. The proposed standard is of interest to us as a leading provider of wireless and wireline telecommunications services.

We appreciate the effort the Board and its staff has made to gain an understanding of the implications of applying the proposed standard to contracts in the communications industry. In particular, there has been a great deal of discussion about how this model would change the current accounting treatment for contracts that include discounted handsets sold with service commitments. We believe the application of the proposed standard will result in a transaction price allocation model that does not reflect the actual economic substance of the transaction, will create disparate accounting for economically similar transactions, and will reduce comparability between industry participants. In addition, the proposed standard will be costly as it will require the development of systems that do not exist today.

Allocation of Transaction Price

A significant portion of our revenues are derived from our wireless segment and involve the sale of highly subsidized handsets with service contracts. We do infrequently sell handsets to customers on a standalone basis, for example, when a customer with an existing service contract replaces a broken or lost phone. We also sell handsets and other equipment to customers that are not highly subsidized, such as our prepaid phones and tablets, but the business model for these sales and related services is different.

Under the proposed standard, we would allocate revenue to the handset beyond its stated value in the contract and the amount of cash received at the time the contract is signed based upon the sales price of infrequent standalone sales. We believe this overstates the economic value of the handset to a customer that is not already locked into a long-term wireless service contract. Without wireless service from our network, the utility of the handset is greatly diminished to that of a WiFi only device or a handheld gaming device, devices which are sold at prices similar to or below our highly subsidized smartphone prices with a contract. The higher price paid when a handset is lost or broken reflects the customer's desire to access services under their contract and avoid an early termination penalty. To use the price paid when a customer replaces a lost or broken phone on an infrequent basis as a standalone
selling price for the allocation of revenues to the elements within the typical bundled transaction does not represent the economic substance of the transaction.

In order to alleviate this issue, we would propose refinements to the draft standard that would allow us to record the transactions based on their economic substance. We believe the use of the “residual approach” provides the basis for reporting results consistent with the substance of the transactions; however, the specific wording in the proposal causes some to believe the residual method is not available or specifically prohibited. Because we believe an infrequent sales price should not be the basis for a standalone selling price, we recommend clarifying the definition of “uncertain selling price” in paragraph 73(c) to include sales on an infrequent basis or under different circumstances.

A second refinement would involve the requirements around allocating discounts to a single performance obligation. In their basis for conclusion, the Boards state that any discount in the contract would be attributable to “the contract as a whole” and should be allocated proportionately to all the separate performance obligations in the contract “UNLESS the price of some promised goods or services in the contract is largely independent of the price of other promised goods or services.” However, the wording in the proposed standard appears to indicate that you can only allocate the discount to a single performance obligation if that performance obligation is also discounted on a standalone basis. We believe that a business can demonstrate independent pricing if it can show a performance obligation is not discounted on a standalone basis. For example, we have various services that are the same price whether you buy them on a month to month basis or in contracts of various lengths which is clear evidence that there is price independence for those services. We suggest the criteria in paragraph 75 (b) be enhanced with the following wording that would better support the independent price concept that is described in the basis for conclusions.

75(b) The observable selling prices from those standalone sales provide evidence of the performance obligation(s) to which the entire discount in the contract belongs (i.e., when the selling price of the other goods or services in the contract do not vary when sold on a standalone basis).

Without the changes, the proposed standard would result in different revenue results for identical economic transactions. For example, we sell handsets directly to customers as well as through an indirect distribution channel. Under the proposed standard, there will be disparity in accounting for similar contracts purchased by customers based solely on the sales channel, even though the economics from a customer perspective are identical. From the perspective of the users of our financial statements, this disparity in accounting based on the sales channel will render our key revenue metrics to be inconsistent with other participants in the industry solely based on the mix of sales channel activity rather than substantive economic difference.

Additionally, the proposed standard without modification, would require significant system changes given the volume of customers and numerous permutations of contracts in our business. We believe this will be an ongoing operational challenge as well, due to the constant influx of new handsets, services and pricing plans. Using the wireless aspect of our business for illustrative purposes, at any point in time we may have thousands of possible combinations of handset and contract options from which a customer may choose, which would potentially need to be tracked and accounted for separately.
Uncollectible Presentation

We believe the Boards need to clarify their position on the presentation of uncollectibles as most constituents are interpreting the exposure draft to require uncollectibles to be recorded and presented as contra-revenue. We suggest that an example showing the presentation should be included and paragraph 114 and BC173 be modified. Paragraph 114 discusses the disaggregation of revenue and includes the phrase “(excluding amounts presented for customers’ credit risk)”. If amounts presented for customer credit risk are not part of revenues, then this phrase is not necessary. Additionally BC173 should be modified to state “This is because the impairment loss for the trade receivable would be presented separately as expense adjacent to revenue, whereas for all other financial assets, impairment loss would be presented together with other expense items...” to eliminate the implication that the new impairment loss line item is not operating expense.

Uncollectible Contract Assets

We also have concerns about the proposed requirement to treat credit risks associated with contract assets using the same principles that are required for accounts receivable. A contract asset, as defined in the proposal, is very different in nature from a receivable. Since an entity’s rights under a contract asset can be contingent on its future performance, it seems inconsistent to think that the customer credit risk would be the same as a legally enforceable right to collect payment today. For example, a contract asset would be subject to impairment if a customer chooses to cancel a contract associated with the contract asset, but we would not consider that loss to be credit risk related. We believe further guidance on this issue would be helpful.

Disclosures

Given the complexities involved with the application of the proposed model and the various judgments that will be required on an ongoing basis, we believe that proper disclosures will be important in helping users understand the revenue recognized. We do, however, have concerns with some of the proposed disclosures.

- We believe that interim disclosures should focus on significant changes that have occurred since the last annual report that might materially impact the way users view the business. We do not believe that detailed reconciliations of contract related assets and liabilities will provide incremental value, particularly considering the additional burden required to comply with these requirements and compressed time frame for interim compared to annual financial reporting.
- We do not agree with the disclosures on remaining performance obligations due to the predictive nature of the information that would be required. We believe such forward looking information is appropriate in management commentary but should not be included in the financial statements.

Cost to Obtain a Contract

We are concerned that the proposed requirement to capitalize contract acquisition costs could lead to disparate accounting treatment for economically similar transactions. For example, sales compensation plans that are 100% variable based on sales versus those that also include a fixed base amount could have very different cost recognition patterns for the same level of sales. Additionally, the capitalization of acquisition costs and subsequent amortization will require estimations and impairment tracking where systems do not exist today. We believe the Boards should remove requirements around
accounting for costs to obtain a contract from the proposed standard, or at a minimum allow the continued use of the policy option to immediately recognize the expense.

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

Respectfully,

Paul Stephens
Senior Vice-President & Controller