March 9, 2012

Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: 2011 Exposure Draft – Revenue from Contracts with Customers (IASB ED/2011/6)

Dear Hans Hoogervorst,

Rogers Communications Inc. ("Rogers") is a diversified Canadian communications and media company. Rogers is engaged in wireless voice and data communications services through Wireless, Canada’s largest wireless communications services provider. Through Cable, we are one of Canada’s largest providers of cable television services as well as high-speed Internet access, and telephony services to both consumers and businesses. Through Media, we are engaged in radio and television broadcasting, digital media, televised shopping, consumer, trade and professional publications, and sports entertainment.

We support the efforts of the International Accounting Standards Board and the Financial Accounting Standards Board (the “Boards”) to converge their respective accounting guidance and we appreciate the opportunity to provide comments on the revised Exposure Draft – Revenue from contracts with customers (“2011 ED” or “proposed standard”).

While we agree with the underlying notion of recognizing revenue based on thoroughly understanding and analyzing the specific rights and obligations pertaining to contracts with customers, we want to reiterate our concern that the proposed standard will reduce the reliability and comparability of financial information – mainly with respect to the revenue recognition of equipment.

Consider that the business model of the telecommunications industry involves transactions characterized by millions of individual customer contracts. These contracts can involve multiple products (wireless and cable) and services with complicated pricing due to highly customizable service offerings which customers may often change throughout any given contract term. In a typical wireless contract, the primary offering is the network service and handsets are heavily subsidized as a means of attracting and retaining customers.
Furthermore, financial statement users rely on certain performance measures in comparing and evaluating companies within the telecommunications industry. These include:

(1) Cost of acquisition ("COA") – which is defined as equipment cost less equipment revenue and any commissions.

(2) Average revenue per user ("ARPU") – which is defined as average network service revenue earned per month divided by the average number of subscribers in that month.

These measures are comparable amongst industry peers as the current accounting treatment is consistent across telecommunications operators and requires minimal judgment. Furthermore, the current accounting treatment enables users to understand the interaction between revenue, cash flows and receivables.

The proposed standard, however, would reduce the reliability and comparability of financial information given the following:

(1) The proposed standard would require a significant increase in judgment which will reduce comparability within the industry for similar transactions;

(2) Economically similar transactions could be reported differently which is contrary to the objectives of the Boards;

(3) Revenue would not reflect the economic substance of transactions which would reduce the usefulness of financial information to analysts and require significant reconciliations to more useful metrics; and

(4) Users would lose the ability to understand the interaction between revenue, receivables and cash flows without further complicated reconciliations.

We believe that the proposed standard should be revised to result in accounting that better reflects the economic substance of transactions within the telecommunications industry. We still believe the current contingent revenue cap should be maintained in the proposed standard, as it provides better financial information to the users. However, if the contingent revenue cap is not allowed, we recommend that the use of the residual technique be allowed for constituents of the telecommunications industry.

There is also the issue of practicality applying the proposed standard to our information systems. Given the volume and complexity of transactions in our industry, implementing information system changes will be prohibitively costly and prone to errors. Given the complexity involved in implementing these changes, if the proposed standard is adopted as drafted, we respectfully request that the applicable date of the proposed standard be extended to January 1, 2017.
The attached appendices discuss the following:

(1) Appendix 1: Discussion of how the proposed standard reduces the reliability and comparability of financial information;
(2) Appendix 2: Discussion of the practicality of the information systems upgrades and maintenance;
(3) Appendix 3: Recommendation and interpretation in applying the proposed standard; and
(4) Appendix 4: Responses to specific questions from the proposed standard.

Please contact us if you have any questions about our comments or wish to discuss any of the matters further.

Yours truly,

Jim Laramie
Vice President Corporate Finance
Rogers Communications Inc.
Appendix 1: Discussion of how the proposed standard reduces the reliability and comparability of financial information

This appendix outlines our concerns regarding the usefulness of the financial information that would result if the proposed changes are applied to the telecommunications industry.

The usefulness of financial statements are influenced by the reliability and comparability of the information contained therein. Although the primary objective of the Boards is to improve the comparability of financial information, the significant level of judgment required in the application of the proposed standard, the differences in accounting for economically similar transactions, the resulting revenue amounts that do not reflect the economic substance of underlying transactions, and the loss of the ability to understand the interaction between revenue, receivables and cash flows would act as a hindrance to end-users of the financial information. We believe the financial statements for the telecommunications industry will be less comparable. The proposed standard will have a huge impact on the metrics reported and the amount of reconciliations needed to the meaningful metrics.

Significant increase in judgment in applying the proposed standards

*Estimating the transaction price at contract inception (2011 ED: Paragraphs 53 – 57)*

Paragraph 55 requires estimating the transaction price of a contract based on probability-weighted amounts or the most likely amounts. In the telecommunications industry, it is difficult to estimate the amount of revenue a company may be entitled to over a contract period given the volume of customers and the highly customizable service offering available. This difficulty is further amplified by the fact that customers can change the service offerings they subscribe to, can incur additional charges based on volume of usage or even break their contracts and switch to another service provider. In any of these cases, the amount of consideration a company may be entitled to is variable and not predictable.

As companies may choose different ways of estimating transaction price at contract inception, the resulting information would be less comparable or reliable for users of the financial statements. The Boards should provide specific guidance to ensure consistency in estimating transaction price amongst companies within the same industry.

*Judgment in determining the stand-alone selling price (2011 ED: Paragraph 70 - 76)*

The stand-alone selling price of handsets may be determined in numerous ways depending on company-specific facts. This means that the same handset may have different stand-alone values within the company and relative to industry peers. This would reduce comparability as the amount of revenue allocated to a handset is dependent on its stand-alone value. The Boards should provide more specific
guidance which would result in companies applying a consistent methodology of determining the stand-alone value for the same products.

*Judgment in determining portfolio of customers (2011 ED: Paragraph 6)*

Paragraph 6 of the proposed standard enables the grouping of similar customers into a portfolio in applying the standard. Depending on how a telecommunications company decides to group their customer portfolios, the revenue allocation for handsets and network services would vary. This would lead to less comparable revenue figures across the companies in the industry. The Boards should provide specific guidance to ensure consistency in the groupings and boundaries of customer portfolios amongst companies within the same industry.

**Differences in the accounting of economically similar transactions**

The proposed standards result in economically similar transactions being accounted for in different ways. Consider the following examples where the allocation of a transaction price by relative stand-alone value results in different outcomes for economically similar transactions.

*Example 1.1: Impact of channel mix on transaction price allocation*

Two different customers, Customer A and Customer B purchase the same handset model with a stand-alone selling price of $250. Customer A purchases the handset through a direct channel (corporate-owned) with a network service contract term of three-years. Customer A receives a subsidy on the handset and therefore pays $100 for the handset. Customer B purchases the handset through an indirect channel (third party-owned) with the exact same network service contract as Customer A. The telecommunications company sold the handset to the indirect channel for $200. To maintain similar handset pricing across channels, the company provides its indirect channels with various rebates so that the handset would be sold to Customer B at $100.

The following table illustrates how the proposed standard would result in different network service revenue for an economically similar transaction:
<table>
<thead>
<tr>
<th></th>
<th>Current IFRS</th>
<th></th>
<th>Proposed Model</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer A</td>
<td>Customer B</td>
<td>Customer A</td>
<td>Customer B</td>
</tr>
<tr>
<td></td>
<td>Direct Channel</td>
<td>Indirect Channel</td>
<td>Direct Channel</td>
<td>Indirect Channel</td>
</tr>
<tr>
<td>Handset revenue</td>
<td>$100</td>
<td>$100</td>
<td>$240</td>
<td>$100</td>
</tr>
<tr>
<td>(net of subsidies /</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>rebates)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenue</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,460</td>
<td>$3,600</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$3,700</td>
<td>$3,700</td>
<td>$3,700</td>
<td>$3,700</td>
</tr>
</tbody>
</table>

Under this scenario, Customer A and Customer B receive the handset for $100 and the same network service over three-years at $3,600. Although the telecommunications company received $200 for selling the handset to the indirect channel, the net revenue was $100 after rebates. The economic substance of the transaction is the same, however, under the proposed model, the direct channel has more net revenue allocated to the handsets and less revenue allocated to the network service. This illustrates how the sales channel composition of various operators in the telecommunications industry could result in significantly different allocation of revenue figures for economically similar transactions.

**Example 1.2: Impact of handset offering on transaction price allocation**

Two different customers, Customer A and Customer B decide to subscribe to the same $100 network service for a contract term of three-years. However, Customer A decides to purchase Handset A which has a stand-alone selling price of $250 and a subsidized price of $100, while Customer B decides to purchase Handset B which has a stand-alone selling price of $350 and a subsidized price of $100.

<table>
<thead>
<tr>
<th></th>
<th>Current IFRS</th>
<th></th>
<th>Proposed Model</th>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Customer A</td>
<td>Customer B</td>
<td>Customer A</td>
<td>Customer B</td>
</tr>
<tr>
<td></td>
<td>Direct Channel</td>
<td>Indirect Channel</td>
<td>Direct Channel</td>
<td>Indirect Channel</td>
</tr>
<tr>
<td>Handset stand-</td>
<td>$250</td>
<td>$350</td>
<td>$240</td>
<td>$328</td>
</tr>
<tr>
<td>alone value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidy</td>
<td>($150)</td>
<td>($250)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handset revenue,</td>
<td>$100</td>
<td>$100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>net of subsidies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenue</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,460</td>
<td>$3,372</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$3,700</td>
<td>$3,700</td>
<td>$3,700</td>
<td>$3,700</td>
</tr>
</tbody>
</table>

Under this scenario, Customer A and Customer B essentially receive the same deal, a handset for $100 and a network service plan over three-years at $3,600. However, under the proposed standard, the allocation of the revenue recognized for Customer A and Customer B would be different. This
illuminates how handset stand-alone selling prices could result in significantly different allocation of revenue figures for economically similar transactions.

The Boards should provide specific guidance or examples to ensure economically similar transactions being are not being accounted for in different ways.

**Revenue would not reflect the economic substance of transactions**

*Front-loading of revenue from the proportionate allocation of transaction price by stand-alone selling price (2011 ED: Paragraph 71)*

The proposed standard of allocating the transaction price to separate performance obligations results in recognizing revenue amounts which do not reflect the economic substance of the underlying transactions. This approach generally leads to the front-loading of revenues for which the entity receives little to no consideration and to revenue recognition patterns that are not representative of the operator's core activities. Front-loading of revenues would result in the deferral of receivables as the receivables presented on the statement of financial position would not reflect the actual billing and cash collection that would occur. The receivables or 'contract assets' relating to the revenue allotted to the handsets would not be completely collected until the service has been provided for the contract term as the company would not have a right to bill the customer for these amounts until the promised services are provided. If the customer cancels their contract, these contract receivables would never be collected.

This creates challenges in evaluating our true financial performance and specifically eliminates the usefulness of certain financial measures such as the cost of acquisition or ARPU. Accounts receivable and contract receivable balances would not be logical and compounding this would be the fact that there would be a short-term and long-term portion.

*Impact of contract modifications on transaction price (2011 ED: Paragraph 22 and Paragraphs 53–57)*

Estimating the impacts of potential contract modifications at contract inception will result in recognizing revenue that is not reflective of the economic substance of the underlying transaction. As such, we do not support the use of probability-weighted average amount or the most likely amount in determining transaction prices. We believe that the transaction price should be based on an amount we are entitled to at contract inception.

As required by the proposed standard, the effects of contract modifications may be recognized as if it were part of the original contract (a cumulative change in revenue) under paragraph 22(b) or 22(c) of the proposed standard. This change would not be reflective of the economic substance of the underlying transaction as the revenue adjustment would suggest that the customer had been paying an amount
relating to the reduced or increased services in the past when it actually only relates to prospective periods. It effectively distorts revenue in the modification period. We believe that revenue allocated to any previously recognized performance obligations should not be adjusted or amended since such revenue appropriately reflect the economics of the transaction at contract inception.

Loss of ability to understand the interaction between revenue, receivables and cash flows and financial metrics

Financial statement users, particularly in the telecommunications industry, require a close linkage of cash to revenues as a strong correlation between the two is necessary in order to predict free cash flows and determine other metrics.

The free cash flow predictive ability is essential in a capital intensive industry. Users have to reliably assess whether a telecommunications operator has the necessary cash to invest in essential capital projects such as network infrastructure upgrades. Under the proposed standard, a company that provides heavily discounted handsets would show a significant amount of revenues up front. However, this does not necessarily indicate that the operator has sufficient future cash flows to maintain its network – an essential activity to ensure the operator has the ability to provide the services necessary for it to be able to collect the cash associated with the previously recognized revenues. This mismatch of cash flows to revenue hinders the predictive qualities of the financial statements for end users.

In addition, important financial metrics such as ARPU and COA are currently based on revenue that follows closely to cash flows. Financial statement users, such as analysts and investors, are well-acquainted to these measures for comparing the relative performance of telecommunications operators. The proposed standard is likely to cause confusion as these widely regarded metrics would not be understandable without removing the effects of the 2011 ED. As a result, companies may be required to provide complex reconciliations to these previous metrics, and in effect present two sets of financial information for the same periods.

While the disclosure requirements in the proposed standard is intended to provide users with the information required to assess the interaction between the company’s revenue, receivables and cash flows, we firmly believe that the proposed model and related complex disclosures will only serve to confuse users of the financial statements and add layers of complexity that only serve to make the financial statements less useful to the users. Furthermore, the amount of judgment required to perform the allocations does not provide users with the same level of reliability and consistency as a method that more closely links revenue recognition with the company’s legally enforceable rights and obligations.
Appendix 2: Discussion of the practicality of the information system upgrades and maintenance

As stated, the telecommunications industry is typically characterized with having a significant customer base, where millions of customers, a majority of which are under contract with numerous combinations of service offerings, generate a very large number of low dollar value transactions. The information necessary to prepare accurate accounting entries for any company with a significant customer base would require substantial changes to the point-of-sale systems, billing systems and any related accounting and reporting systems. The current systems do not capture the information necessitated by the proposed standard (e.g. the systems are not designed to estimate the total consideration Rogers would be entitled to from a contract). The costs associated with upgrading and implementing new information systems would be prohibitively material to Rogers’ overall financial results. Furthermore, as the proposed standard would require a significant amount of human judgment, additional costs would be required to enhance and audit internal controls and the financial statements.

The billing systems within the telecommunications industry are arguably among the most complex across industries. Due to the volume of data and constant shifts in a customer’s product and service offerings, even if the IT infrastructure changes were feasible, it would take several years to implement.

Assuming the implementation is feasible, there could be significant service disruptions to customer operations throughout the transition period. Errors are likely to be pervasive within the new systems, especially considering that the billing systems will undergo constant revisions to accommodate continuous changes to product and service offerings. The errors impacting billing would result in an increase in customer phone calls to resolve issues, thereby draining both customer service resources and budgets. While the cost of a single complaint may not be significant, multiplied over millions of calls, the costs would become substantial.

Typical telecommunication operators have multiple lines of businesses with numerous billing systems which greatly magnifies the complexities and costs associated with implementing a new system. A high degree of customization is necessary within the industry as it is a means of providing competitive differentiations in the marketplace. Both pre- and post-implementation periods would require greater resources to maintain and operate these constantly changing, highly customized systems.

Dual systems would be necessary on an ongoing basis in order to maintain financial information that provides a clear depiction of actual revenues, receivables and cash flows. As stated in Appendix 1, the metrics currently used to assess and compare the financial performance across our industry is dependent on revenue that is linked closely to cash flows (e.g. ARPU and COA). The proposed standard would break this linkage. In order for analysts to derive any meaningful comparison of the performance of companies in the industry, the effects of the proposed standard would need to be removed. Essentially, this would be accomplished by maintaining dual systems – one which account for the requirements of
the 2011 ED and another for the actual results. Both systems would need to be maintained and as such additional controls would need to be introduced in order to ensure compliance with the proposed standard. This would cause additional financial and operational burden upon an organization as well as increase the cost of audits.

All these expenses would be incurred only to accommodate an accounting change that would not provide any more useful information to the users of our financial statements and would require additional analysis on the user's part to obtain the key figures that are used to assess performance in our industry.

In order to provide relevant trending information, retrospective application of the proposed standards would need to be prepared for several years. Throughout the transition period, dual revenue models would be necessary. The costs and challenges associated with preparing multiple years of revenue under dual revenue models would be prohibitive. Retrospective application would likely result in the following complexities:

- As existing information systems do not capture new performance obligations as well as other proposed changes, a separate system would be required to be compliant with the retrospective statements. This creates further challenges such as:
  - requiring further internal controls to avoid potential for disconnects between the two systems and to ensure that both systems are compliant with other changes to internal controls that would arise as a result of the proposed standards; and
  - maintenance of two separate systems.

- Further costs would result in terms of time, money and other company resources, including:
  - potential need to expand staffing in order to review and account for revenue contracts under both sets of accounting rules;
  - additional audit fees in the transition period; and
  - incremental costs from establishing, performing and auditing controls related to the dual revenue systems.

Trend information is important, but the costs outlined above far outweigh the benefits to the users of the financial statements. With the competitive nature of this industry, cost-savings must be utilized to improve other services in order to deliver better operating results.

Given the issues discussed, the only real practical solution from a cost perspective is to maintain the current billing and accounting systems and to make manual adjustments with Excel (or similar software) to estimate the impact of the proposed standards. However, given the complexities introduced by the 2011 ED, a manual system may not be feasible and information system changes would likely be needed.
In any case, significant time will be required to determine and implement a well-balanced solution that meets the information needs of the proposed standard. To align our existing system with the requirements of the 2011 ED, we would need a few years to determine how to gather the necessary information. It would also take about one or two years to implement, so we would not have a full year of data under the new system until at least 2016. As such, we request that the effective date be extended to January 1, 2017 to allow for sufficient time to implement the most practical and cost-effective solution.
Appendix 3: Recommendation and interpretation in applying the proposed standard

Recommendation: Maintain current contingent revenue cap in the proposed model or provide additional practical expedients.

Within the current revenue recognition framework found within most entities of the telecommunications industry, handset revenues are restricted to the subsidized up-front price paid by the customer along with any associated activation fees. This relative fair value model contains a ‘contingent revenue cap’ that is consistently used by the major operators in the telecommunications industry. This in itself provides comparability across companies, avoids the accrual of contingent revenue, is consistent with the underlying nature of the business, results in revenue recognition that closely links to cash flows generated from customers, is less sensitive to management estimation and has stronger predictive value.

Revenue recognition under the current model provides better information to financial statement users. With monthly service revenues under current methods following closely to the amounts billed monthly to the customers, the risk associated with determining the revenue allocation across the vast number of customers and contracts is reduced. Furthermore, as acquisition costs are clearly distinguished from ongoing service revenues, users are better able to understand the true nature of the business. Acquisition costs are a key metric in the industry and used as an indicator of future cash flows.

We request that the final standard retain the current contingent revenue cap. If this is not possible, then we request that additional practical expedients be introduced into the final standard.

For instance, we request that the use of the residual technique be specifically allowable for contracts in the telecommunications industry. Details on why this method should be applicable to our industry are explained below in our interpretations of the proposed standard. This approach should be applicable to all companies within the telecommunications industry to ensure comparability of financial information.

Further practical expedients should be available for companies who enter into large volume of smaller dollar value contracts that have substantial variability in consideration as well as potential for numerous contract modifications.

We would like to present our interpretations of the proposed standards, and the Boards should provide specific guidance to ensure consistency in interpretations amongst other companies within the same industry.

Identifying performance obligations
In a typical wireless contract, we would have a handset and network service performance obligation. However, under the definition of distinct under paragraph 28(a), each month of a network service may be considered a distinct performance obligation as monthly network services are regularly sold separately to customers (e.g. off-contract users, prepaid users, etc.).

A 36-month contract with a free handset and a network service fee of $100/month would be allocated as follows, based on the residual technique:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Transaction price</th>
<th>Stand-alone value</th>
<th>% allocation</th>
<th>$ allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activation fee</td>
<td>$35</td>
<td>$0</td>
<td>0%</td>
<td>$0</td>
</tr>
<tr>
<td>Handset</td>
<td>$0</td>
<td>$35</td>
<td>1%</td>
<td>$35</td>
</tr>
<tr>
<td>Month 1</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Month 2</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Month 3</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Month 34</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Month 35</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Month 36</td>
<td>$100</td>
<td>$100</td>
<td>3%</td>
<td>$100</td>
</tr>
<tr>
<td>Total</td>
<td>$3,635</td>
<td>$3,635</td>
<td>100%</td>
<td>$3,635</td>
</tr>
</tbody>
</table>

The transaction price allocated to network services would be the same whether the network performance obligation was considered as one or 36 separate performance obligations. We interpret that the proposed standards views this contract as 36 separate performance obligations and not as a single performance obligation. The Boards should provide specific guidance to ensure consistency in the interpretations of whether a 36-month contract is considered to be one or 36 separate performance obligations to ensure consistency amongst other companies within the same industry.

**Application of contract modifications**

The impact of whether a 36-month contract is considered to be one or 36 separate performance obligations affects how contract modifications are handled.

**Change in minutes of usage**

For example, if a customer decides to increase their minutes of usage, the contract modification would represent a change in the previously promised services (e.g. increase from 100 minutes to 200 minutes). This is a modification to an existing contract and would not be treated as a separate contract.
The service plan can be sold on a stand-alone basis and this change in service is distinct. Assuming that each month of the 36-month contract is accounted for as a distinct performance obligation, per paragraph 22(a) of the proposed standard, the change in revenue would be reflected prospectively, instead of retroactively on a cumulative catch-up basis.

The Boards should provide specific guidance on whether modifications with a stand-alone basis would be reflected prospectively to ensure consistency amongst other companies within the same industry.

Service feature add-on

For example, if a customer decides to add-on a text messaging plan, the incremental impact would be treated as a separate contract per paragraph 21. The add-on is distinct given that text messaging plans are sold regularly on a stand-alone basis and the add-on price reflects the stand-alone selling price. As it is a separate contract, this is not considered to be a contract modification and there would be no need to revisit the original 36-month contract and its allocation of the transaction price.

The Boards should provide specific guidance on incremental changes with a stand-alone basis should be treated as a separate contract to ensure consistency to ensure consistency amongst other companies within the same industry.

Proportionate allocation of transaction price

Residual method

In the proposed standard, paragraph 72 states that the best evidence of a good’s stand-alone value is its observable price when sold separately in similar situations to similar customers. The selling price of a handset can vary significantly depending on numerous situations. For instance, the price of a handset would be different depending on whether a customer purchases a handset from a direct channel or an indirect channel. The price would also vary if the customer were to purchase it off-contract, on a one-, two- or three-year contract or to replace a lost or broken phone.

Given the high variability of the handset prices, we believe paragraph 73(c) should be applied in determining the stand-alone value of the handset. The network service has an observable selling price given that whether bundled with a handset when sold through a direct channel or sold stand-alone through an indirect channel, the customer would receive the same pricing on network service plans. As such, under the residual technique, the observables selling price of the network service (assumed to be the monthly network service consideration over the contract length) would be deducted from the total transaction price to determine the portion of the consideration to be allocated to the handset.
Consider the following simplified example:

A customer subscribes to a $100/month network service plan on a three-year contract term and receives a free handset. For simplicity, it is determined that the best estimate of the consideration Rogers expects to be entitled to from the network service is $100/month over 36-months or $3,600. Given the $35 activation fee, the total consideration Rogers expects to be entitled to is $3,635. As the handset price is highly variable, the residual method is adopted. In this case, the consideration allocated to the handset would be $35 (total consideration less the observable selling price of the network service).

<table>
<thead>
<tr>
<th>Performance obligation</th>
<th>Stand-alone value</th>
<th>% of total value</th>
<th>Allocation of transaction price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset (under no contract)</td>
<td>$nil - as highly variable</td>
<td></td>
<td>$35</td>
</tr>
<tr>
<td>Handset[A]</td>
<td>$35</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Total network service fee over 3-years[B]</td>
<td>$3,600</td>
<td>99%</td>
<td>$3,600</td>
</tr>
<tr>
<td>Total value[C]</td>
<td>$3,635</td>
<td>100%</td>
<td>$3,635</td>
</tr>
</tbody>
</table>

[[A] = Transaction price [C] less sum of observable selling price (total network service fee over 3-years) [B]]

Regardless of the subsidy levels on a handset, the residual technique would result in allocating the entire consideration relating to the activation fee and the handset entirely to the handset. This would result in reporting revenue that is consistent with current treatment.

This approach would enable the continued use of our financial reporting measures and allow us to retain the level of comparability and usefulness of our financial statements for our users.

The Boards may not accept the argument that handsets have highly variable prices to similar customers in similar circumstances. If the same handset is considered as having different stand-alone values in different circumstances, applying the proposed standard would be onerous and the practical expedient of using a portfolio basis may not be feasible. If such is the case, we request that the Boards amend the proposed standard to specifically enable the use of the residual technique in situations where the same good or service may have numerous stand-alone values due to the number of circumstances it may be sold in (e.g. on/off-contract, distribution channel, to replace lost/broken phone, etc.).

Discount applied entirely to one performance obligation

If the Boards will not accept our argument for the residual technique or our suggestion to amend the proposed standard, then we look to apply paragraph 74 and 75. These paragraphs state that when the sum of the stand-alone selling prices exceeds the transaction price, the discount can be applied entirely to one performance obligation if the good or service is sold regularly on a stand-alone basis and the observable selling price of the stand-alone sales provide evidence of the performance obligation to which the entire discount belongs.
It can be viewed that handsets may be sold regularly on a stand-alone basis and that the observable selling price of a handset on stand-alone sales could provide evidence that the entire discount belongs to the handset. In this case, it would be viewed that the observable selling price of handsets would be the unsubsidized selling price (e.g. when off-contract). Consider that whether on a one-, two- or three-year contract, the price of any given handset may vary (as subsidy levels change) while the network service price does not. Whether the network service is offered as a bundle with a handset through a direct channel or stand-alone through an indirect channel, the price would be the same. These may provide evidence that any discount belongs to the handset and should be allocated as so.

Consider the following simplified example:

A customer contracts to receive network service for three-years at $100/month and a free handset with a stand-alone value of $250. The total transaction price would be $3,635 with the activation fee while the total stand-alone value would be $3,850. The resulting discount of $215 would be allocated entirely to the handset.

<table>
<thead>
<tr>
<th>Performance obligation</th>
<th>Transaction price [A]</th>
<th>Stand-alone values [B]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>$0</td>
<td>$250</td>
</tr>
<tr>
<td>Network service fee</td>
<td>$3,600</td>
<td>$3,600</td>
</tr>
<tr>
<td>Activation fee</td>
<td>$35</td>
<td>$0</td>
</tr>
<tr>
<td>Total value</td>
<td>$3,635</td>
<td>$3,850</td>
</tr>
<tr>
<td>Discount = [A] - [B]</td>
<td>($215)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance obligation</th>
<th>Stand-alone value</th>
<th>% of total value</th>
<th>Allocation of transaction price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset (under no contract)</td>
<td>$250</td>
<td></td>
<td>$250</td>
</tr>
<tr>
<td>Less: Discount to handset</td>
<td>($215)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handset stand-alone value</td>
<td>$35</td>
<td>1%</td>
<td>$35</td>
</tr>
<tr>
<td>Total network service fee over 3-years</td>
<td>$3,600</td>
<td>99%</td>
<td>$3,600</td>
</tr>
<tr>
<td>Total value</td>
<td>$3,635</td>
<td>100%</td>
<td>$3,600</td>
</tr>
</tbody>
</table>

This approach leads to the same results as under our current method of accounting. Regardless of the subsidy amount, the consideration allocated to the handset would be limited to the activation fee and the amount of consideration received for the handset. The effect is very much the same as the residual method.
Appendix 4: Responses to specific questions from the proposed standard

**Question 1:** Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

**Response:** We generally agree with this proposal.

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**Question 2:** Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

**Response:** We do not agree with adjusting for credit risk (impairment on receivables) as a separate line item at the time revenue is recognized. By presenting as a separate line, we may incorrectly present revenue, net of any impairment on receivables, as being better or worse than the underlying economic reality. We believe that this requirement distorts the company’s operating results, reduces comparability with other companies and will only prove to confuse users of the financial statements.

We believe that the standard should enable us to continue to recognize this impairment of assets as a cost of business under operating expenses.

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**Question 3:** Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?
Response: We generally agree with this proposal.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Response: We generally agree with this proposal.

Question 5: The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity’s remaining performance obligations (paragraph 119 – 121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

Response: We do not agree that an entity should be required to provide each of those disclosures in its interim financial reports. The cost and time involved to entities to prepare and audit the information far outweighs the actual benefits to users. We note the following:

Reconciliation of contract balances

BC254 and BC256 indicates that the reconciliation of contract balances are required in order for financial statement users to understand the interaction between revenue that has been recognized and the
movements in the cash and receivables. While we agree with the rationale behind this disclosure, it is important to note that our current method of accounting allows users to understand this interaction without a separate reconciliation. It is likely that companies would reconcile to the current metrics, and users will rely on these. Thus, there is little benefit or use for these proposed disclosures.

Analysis of an entity’s remaining performance obligations

This disclosure makes sense for construction contracts where there are a few high-value, long-term contracts. For the telecommunications industry, this disclosure would be extremely costly and challenging to apply, while not providing substantial value to the users. As mentioned, our industry is involved in millions of low-dollar value contracts with consideration that changes throughout the contract term. Furthermore, in a mature industry such as ours, customers constantly join and leave our respective companies in such a manner that the remaining performance obligations would not change significantly quarter-to-quarter, based on history. We suggest that the proposed standard be amended to allow a practical expedient for industries with similar contract characteristics as ours.

Interim disclosure

We propose that these additional disclosures be required for annual reporting only. The cost involved in preparing the disclosures on an interim basis (staff time, resources and audit costs) would far outweigh the benefits to users. In addition, it is likely that companies would reconcile the 2011 ED numbers to the current metrics (such as ARPU and COA), and users will continue to rely on these instead of the 2011 ED numbers. Thus, there is little benefit or use for these proposed disclosures on an interim basis.

Question 6: For the transfer of a non-financial asset that is not an output of an entity’s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognize the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognize upon derecognition of the asset.* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity’s ordinary activities? If not, what alternative do you recommend and why?

Response: We generally agree with this proposal.