October 22, 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  

Re: Comment on Exposure Draft – Revenue from Contracts with Customers (IASB ED/2010/6)

Dear Sir David Tweedie,

Rogers Communications Inc. ("Rogers") is a diversified Canadian communications and media company with substantially all of our operations in Canada. We are primarily engaged in three lines of business - Wireless, Cable and Media. The wireless group is Canada’s largest wireless voice and data communications service provider. Through our cable operations, we are one of Canada’s largest providers of cable television service as well as high-speed Internet access, telephony services and video retailing. The Media business is engaged in radio and television broadcasting, televised shopping, magazines and trade publications, and sports entertainment.

The telecommunications industry is typically characterized as follows:
- a customer base of millions with short-term, low dollar value contracts;
- each customer is offered a wide range of service options resulting in highly customized service offerings;
- the available service options evolve rapidly and customers can potentially change their service options throughout the contract term; and
- customers entering into a service contract often receive heavily subsidized handsets and/or other equipment options.

We appreciate the opportunity to provide comments on the Exposure Draft ("ED") - Revenue from Contracts with Customers (IASB ED/2010/6). We believe the ED will have a large operational and accounting impact to our Wireless and Cable businesses.

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 believe that the proposed standard will decrease the usefulness of the financial information as a result of decreased reliability and comparability. Furthermore
the changes will be costly and potentially impractical to implement for our industry. We believe this to be so because of the significant impact the proposed standards would have on the following:

1) increase in judgment required in the application of the ED
2) mismatch of cash flows to revenues
3) costs associated with information system upgrades and maintenance

These points are all expanded upon in detail in Appendix 1.

We strongly believe that the current relative fair value model, with a ‘contingent revenue cap’ applied to upfront handsets and other equipments incentives, should be maintained (refer to Appendix 1). This model is consistently applied by major telecommunications operators and allows comparability across the industry and enables an entity to present financial information that is congruent with the underlying nature of the business. The current approach also enables more reliable information by avoiding the accrual of contingent revenues, linking cash flows to the revenue recognized and involving less subjective judgments by management. With the continued disclosure of appropriate accounting details that ensure contract rights and obligations are clear to the users of an entity’s financial information, the proposed standards would be unnecessary.

Please refer to the attached for additional details which clearly outline why we believe that the standards proposed in the ED pose significant implementation challenges and ultimately result in less reliable and comparable information to the end-users of the financial reports:

- Appendix 1 outlines our general concerns with the proposed standards; and
- Appendix 2 describes in detail, specific responses to the following questions from the ED:
  1) Question 5 – credit risk
  2) Question 7 – proportional allocation of transaction price
  3) Question 13 – retrospective application
  4) Question 15 – product warranties

If you have any questions about our comments or wish to discuss any of the matters further, please contact us.

Yours truly,

[Signature]

Jim Laramie
VP Corporate Finance & Controller
Appendix 1

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

Reliability and comparability of financial information
The usefulness of financial statements are influenced by the reliability and comparability of the information contained therein. As described below, the significant levels of judgment required in the application of the proposed standard and the mismatch of cash flows to revenues act as a hindrance to end-users of the financial information.

1) Significant judgment in the application of the Exposure Draft

Significant judgment would be involved in determining the transaction price, re-estimating transaction price based on changes to considerations, estimation of collectibility based on credit risk and evaluating whether an insurance warranty constitutes a separate performance obligation.

Re-estimating transaction price based on changes to consideration (Para. 35 – 42 ED)
Consider that within the telecommunications industry the consideration value constantly evolves as customers are able to continuously alter their contract terms by switching or taking on additional service options or even breaking their contracts. As such, these estimates would need to be frequently re-evaluated. With this rapid pace of change, reassessment of the allocation of revenues over millions of contracts would be impractical and unreliable and would require significant judgment on the part of management to estimate which could lead to considerable variation from one company to the next thereby reducing comparability. Therefore, the new standards are more suitable for the more stable, larger, longer-term contracts associated with the construction industry rather than the telecommunications industry, which typically has numerous smaller, shorter-term contracts. Furthermore, the substantial costs and implementation challenges, makes the adoption of the proposed standard impractical for our industry.

Estimation of collectibility based on credit risk (Para. 43 – ED)
Recognizing probability-weighted revenue amounts based on credit-risk also impacts the reliability of the financial statements. The subjectivity involved with assessing collectibility may result in mismatching of revenues to the cost of generating the revenue as amounts collected as a result of subsequent collection efforts would be inappropriately classified as another form of income. (Refer to Appendix 2, Question 5 for more details)

Evaluating insurance warranties (Para. B13 – B19)
Considerable judgment is also associated with when an “insurance” warranty would be considered a separate performance obligation. The definition of a separate performance
obligation would need to be revisited as it is not always apparent whether a product warranty would be considered as being “distinct”. The allocation of warranty revenues and the reduction of revenues based on the obligations from warranties may lead to reporting financials that are overly complicated to users. \( \text{(Refer to Appendix 2, Question 15 for more details)} \)

2) Mismatch of cash flows to revenues

While we are fully supportive of accrual based accounting, we feel that any asset that is accrued should meet the definition of an asset as set out in the Conceptual Framework. These assets should represent future benefits (in our case cash inflows) the right to which the entity has earned through a past event. The impact of the Board’s proposed method of allocation of a transaction price to separate performance obligations creates a mismatch of cash flows to revenues. The mismatch creates challenges in evaluating the true financial performance of an entity as cash flows are an important indicator for a capital intensive industry such as ours. The proposed methods also result in the reporting of information that is not representative of the underlying economic activity of the transaction and would require reconciliation between the receivables or contract assets presented and the actual receivables outstanding that the entity as a legally enforceable right to collect.

Challenges associated with mismatch of cash and revenues

Financial statement users in this 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. This 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. The recognition of significant amounts of revenue, the receipt of which is contingent upon the company providing future services to the customer greatly hinder the predictive qualities of the financial statements for users. 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 for the operator to ensure its ability to provide the services necessary for it to be able to collect the cash associated with the previously recognized revenues. While the disclosure requirements proposed by the Board are intended to provide users with the information required to assess the company’s cash flows, we firmly believe that the proposed model and related 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.
Proportionate allocation of transaction price by stand-alone selling price (Para. 50–52 ED)

Allocation of revenue based on relative stand-alone selling price is not representative of the industry’s economic substance as it leads to the front-loading of revenues for which the entity receives little to no consideration and that are not representative of the operator’s core activities (refer to Appendix 2, Question 7 for more details). This results in the deferral of receivables as the receivables presented on the balance sheet 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.

Example: The impacts of proportionately allocating transaction price by stand-alone selling price

The following simplified example demonstrates that at a point, the revenue recognized under the current standard would match that which is recognized in the proposed standard. The financial information presented with the proposed method would not provide any more usefulness in terms of reliability or comparability but would require a material investment on the part of telecommunications companies to implement (discussed in detail below).

Scenario 1:
The company signs up one customer per year over three years. Each customer signs a 3-year contract and renews at the end of their contract period with the same terms and conditions as the initial contract. Year 4 represents a steady state (i.e. no new customers)

Contract details
Term: 3 years
Monthly service fee: CU100
Handset provided for free
Stand-alone selling price of the handset: CU450
Total consideration received: CU3,600

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**Contract Asset (Year end balance)**

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Once entering a mature market phase, the aggregate amount of revenue recognized in a given period is the same under both current and proposed methods, however, costly system and process modifications are required to track the new method. Additionally, contingent assets are left on the balance sheet which the company does not have the legally enforceable right to collect from its customers.

Furthermore, should the Boards decide that the proposed standard be applied retrospectively, the result is likely that the companies are closer to a steady state (i.e. year 4 timing) and would therefore only impact the financial statements by creating a contingent asset while keeping revenues essentially the same.

**Scenario 2:**
Same as above, except the customers switch to month-to-month after contract expires – no new handset purchased.
The proposed methodology would imply that in the fourth year of a customer relationship, the value of the monthly service has suddenly increased based on the amount of revenue recognized. In fact, the service is identical to the service that was provided in the previous three years and has no greater value to the customer.

The Boards may argue that the total consideration identified at the beginning of the customer relationship was incorrect in this scenario, i.e. the contract actually extends to the overall life of the customer relationship. However, if this is the case, the amount of management judgment required to estimate the length of a contract beyond the stated contract term would lead to inconsistencies across companies, potential for errors and could also be prohibitively complex to implement. These estimates would have to vary by market, customer profile, etc. to provide relevant information, plus estimates would change each time there is a change in the market place (e.g. a new spectrum auction, new initiatives from competitors, technological changes, etc.). Given that a typical telecommunications operator would have millions of subscribers, this becomes a rather onerous proposition that is prone to error or even manipulation.

Reconciliation of receivables presented versus outstanding
The need to reconcile between the actual receivables versus the reported receivables creates further complexities as internal controls would need to be augmented to ensure proper reconciliation. This would further increase demands on resources and thereby increase costs from both a financial and operational standpoint. With added complexities, the risk of errors in the financial statements would also increase and the reliability of the financial information provided to users may be negatively impacted.

3) Significant costs associated with information system upgrades and maintenance

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 variables, 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. As the current systems do not capture the information necessitated by the proposed standard, the costs associated with upgrading and implementing new information systems would be prohibitively material to Rogers’ overall financial results.

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 likely become necessary in order to provide retrospective application of the proposed standard. 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 standards. This would cause additional financial and operational burden upon an organization as well as increase the cost of audits. (Refer to Appendix 2, Question 13 for more details)

All of this expense would be incurred only to accommodate an accounting change that would not provide anymore 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.
Recommendation: Maintain current contingent revenue cap in the proposed model. 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. As stated earlier, the industry is capital intensive and the ability to predict free cash flows is essential in assessing an entity’s ability to invest in network infrastructure – the very core of the telecommunications industry.
Appendix 2: Exposure Draft ("ED") – Responses to Questions

**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?

**Response**
We do not agree that the customer’s credit risk should affect how much revenue a entity recognizes when it satisfies a performance obligation. We believe that reporting gross revenues separately from credit losses provides more relevant information to users of the financial statements. Expectations of credit fault should not determine how much revenue an entity recognizes especially when changes to those expectations will be subsequently recognized as a gain rather than revenue. We believe that this distorts the company’s operating results, reduces comparability with other companies and will only prove to confuse users of the financial statements.

We also believe that this is inconsistent with the other sections of the proposed standard that would require a company to recognize revenue that is contingent upon the company providing future services to the customer only to reduce the resulting contract asset for credit risk. We feel that users will have difficulty comprehending the measurement of such assets both at initial recognition and in subsequent reporting periods as estimates are revised for new information. This will be further complicated by the Board’s recommendation (paragraphs 44-45) that an entity account for the effect of the time value of money for long-term contracts. Neither we nor customers consider our contracts to include a material financing component; however given the effect the Board’s proposals in paragraph 50 will have on a typical telecommunications provider (i.e. the creation of contract assets associated with the allocation of service revenues to the transfer of a handset to the customer), the result will be a significant value of long-term contract assets that would be required to be discounted, each at a rate that is reflective of the individual customer’s credit risk. We are sure you can appreciate the complexity and costs associated with such a requirement for a company that has millions of customers.

We recommend the elimination of collectibility considerations from revenue recognition due to the aforementioned points.
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 stand-alone 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?

Response

In the Basis for Conclusions, the Board states that the allocation of a transaction price should not be based on the prices stated in the contract as a contractually stated price for a good or service in a contract cannot be presumed to represent the selling price for those goods or services.

For the telecommunications industry, handsets and airtime are often offered as a bundle. Generally, handsets in a bundle offer are transferred with heavy subsidies or for free. As the transfer of the handset to the customer constitutes the satisfaction of a performance obligation, revenue would be recognized even as the entity receives little to no consideration. This approach results in a front-loading of revenues as well as large unbilled receivables or “contract assets” that are contingent on future services billable only if ongoing services are provided. This does not reflect the economic substance of the telecommunications industry business model.

We believe that the amount allocated to a satisfied performance obligation should not exceed the amount that the company is legally entitled to collect from the customer under the contract terms without providing future goods or services to the customer. The Board’s proposed model will result in a significant value of contract assets presented separately from trade receivables on the company’s balance sheet. We do not believe that these contract assets meet the definition of an asset per the Framework. Assets are resources that are controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. In our view, the transfer of a handset to a customer is not the past event that would cause future benefits in excess of those stated in the contract, to flow to the company; rather it is the provision of monthly services that result in the future benefits to the company. Take for example a company that has a contract with a customer the terms of which specify that the customer will receive a free handset and will pay CU100 per month for 2 years for phone services. The handset could be sold on its own for CU200. The company clearly has a valuable contractual right in its agreement with the customer. Per the Board’s proposal, that contractual right would not give rise to a contract asset at the inception of the contract. However, once the handset is passed to the customer the company would recognize revenue and a contract asset of CU185 (200 * (2400/2600)). However, the mere transferring of the handset does not ensure future benefits will flow to company anymore.
than the initial signing of the contract does. It is actually the provision of monthly services that will result in future benefits for the company. Therefore, we firmly believe that the recognition of such an asset clearly contravenes the Board’s own conceptual framework.

Furthermore, the provision of services, not the sale of handsets, is the key activity of the organization. Therefore, it does not appear prudent to allocate service revenues to the sale of hardware. Hardware sales are not the core business activity and are solely undertaken as a means to provide customers with a device to access the company’s primary services. Allocating such a significant portion of revenues to the delivery of a handset does not fairly represent the economic substance of a company’s performance. Additionally, it will lead to inconsistencies when comparing performance of companies across the industry as one company’s core service revenue may be higher or lower than another company’s simply because one company must offer a higher handset discount to the acquire customers than the other.

The standalone selling price of handsets is also not indicative of the fair value perceived by customers and therefore not a good measure by which to allocate revenue between performance obligations. Relatively few customers buy handsets outright as they are less willing to pay full price for a handset.

With increased competition, continuous change is likely (customers may leave before the end of their contract, prices may change, new offers may be made, etc.) This would require constant revisions to the transaction price and ultimately revenue allocations. The added complexities may create confusions to financial information users and will add additional financial and non-financial burdens to the entity.

With the residual method under IFRIC 13, we believe that revenue recognition would be easier to understand and would better reflect the substance of transactions as cash would not depart far from revenues.

Finally, we find that the allocation of revenue based on stand-alone selling price would be inconsistent with the Board’s proposed treatment of contract acquisition costs as detailed in paragraph 57 of the exposure draft. In our industry, handset subsidies are considered to be costs associated with acquiring a service contract with a customer. Following the requirements of paragraph 57, such costs would be expensed as incurred, thereby reducing net income for the period. By following the requirements of paragraph 50, a telecommunications company would effectively be deferring those costs and amortizing them as a reduction of service revenues over the life of the contract, even though they do not meet the definition of an asset under any other standard.
Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (i.e., 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 but at a lower cost? If so, please explain the alternative and why you think it is better.

Response

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 arose 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.
- Challenges associated with estimates that may result in information that is less representative of the organization’s true performance.
- Confusion may arise for both internal and external users from the two separate revenue numbers arising during the transition period.

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.
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 addition 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?

Response

We do not agree with the proposed distinction between types of product warranties although we do agree that an entity should recognize its warranty obligations. The ED attempts to provide a distinction between “quality assurance” and “insurance” product warranties in order to determine whether a separate performance obligation exists. Drawing a distinction between product warranties may be difficult in practice and may require considerable management judgment as the nature and intent of the product warranty may not be explicit.

The main issue with this section of the proposal is the classification of the “insurance” warranty as a separate performance obligation. Similar to the right of return, we do not believe that a product warranty that covers post-delivery faults is necessarily a performance obligation. In many cases, warranties are mandated by local consumer protection legislation and may not be a factor in a customers’ purchase decision.

Furthermore, the ED does not describe how the “insurance” warranty meets the “distinct” requirement that would classify it as a separate performance obligation. In situations where the product warranty which covers post-delivery faults is not “distinct”, it is unclear if a separate performance obligation would still exist.

Presently, warranty provisions are usually recognized as a cost of sale, not as a reduction in revenue. Although actual warranty costs are determinable, warranty revenue may have no measurable market value if it is never sold as a stand-alone service, but always included in the contract. This would lead to considerable estimates that may not be
representative of the economic reality of the business. In order to provide consistency in reporting across entities and period-to-period, it appears more important to account for known costs instead of estimated revenues. Therefore, for warranties, we believe that users will receive more useful information from the measurement model present in IAS 37 Provisions.