March 13, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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File Reference No. **2011-230**

Re: Proposed Accounting Standards Update (Revised), *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*

We appreciate the opportunity to respond to the Financial Accounting Standards Board's (the "Board's") *Proposed Accounting Standards Update (Revised), Revenue Recognition: Revenue from Contracts with Customers* ("proposed standard" or "Exposure Draft").

We fully support the Board's overall objectives to simplify the preparation of financial statements, provide more useful information to users of those statements, and improve the comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets by providing a more robust framework. We appreciate the efforts that the Board and its staff have made to engage with participants in our industry throughout this project.

Although we appreciate the outreach conducted by the Board and staff and were encouraged by the Board's decision to dedicate a meeting and staff memorandum to this topic in connection with our industry, we are concerned that certain positions and/or facts were not representative of our communications. Our primary concern with the proposed standard has been, and continues to be, the reduction in the usefulness of information to the users of our financial statements should this proposed standard become effective. We are *not* requesting that the Board carry forward the contingent revenue cap as the Board has stated in paragraph BC193 of the proposed standard. However, through the use of the contingent revenue cap, users of our financial statements generally benefit from consistency in approach within our industry, the separability of equipment and service components, and the ability to utilize service revenue, in combination with subscriber metrics, as a basis to forecast our future cash flows. The proposed standard would significantly diminish these current benefits. Our position is supported by the outreach conducted by the Board and documented in the staff memorandum dated June 13-15, 2011, which indicated that

> "most analysts believe the boards' proposals will provide less useful information due to the lack of comparability arising from increased management judgment in estimating selling prices. Those analysts consider the network services to be the entity's main offering. The handset is viewed as a cost of acquiring the customer. Those analysts also prefer revenue to be recognized at an amount equal to cash to help them predict future revenue-based cash inflow."

Even if the Board does not support the concerns raised by a substantial majority of the preparer community within the telecommunications industry, the user feedback alone should be sufficient for the Board to reconsider the provisions of the proposed standard. The majority of users, the stakeholders that benefit from information from which to make investment decisions, are providing feedback that this proposal contradicts the Board's own mission statement because it is expected to result in less useful information and reduced comparability amongst similar companies in the same industry.

We acknowledge that the current accounting model for wireless service providers can be improved, particularly as it relates to the recognition of upfront losses upon the sale of equipment bundled with wireless service, which we believe provides future economic benefit. Based on the economics of our transactions, we believe a more appropriate model should consider that wireless service providers generally do not manufacture the handsets and that the cost of such equipment is an inducement or marketing effort to acquire subscriber contracts. Under the

current revenue model and the proposed standard, immediate losses are recognized upon the sale of equipment notwithstanding the expected overall profitability of the combined arrangements (i.e. the delivery of service through a device compatible with our wireless network).

We continue to be concerned that while the proposed standard may clarify the principles for recognizing revenue and provide a common revenue standard for U.S. GAAP and IFRS, it will have *unintended consequences* that are in direct conflict with the Board's stated objectives of (a) comparability, (b) providing useful information and (c) simplicity. Our primary concerns are summarized as follows:

- The establishment of disparate accounting treatment for economically similar transactions;
- Reduced comparability of financial results, particularly key financial metrics, amongst industry participants for similar transactions;
- Despite any theoretical merit of the proposed methodology, the resulting accounting will seriously diminish the usefulness of our financial statements to users; and
- The potential cost and complexity of implementation and ongoing financial statement preparation.

We do not support the Board proceeding with the current version of the Exposure Draft. We urge the Board to permit sufficient flexibility in the new standard to accommodate an outcome for our industry that is consistent with our business model, practical to implement and, more importantly, provides users with decision useful information. We believe this is achievable without adversely impacting other sectors and in a manner that would better meet the Board's stated objectives for this project. In the sections below, we have outlined in further detail our primary concerns with the proposed standard, as well as our suggested modifications to the Exposure Draft.

Disparate accounting treatment for economically similar transactions

Wireless carriers generally sell products and services through direct retail stores as well as indirect dealer channels. Under the proposed standard, a postpaid transaction executed in one of our direct retail stores would result in different accounting than a similar transaction executed in one of our indirect dealer's stores. In the direct sales channel transaction, the inducement for the customer to enter into a service contract is provided in the form of a discount on the handset in a bundled arrangement (we refer to the amount by which the sales price is below equipment cost as "net equipment subsidy"). The total transaction price in the direct channel, given the nature of the transaction as a multiple-element arrangement, would be allocated based on the relative standalone selling price method, which under the proposed standard could result in a portion of the discount being allocated to the service contract. However, for an indirect sales channel transaction, allocation is unnecessary since the arrangement is not a multiple-element arrangement to the indirect dealer since such dealers are only purchasing equipment (transfer of control and risk of loss) and are agents in the sales effort of wireless service to end customers. In this situation, the end-use customer still buys a handset at a discounted price in conjunction with a service contract; however, the equipment discount is not provided directly to the end-use customer but indirectly through the offering provided by the indirect dealer, which is reimbursed through dealer commissions. Despite the economics from the customer's perspective (and the carrier's perspective) being almost identical, the equipment and service, respectively, will be treated as distinct performance obligations in a bundled arrangement resulting in an allocation under a relative selling price method for direct sales channel transactions whereas indirect sales channel transactions will be treated as separate transactions. As a result, amounts recognized for equipment revenue and service revenue will vary for similar economic transactions based on sales channel mix.

Additionally, prepaid offerings may not be subject to relative selling price allocation methodology under the provisions of the proposed standard because the customer may not enter into a contemporaneous service contract at the time of equipment purchase. However, the prepaid customer still receives a discount on the handset based on the wireless carrier's expectation (supported by historical data) that the customer will remain for a sufficient period of time to recover the net equipment subsidy. However, under the proposed standard none of the discount on the handset would be treated as a reduction in service revenue despite the underlying economics being similar to a postpaid transaction.

Reduced comparability amongst industry participants for similar transactions

One of the Board's stated objectives is to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. However, as discussed in the previous section, the proposed standard will result in disparate accounting treatment for similar transactions depending on the sales channel in which the transactions are executed. The key revenue metrics relied upon by users of our financial statements will be inconsistent with other industry participants, not based on fundamental differences in the transactions such as pricing, but solely on the mix of sales channel activity. Comparability may be further impacted due to the significant judgment involved in estimating standalone selling prices and the methods applied by preparers to aggregate contracts for purposes of allocating the transaction price to separate performance obligations.

Reducing the quality and usefulness of information provided to users of financial statements

Another of the Board's stated objectives is to provide more useful information to users of financial statements. However, we believe the concerns discussed above demonstrate the reduced usefulness and comparability that will result from the implementation of this Exposure Draft in the telecommunications industry. This lack of comparability could also impact other industries who sell their products and services through different sales channels. These issues will significantly reduce investors' ability to make investment decisions, and analysts' ability to predict future results. For example, the widely-watched metric "average service revenue per user" (ARPU) will vary among entities depending on the relative mix of sales channels utilized, and not because the underlying economics of the transactions differ as discussed in the previous section. We would externally report different ARPU amounts for customers who acquire the same service plan and are paying the same monthly rate. Additionally, the judgment involved with estimating standalone selling prices and allocation methods (i.e. contract aggregation) will also contribute to further impairing comparability amongst industry participants.

In addition, industry analysts have expressed concerns that the proposed changes will significantly diminish the predictive value of information that is currently being reported by telecommunications industry participants. The current accounting model, despite its opportunity for improvement as previously noted, results in revenue recognition which is generally consistent and comparable across the industry. It also allows users to delineate between ARPU and net equipment costs, enabling them to separately project future equipment net revenue and future service revenue based on the ending base of existing subscribers and estimated future subscriber gross additions. The results of outreach conducted by the Board, as well as industry participants, indicate that the analyst community has serious concerns with the proposed model. These concerns include, but are not limited to, lack of comparability among entities, alteration of key metrics such as ARPU, service margin and one-time cost per gross addition. In fact, based on our discussions with financial statement users, our stakeholders have requested that we continue to report certain of our revenue and key metrics on the same basis as current accounting principles even if the proposed standard is adopted. The only way to meet such requests would be to maintain two sets of records, which we believe would be administratively burdensome, particularly when such transparency is already provided by existing accounting standards. We reference you to the letter dated February 29, 2012, from fellow telecommunications industry participants and, in particular, the results of a survey conducted to solicit feedback from telecommunications analysts.

Cost and Complexity of Implementation and Ongoing Financial Statement Preparation

Lastly, the Board has stated its objective that the proposed standard should simplify the preparation of financial statements. Transactions in the telecommunications industry are generally high volume, low dollar, relatively homogenous transactions. As such, implementation of this standard on a contract by contract basis would be impracticable, extremely difficult and costly. The proposed requirement will result in similar goods and services (for example, a particular handset bundled with a particular service plan) being allocated different amounts of revenue. For example, the amount of revenue recognized for a handset with a $400 standalone selling price will depend upon the standalone selling price of the associated service contract (such as $50/month or $75/month) with which it is bundled or, in instances where service is sold through indirect dealers, as noted above, the sales price of the service plan to the end user will be the basis for revenue recognized. This proposal will require significant investments in information systems to be able to process multiple pricing points for a single product offering, based

on numerous possible combinations of products and services. In addition, the information systems will require continuous updates to reflect new products and offerings as well as frequent changes in standalone selling prices to appropriately allocate consideration for new contracts. Modifications to customer service contracts are also frequent within the industry, with customers changing their service plan and adding or deleting add-on services.

While the portfolio approach could provide some relief (while also introducing another element of aggregation risk which could reduce comparability) from the cost and complexity of implementation, this would still be a significant task for many entities both at implementation and prospectively on an ongoing basis.

Suggested Modifications to the Proposed Standard

We appreciate the efforts that the Board and its staff have made to engage with participants in our industry throughout this project. Despite these efforts, we feel that there continues to be a misunderstanding about the economic substance of our bundled arrangements as well as the implications that the proposed standard will have on contracts in the communications industry. We agree that the contingent cash cap could be improved as it results in an upfront loss; an amount we believe is more appropriately recognized as an asset, on the sale of handsets delivered at the onset of a bundled arrangement with a customer when that arrangement is profitable overall. However, we believe that the proposed standard results in accounting which is even more disconnected from the underlying economics of our contracts and does not appropriately consider the value exchange from the customer's perspective. In paragraph BC196(b), the Board stated that the contingent revenue cap can result in the recognition of losses when the contract is profitable. This loss recognition occurs because the cost of the handset exceeds the revenue allocated to the handset, and the same result will occur under the proposed model. While the proposed model will result in more revenue being allocated to the handset, the cost of the handset is still expected to exceed the amount of revenue recognized and will continue to result in an upfront loss in most cases.

Furthermore, the Board stated in paragraph BC197 that they believe the proposed guidance as it directly relates to the telecommunications industry would provide a more consistent basis for recognizing revenue and would produce results in accounting that more closely match the underlying economics of the transaction. We disagree with this statement as the standalone selling price for a handset in our business is not a realistic representation of a sales price for a similar device without wireless connectivity. These devices are inextricably linked, through both software and hardware, to our network and therefore cannot be fully or reliably used on another carrier's network for anything but roaming. In order to attract and retain customers, handsets are usually sold to end-use customers at a price below actual equipment cost when bundled with a service contract, which generally carries a term of two years.

In the telecommunications business we regularly sell our handsets on a stand-alone basis into our indirect sales channels. We also sell our handsets on a standalone basis when an existing subscriber replaces a lost or broken handset, which occurs on an infrequent basis[1]. Under both scenarios, the amount of the consideration generally paid by the customer is at or near the amount paid by us to the manufacturer to purchase the same handset. It is akin to a pass through transaction that always contemplates an underlying wireless service contract. Using these prices for purposes of allocating the total transaction price to our multiple element arrangements would not faithfully depict the price at which we would sell a handset separately to a customer absent the inherent expectation that it will be combined with a service contract. For instance, if we were to sell a handset separately and not in contemplation of obtaining a service contract, the utility of that handset would be limited to that of a handheld gaming device or wifi-only device. Devices of this nature are sold at prices similar to or below the subsidized price we charge when sold with a service contract. For this reason, to utilize the price at which we currently sell handsets to indirect dealers or in infrequent circumstances for purposes of allocating the total transaction price would be contrary to the principle of the proposed standard as outlined in paragraph 72, as it does not represent a *comparable* standalone selling price for handsets. Additionally, using the selling prices of standalone sales that occur on an infrequent basis (i.e. the lost or damaged handset) for purposes of allocating the transaction prices to the rest of the population of bundled transactions is not necessarily consistent with the concept of vendor-specific objective evidence as defined in ASC 605-25-30-6C. We also recognize that limiting the amount of revenue on the device to the cash received from the

[1] We estimate that replacement phones represent less than 5% of the total devices sold.

end-user, another observable data point, may not necessarily be representative of the standalone selling price either. Given the challenges of estimating the standalone selling price of the device for these types of bundled arrangements, we believe the most reliable approach would be the residual approach since the selling price of our service contracts do not vary, regardless of whether sold separately or bundled with other elements.

We are *not* proposing that the contingent cash cap concept be carried forward in the new standard. However, we are proposing two alternatives which would require minimal revisions to the Exposure Draft and would result in accounting which better reflects the economics of our industry.

Alternative 1
We believe the proposed standard should be revised to broaden the circumstances for when the use of the residual approach is appropriate for purposes of estimating a standalone selling price. We suggest that the Board modify the last sentence in paragraph 73(c) to state: "A selling price is uncertain when an entity has not yet established a price for a good or service and the good or service has not previously been sold, or if the good or service is sold on a standalone basis infrequently or under different circumstances."

For the reasons discussed above, we believe we do not have an observable standalone selling price based on our interpretation of the principle provided in paragraph 72 as we do not sell handsets separately in similar circumstances to similar customers. Therefore, we believe we should estimate the standalone selling price of our handsets as described in paragraph 73. The pricing of our service plans does not change regardless of whether the customer enters into a bundled arrangement or is activating a handset they purchased elsewhere (i.e. from an online retailer or a secondhand used device). Therefore, we believe that the residual approach as outlined in paragraph 73(c) should be available to transactions such as ours where the standalone selling price of the delivered item is uncertain and not supported by robust evidence of standalone fair value. We believe paragraph 73(c) as drafted should be broadened to encompass situations other than circumstances which seem to specifically address the software industry only. The residual method was a long-standing generally accepted accounting principle prior to the adoption of ASU 2009-13, and in practice can result in a reasonable allocation of revenue among multiple performance obligations. Absent the residual approach, a large number of companies across many industries will be required to expend significant resources to develop estimated standalone selling prices for a large number of products; an approach which would still yield results based on a high degree of subjectivity.

We believe this suggestion will be beneficial not just to the communications industry, but to other industries in which goods and/or services are almost always sold on a bundled basis and *comparable* standalone selling prices are not available or compelling evidence is not available. In addition, this suggested change would reduce the complexity of implementing the proposed standard significantly, as it would eliminate the need to systematically record (and continuously update) the numerous combinations of service plan and handset offerings, provide greater comparability, and enhance the decision usefulness of financial statements.

The Board has expressed that the standalone selling price basis allocation is simply a method to achieve the objective of the model rather than a principle itself for allocating the transaction price. It has also recognized that application of that method might not always result in a faithful depiction of the amount of consideration to which an entity expects or is entitled from the customer. Therefore, broadening the scope of the residual method basis is not an exception to the principle.

Alternative 2
In paragraphs BC190 and 191, the Board expressed the concept that an entity should allocate a discount to one or more separate performance obligations, rather than to all the performance obligations, if the entity has observable sales prices for parts of the contract (which are largely independent from the price of other promised goods or services) that establish that the entire discount in the contract is attributable only to one or more separate performance obligations. As discussed further above, the selling price of a service contract does not vary, regardless of whether sold separately or bundled, and regardless of the amount of the subsidy on the handset with which it is bundled. This provides evidence that the discount offered on the handset in a bundled arrangement is, in fact, entirely attributable to the handset and is only offered by our industry as an inducement for a customer to enter into a service contract.

We suggest that the Board clarify paragraph 75 and the related implementation guidance to encompass bundled arrangements in which the selling price of one performance obligation does not vary, regardless of the selling price of the other performance obligation with which it is bundled, or whether it is sold separately.

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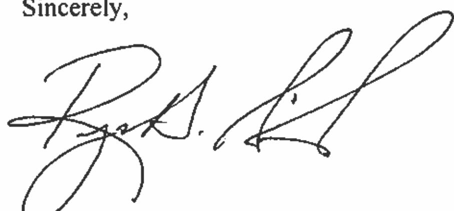
We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the FASB staff or the Board may have. Please contact me at 913-315-7600 should you have any questions regarding our submission.

Sincerely,



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