NOKIA

Submitted electronically via IASB website

Sir David Tweedie
Chairman
International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Espoo October 22, 2010

Re: Nokia's comments on 'EXPOSURE DRAFT Revenue from Contracts with Customers' June 2010

Dear Sir,

We are pleased to submit our comments for your consideration regarding the exposure draft 'Revenue from Contracts with Customers' issued by the IASB and FASB in June 2010.

We continue to support the efforts of the boards and the objective to adopt a single revenue recognition principle that will clarify and simplify existing guidance as well as promote consistency and comparability across companies, industries and geographies. The main focus of our comment letter is to highlight areas where additional guidance is requested as well as to address the following specific areas of concern:

- We have concerns regarding the practical application of a control-based revenue recognition principle for our telecommunications infrastructure business. We feel that the examples provided within the application guidance of the exposure draft are fairly simplistic and do not address the impact of other relevant factors (as provided in our comment to Question 3) on the evaluation of transfer of control.
- We disagree that the transaction price should reflect customer credit risk. We question whether a probability weighted measure provides decision-useful information to users as it does not reflect the manner in which actual credit losses are incurred.
- We agree with the proposal to require retrospective application provided that preparers are given sufficient time between the issuance date of the standard and its effective date to modify their systems and processes appropriately. Assuming an issuance date of Q2 2011, we urge the boards to require application of the new standard in annual financial statements for periods beginning on or after 1 January 2015.
- In cases where warranty obligations cover both latent and future defects, we propose that the warranty obligation would be treated as a separate performance obligation. Where reasonable estimates are available regarding the expected warranty claims profile over the warranty period, we propose that the related revenue is recognized on the basis of that profile. This would result in revenue recognition occurring as the warranty obligation is satisfied.

If you have any questions in relation to this letter please do not hesitate to contact me at Nokia.

Yours faithfully,

Anja Korhonen
Senior Vice president, Corporate Controller

Nokia Corporation
Question 1

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:
a) To combine two or more contracts and account for them as a single contract;
b) To segment a single contract and account for it as two or more contracts; and
c) To account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Nokia Comment

We support in general the proposed principle for basis of combining or segmenting contracts. However, to avoid diverging interpretations and application of the desired principles, we think that additional guidance/clarification would be beneficial regarding how to interpret 'price interdependence' and 'price independence'. In particular, an example highlighting the characteristics distinguishing the concepts of "price independence" and "distinct" might be useful.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

Nokia Comment

We believe that the concept of "distinct" is a reasonable basis for identifying separate performance obligations. However, we request additional guidance and examples to clarify the application of this concept in practice. Specifically, more discussion would be needed to clarify the requirement that a separate performance obligation is subject to distinct risks.

Extension of the construction contract example (ex 11, B43) and the discussion within the Basis for Conclusions (BC53-BC59) to encompass typical transactions within the technology and consumer electronics industry would be useful. For example, multiple element arrangements comprising:

- Software
- Hardware
- A continuing obligation to provide unspecified future upgrades on a 'when and if available' basis
- A continuing obligation to provide online access to real-time content.

Would the continuing obligations be considered "distinct" or would they be subsumed as part of a larger performance obligation?

Furthermore, we would appreciate additional clarification regarding example 23 of the ED regarding the accounting for slotting fees sales incentives. In this case, it is not completely clear how the concept of distinct is applied when the product placement service provided by the reseller has utility only when provided with products purchased by the reseller (rather than products sold by the reseller). The conclusion here seems to differ what might be expected from application of the "identifiable benefit" concept found in "*EITF 01-9: Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the*

Vendor's Products)" where the benefit from the reseller's service must be sufficiently separable from the products purchased by the reseller to qualify for classification as an expense.

Question 3

Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

Nokia Comment

We believe that the principle of control may be a suitable basis for evaluating the satisfaction of performance obligations. In particular, the concept of control is consistent with the definition of assets and liabilities within the *Framework for the Preparation and Presentation of Financial Statements* and its use in other IFRSs.

However, we request additional guidance demonstrating the evaluation of relevant factors to determine whether control is transferred on a continuous basis for a telecommunications infrastructure asset built based on customer's specifications, e.g.:

- Whether unconditional termination clause (where the customer needs to pay for any work performed until the moment of termination) is sufficient factor to demonstrate that transfer is continuous.
- Impact of moment of transfer of risks and rewards of ownership (whether it takes place separately for each site or only on larger cluster or total asset basis)
- Impact of moment of transfer of legal title
- Impact of payment terms (progress payments vs payments only once completed asset delivered)
- Impact of contractual penalty clauses tied to progress milestones

Question 4

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

Nokia Comment

With respect to the Paragraph 38 criteria, we would appreciate clarification regarding what constitutes "relevant experience". The examples in the ED provide useful guidance involving evaluation of the experience of the entity in terms of relevance and sufficiency. However, the entity's experience is only vaguely described (i.e. "many similar contracts previously" and "extensive experience with similar types of contracts") within the examples. While we understand that the amount and quality of experience will necessarily depend on the specific facts and circumstances of each case, we still think that it would be useful if the examples provided a better understanding of the amount and quality of the experience.

We would also appreciate an example demonstrating application of the concept of "access to the experience of other entities" from Paragraph 38. We have noted that complete transparency with respect to the activities, processes and experience of other entities is never achieved. Thus, it would be useful to understand how an entity's necessarily imperfect knowledge of the experience of other entities can be relied upon by the entity.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognizes when it satisfies a performance obligation rather than *whether* the entity recognizes revenue? If not, why?

Nokia Comment

We disagree that the transaction price should reflect customer credit risk. We support the current practice where specifically identified credit losses are recognized as an impairment loss on the underlying asset value. We believe that a probability-weighted adjustment for credit risk does not appropriately reflect the binary nature of credit losses. Further, we feel that subsequent changes in the assessment of credit risk should be recorded within the same P&L line item where the original assessment was recorded. We also feel that a requirement that probability-weighted adjustments for credit risk are made on an individual contract basis is overly burdensome and unnecessary.

Our experience is that, for any given receivable, there are generally two possible outcomes: 1) collection in full or 2) default with minimal recovery. The current practice, where losses are recognized on specific receivables based on objective evidence of impairment, is well adapted to the measurement of potential credit losses. In contrast, a probability-weighted measure would result in a value for receivables that will not reflect the manner in which actual credit losses will be incurred.

Thus, we expect that a probability-weighted measure would result in considerable P&L volatility when receivables balances are inevitably adjusted to reflect actual credit losses. We do not feel that large movements in the P&L due to credit loss adjustments will provide useful information to users of financial statements.

We believe that subsequent changes in the assessment of credit risk should be recorded within the same P&L line item where the original assessment was recorded. We don't understand why the treatment of credit risk adjustments should differ from adjustments to other estimated amounts such as provisions, where adjustments are recognized to the same line item as the original estimate.

Question 6

Paragraphs 44 and 45 propose 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 (whether explicit or implicit). Do you agree? If not, why?

Nokia Comment

We agree in principle that the revenue recorded for contracts involving a sale of goods where the promised consideration includes a material financing component should reflect the time value of money. However, we believe that the discount rate used should reflect only the time value of money and not credit risk. The method for adjusting revenue to reflect credit risk should be consistent regardless whether the contract contains a material financing component or otherwise.

It may be fairly simple to model a payment in arrears for the delivery of goods as a simultaneous sale of goods and extension of financing (e.g. similar in substance to a non-amortising loan) to the customer where revenue amounts to the present value of the payment in arrears. However, we believe that the time value of money adjustment for a payment in arrears for the delivery of services where performance occurs continuously over the performance period is not as straightforward and may be onerous to apply in practice. Thus, we would appreciate application guidance depicting a payment in arrears (and/or payment in advance) that involves the delivery of services.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

Nokia Comment

We agree with the principle that the transaction price is allocated to all separate performance obligations in a contract in proportion to the standalone selling price. However an additional example would be useful to clarify cases where the entity and its competitors offer certain bundled performance obligations free of charge to customers on a standalone basis. For example, the adoption of an advertising-based business model may enable entities to provide service-based offerings free of charge to the end consumer. In these cases, when the standalone selling price for bundled services is essentially zero, what are the implications for the allocation of the transaction price to service obligations bundled within the sale of a device?

Question 10

The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Nokia Comment

We expect that the disclosure requirements will require significant changes to our reporting systems and processes for tracking revenue.This will, of course, entail significant cost to preparers. Thus, we question whether the incremental benefit to users from this change will exceed the expected increase in related costs of compliance

Question 11

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

Nokia Comment

We would like clarification that separation of performance obligations into separate categories is not required for the disclosure. Rather, we believe that the proposed disclosure requirement should be presented at the level of aggregate performance obligations. Further, we would again like to emphasize that this disclosure will require significant changes to our reporting systems and processes in order to obtain sufficiently reliable information.

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue at a lower cost? If so, please explain the alternative and why you think it is better.

Nokia Comment

We agree with the proposal to require retrospective application. Given the importance of the revenue line, it is important to provide users of financial statements with comparability over time.

However, we would like to express our opinion regarding the effective date for the new standard. We have understood that an effective date of 2014 with full retrospective application is under consideration. The requirement to provide two years of comparative information along with an effective date of 2014 would imply that all preparers would need to be compliant with the new standard by the start of the 2012 financial year. Since issuance of the new standard is not expected until Q2 2011, this would provide calendar year-end preparers with only six months to make fundamental changes to their reporting systems and processes. We feel that there is great risk that the short implementation time might compromise the ability of many preparers to achieve full compliance with the new standard. Thus, we urge the boards to require application of the new standard in annual financial statements for periods beginning on or after 1 January 2015 with full retrospective application. This will provide preparers with sufficient lead time to revise their systems and processes.

Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Nokia Comment

While we appreciate and support the IASB's principles-based approach, we feel that additional application guidance would be needed to promote consistency of application across all user groups. Within this comment letter, we have identified specific areas where we seek additional guidance:

- Question 1 with respect to additional examples illustrating application of price independence and how it is distinguished from the concept of distinct.

- Question 2 with respect to additional examples ecompasing transactions within the technology and consumer electronics industry illustrating the concept of distinct.
- Question 3 with respect to the evaluation of continuous transfer of control
- Question 4 with respect to examples that would clarify what constitutes relevant experience and how to apply the experience of other entities in building a reasonable estimate of the transaction price.
- Question 6 with respect to the time value of money adjustment with the delivery of services
- Question 7 where we request clarification regarding the determination of standalone selling price where performance obligations are provided free of charge on a standalone basis.
- Question 16 where we request clarification regarding application of the exclusivity-based revenue recognition principle to the licensing of patents intellectual property rights.

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

a) A warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
b) A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in additional to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

Nokia Comment

We agree in principle that certain warranties might contain separate performance obligations. However, we think that the distinction between latent and future defects will be difficult in practice. For example, it is our experience that a single warranty offered in relation to a sale of a product often covers the repair and/or replacement of both latent as well as future defects. We often cannot objectively determine whether a given defect was present at time of manufacture. While we agree with the idea of reflecting warranty economics in the financial statements, we would specifically suggest that, where latent and non-latent defects are difficult to separate, they are treated together as a separate performance obligation. Reasonable estimates for the pattern of warranty usage are often available, and should be allowable as the basis for determining the satisfaction of the warranty performance obligation (as opposed to a simple straight-line assumption).

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

a) If an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and
b) If an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

Nokia Comment

We are concerned whether an exclusivity-based revenue recognition model is completely appropriate for all licensing transactions. While we agree that consideration of exclusivity is useful as an indicator for revenue recognition, we believe that sole reliance on exclusivity oversimplifies the complexities inherent in certain licensing transactions.

Various forms of intellectual property rights and therewith related transactions differ very significantly from each – even when they may sound similar on the surface. As an example, non-exclusive copyright licensing involving commercially available off-the-shelf software is in many ways quite similar to traditional sale of goods (the sale of the media, such as a CD, where the software is stored) and, in fact, was treated as such for decades. On the other hand, non-exclusive patent licensing typically involves highly customized transactions differing materially from a sale of goods with nothing tangible being exchanged between the parties – not even recording media or bits of information in other formats. Furthermore, exclusive licensing of patents and trademarks is very rare, while exclusive licensing is the norm in the copyright licensing of customized software.

Therefore, it would not seem to be appropriate to group the very broad spectrum of different intellectual property rights and therewith related transactions artificially together and then only use the aspect of exclusivity as opposed to non-exclusivity to determine the corresponding accounting treatment.

Regarding patents in particular, it should be noted that many of the non-exclusive patent licenses are entered into between competitors and/or prospective competitors. This combined with the generally contentious and adversarial nature of patent matters as well as the often significant financial interests mean that enforcement of and compliance with such patent licenses very often involves disputes, even escalating into litigation or arbitration. The substance of such disputes often involves the complex payment and reporting mechanisms, so called “most favored licensee” provisions, the scope of the licensed patents, products, services or activities as well as provisions related to confidentiality and change-of-control. To conclude, this means that the actual collection of royalties under non-exclusive patent license agreements is typically vastly more uncertain and difficult than the collection of royalties under non-exclusive copyright licenses involving commercially available off-the-shelf-software.

Furthermore it is important to note that, where the infringing party is already utilizing the underlying intellectual property, an IPR license agreement does not give rise to any positive rights to the licensee. Rather, the benefit to the licensee deriving from the IPR license agreement comes in the form of negative rights whereby the licensor waives its right to exclude or, put differently, agrees to refrain from litigation with respect to the subject IPR over a specified period. As such, the licensee does not receive any economic benefits only upon signing a licensing agreement; rather the benefits accrue over the term of the license agreement.

How would the proposed model apply to IPR licensing transactions where the licensing rights are non-exclusive, the licensing payments (including fixed license payments) are uncertain and subject to dispute and the licensor extinguishes its negative obligation over the term of the agreement?

As a final comment, while we understand that the focus of the exposure draft is on revenue recognition, we hope that the boards will also take time to reflect on the potential implications of the proposals within this ED on cost recognition. Specifically, in which cases would the boards expect the cost and revenue recognition practices for the parties to a transaction to achieve symmetry in terms of timing and measurement of amounts recognized.

Additional Nokia comment

With respect to the treatment of onerous contracts, we believe that the unit of account should not be at the performance obligation level. We believe that the evaluation should instead be performed at the contract level or, in certain circumstances, considering multiple contracts simultaneously. For example, separate performance obligations or even separate contracts may be positioned as loss leaders with the expectation of receiving compensating economic benefits through increased sales of related high-margin products. In these cases, we don't feel that the recognition of an onerous performance obligation or onerous contract faithfully represents the economic substance of the underlying business transactions. Rather, we feel that entities should be allowed to exercise judgment in determining the level at which to evaluate the need to recognize an onerous contract liability.