March 13, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Re: Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605) – Revenue from Contracts with Customers

Verizon Communications Inc. ("Verizon") appreciates the opportunity to comment on the Proposed Accounting Standards Update (Revised) – Revenue from Contracts with Customers ("revised ASU"). Verizon, one of the world's leading providers of communications services, is a registrant with the Securities and Exchange Commission (the "SEC") and is classified as a Large Accelerated Filer.

Verizon supports the FASB's and IASB's (the "Boards") joint efforts to improve comparability and consistency in financial reporting and to create a single revenue recognition model that will be applicable across various industries and markets. In addition, we appreciate the Boards' consideration of feedback received, from us and others in 2010 and 2011, regarding the potential effect of the proposed model.

Our comments with respect to the revised ASU are summarized below.

Allocation of Transaction Price

We, and other wireless service providers in the U.S., typically offer a subsidy on handsets when a customer signs up for our service. There is a perception, or misperception, that these subsidies are recovered through monthly service charges in cases where a customer signs a contract. Although our overall business model intends to recover the subsidy costs, as it does all other business costs (e.g. network costs), this is simply not true in the case of any individual customer or contract. Customers who receive handset subsidies do not pay more for service than those who do not receive subsidies. Similarly, customers who sign contracts do not pay less for service than those who do not sign contracts.

Although service pricing is constant in our case, irrespective of the subsidy a customer receives and regardless of whether or not a customer signs a contract, the revenue allocation requirements in the proposal would have us reflect transactions in our financial results as though it was not.
Not only is this portrayal inaccurate, but we have been told by numerous users of our financial information that it is confusing. The Boards’ own Staff paper on the effect of the proposed model on telecom and other companies (refer to Appendix C in the Staff paper) noted that of the 20 users the Staff conducted outreach efforts with, only one user supported the proposed model.

Under our current accounting model, wireless handset revenue is recognized at the time of sale, based on the subsidized price, and service revenue is recognized each month as the service charges are billed to the customer and earned. We believe this accounting accurately reflects the true nature and substance of the transactions with our customers. The sale of handsets to customers at unsubsidized prices, by us or by anyone else, is rare in the U.S. Even in these rare cases, sales are typically at cost, with little or no profit margin.

We do not believe that an acceleration and allocation of service revenue to handset revenue is consistent with the core intent of the proposal. The acceleration and allocation limits, rather than enhances the usefulness of our financial results. To illustrate, for one of our most important and closely monitored metrics in our Wireless business service margins, we reported 43.7%, 45.4%, 47.8%, and 42.2%, respectively, in the four quarters of 2011. Based on high-level assumptions, we estimate that reported margins in each of the quarters of 2011 would have been 6 to 9 percentage points higher under the proposed rules, despite the fact that cash flows are unchanged.

In addition to the above concern, the provisions of the proposal will cause economically identical transactions with customers to be accounted for differently depending on whether they occur in company-owned stores or through independent agents. The allocation of a portion of service revenue to reduce the amount of handset subsidy will also require significant revisions to our billing systems which track monthly transactions for approximately 100 million customers. Furthermore, it introduces estimates and assumptions into our accounting process that will ultimately result in reported financial information that is more costly, but less useful, to the users of the information. The amount of estimation and judgment required by the model will not only increase the risk of errors and misstatements, but will also result in unnecessary efforts by the auditors, as they attempt to validate such assumptions.

In order to reflect the true nature of transactions with our customers and achieve the ASU’s core intent, we believe that the Boards should broaden the residual approach described in paragraph 73 of the proposal to enable us to fully consider the fixed nature of our service pricing model, rather than the variability of our handset revenues. This is consistent with theory expressed in Basis of Conclusion paragraph 181, which indicates that a residual or reverse residual approach might be appropriate when there is a directly observable price of one performance obligation (monthly service revenue) and not the other (handset revenue).

As an alternative, we believe the Boards could clarify paragraph 75 and the related implementation guidance to include arrangements in which the selling price of one performance obligation never varies, regardless of the selling price of the other performance obligation with which it is sold or whether it is sold separately.

We believe either of these suggestions would be beneficial not only to the communications industry, but to other industries in which goods and services with similar fixed pricing models are sold concurrently with other goods and services where pricing is variable.
Requirement to Capitalize the Incremental Costs of Obtaining a Contract

We, like many other companies, pay substantial commissions to sales employees and third party agents who sell our services to new customers. We currently expense such commissions as they are incurred. The revised ASU will require us to capitalize commissions and amortize them over the estimated life of the customer. For our consumer oriented businesses, including our Wireless and FiOS businesses, application of the proposed accounting will require either a significant investment in operating and financial systems or the use of a portfolio approach that will involve broad assumptions and a very subjective assessment of the recovery of deferred commissions.

We believe that the proposal should give management discretion over whether commissions are expensed or capitalized. The accounting policy election and the amount of commissions expensed or capitalized should be fully disclosed.

Interim Disclosures

We do not believe that the Boards’ proposal to amend Topic 270 and IAS 34 and significantly expand the disclosures related to revenues and contracts with customers in interim financial statements achieves the appropriate balance between the benefits of such information to users and the cost to prepare and audit such information. We believe that interim disclosures should focus on significant changes in circumstances since the previous annual disclosures. Specific interim disclosures that we believe would add value to financial statement users include:

- Significant changes in the nature of contracts with customers; and
- Changes to the significant judgments used in accounting for such contracts.

Management should have some discretion in determining the specific details necessary to convey the nature and terms of the changes and their significance to the Company’s reported financial performance.

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In conclusion, while we support the Boards’ efforts to improve comparability and consistency in financial reporting and to create a single revenue recognition model that can be applied across various industries and markets, we believe certain aspects of the proposed model do not achieve this objective. In fact, as drafted, this proposal will result in the reporting of financial information that misrepresents the true nature of transactions entered into with our customers. We urge the Boards to consider such concerns as they work towards issuance of a final standard.

Thank you for the opportunity to comment. We would be pleased to discuss our comments in more detail with members of the Boards or Staff.

Regards,

Robert J. Barish
Senior Vice President and Controller