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

Your reference Our contact

> Phone Date Re

+49 228 18187100 June 09, 2009

Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers"

Dear Sir David,

we appreciate the opportunity to respond to the International Accounting Standards Board's Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers". This letter represents the view of the Deutsche Telekom AG, one of the world's leading telecommunications and information technology service providers. With its operating segments, Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers and Group Headquarters & Shared Services, Deutsche Telekom covers the full range of stateof-the-art telecommunications and information technology services.

We would like to inform the IASB that the revenue recognition Discussion Paper has been discussed with other European telecommunications companies. These discussions have improved each company's understanding and assessment of the potential consequences of the Discussion Paper. While many comments raised in this letter are shared by other companies, we do have some specific comments or views. Hence this letter is solely under the responsibility of Deutsche Telekom and does not engage any other company.

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We fully support the Board's intention to develop a single principle for revenue recognition and hence eliminate the inconsistencies between current IAS 11 *Construction Contracts* and IAS 18 *Revenue*. However, we do have concerns whether the model proposed in the Discussion Paper will ultimately improve the quality of information provided in financial statements. Our concerns are explained in detail in our answers to the questions raised by the Board in the Discussion Paper.

Our comments should be read in the context of existing IFRSs. We recognise that future developments in standards - for example derecognition of financial instruments, insurance contracts and the Framework - will have implications for the principles on which a general standard for revenue recognition in contracts with customers should be based.

Please find our comments in the Appendix to this letter. We would be pleased to discuss our comments with you at your convenience.

Yours sincerely,

Michael Brücks Vice President Principles, Policies and Research Deutsche Telekom AG, Bonn, Germany Dr. Michael Richter

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cc: France Telecom S.A. Telefónica S.A. Vodafone Group Plc.



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Appendix

Comment Letter on DP "Preliminary Views on Revenue Recognition in Contracts with Customers"

by Deutsche Telekom AG

Question 1:

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Response:

We fully support the Boards' intention to develop a single principle for recognising revenue in contracts with customers. The current accounting under IFRS follows two different concepts, IAS 11 following an accretion approach and IAS 18 following the accretion approach for the rendering of services and the critical events approach for the sale of goods. This lack of a single guiding principle for revenue recognition may have lead to diversity in practice negatively affecting the comparability of financial statements. Under US GAAP a variety of revenue recognition rules has been developed with some of them being industry- or product- specific. The extent of guidance addressing revenue recognition under US GAAP did not improve comparability of financial statements and the extent of existing guidance does not mean that all issues are adequately addressed. We agree with the Boards that a single well defined principle for revenue recognition would be an adequate base of reference for questions relating to revenue recognition.

We agree with the Boards in using the contract with a customer as a basis for any principle of revenue recognition. Nevertheless, we do believe that the model proposed in the Discussion Paper needs to be elaborated further as we do believe that the following issues need to be more clearly addressed:

We believe that the "boundaries of the contract" need to be discussed further. Based on the definition of a contract in the Discussion Paper it is not clear to us whether contingent deliverables the customer has not yet requested the entity to deliver but that – if the customer would request them – would be delivered under the contract need to be included in the initial accounting. From the Agenda Papers published for the March and May 2009 Board Meetings we have learned that the Boards have further discussed these issues. We will comment on them later in this comment letter.

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- The local regulation and legal environment an entity operates in may have an influence on the definition of the determination of the obligations under a contract. I.e., if under local laws and regulations a sale of goods is always accompanied by a standard product warranty for a certain period of time whereas in other jurisdictions it is not, we are not convinced that the standard warranty is a performance obligation the settlement of which should trigger revenue recognition.
- Under the model in the Discussion Paper, revenue would be recognised upon settlement of a performance obligation by the entity. A performance obligation is settled once the entity passes control of the asset under the performance obligation to the customer. We do have concerns that the concept of control is not defined well enough to link revenue recognition to the passage of control.

For further discussion of those issues we refer to the following questions and our responses in this comment letter.

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Question 2:

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

Response:

The proposed model requires recognition of revenue once the net position in a contract with a customer changes.

It is our understanding of the Discussion Paper that any issue regarding the disclosure of the net contract position have not been within the scope of the Discussion Paper. Nevertheless, we would like to share our position regarding the disclosure of the net contract position with the Board as different possible concepts would heavily influence the measures necessary to implement the model. We believe that a future standard on revenue recognition should clearly address the following questions:

- Should an asset and a performance obligation be identified separately and then netted?
- Can the net position be accounted for directly?
- Can the assets and liabilities be recognised using a portfolio approach or should assets and liabilities be recognised on a contract-by-contract basis?

We are strongly concerned about recognising separate assets and liabilities on a contract-by-contract basis as in our industry we are dealing with hundreds of millions of contracts with customers. Having to calculate (even if netted) an asset and a liability on a gross basis for each of our contracts would inevitably mean that we were to implement completely new IT systems replacing the current systems. This IT system would be necessary since the (forced) allocation of the customer consideration to the different performance obligations can not be handled by current systems. Billing systems do not differentiate between the performance obligations since they only refer to the service contract our customers entered into. If a customer makes a phone call under its contract the minutes he used trigger a billing event and the customer will be billed the price he agreed upon in the contract with the operator. Several performance obligations to be identified under the proposed model are not relevant for billing processes since they do not constitute a billing event. As a consequence the purpose of the new IT system is to remeasure the amount billed to the customer to the amount of revenue to be recognised under the proposed model. In addition, since telecommunications operators typically do not use a single billing system but several billing systems, compatibility to those several systems need to be assured. This is to demonstrate the potential operational complexity of the proposed model and the costs necessary to comply with the

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proposed model. Recognising assets and liabilities using a portfolio basis would be easier to implement and we do believe that the information provided in the financial statements would not be different.

The necessity to implement new IT systems and the recognition of assets and liabilities on a contract-by-contract basis would significantly increase the level of internal controls necessary to ensure compliance with the proposed model in our financial statements. We acknowledge that these additional costs are only indirectly linked to the proposed model but we believe that they should be taken into account in any cost/benefit-analysis of the proposed model.



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Question 3:

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

Response:

IAS 32.13 already contains a definition of a contract, stating that a contract refers to "an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law." To avoid potential misunderstandings, we believe that using a uniform definition of a contract - even a uniform wording – would be helpful. It is our understanding that the two definitions have the same meaning and therefore should not be different.

In practice, entities may supply goods or services to end-users via distributors, resellers, agents or third party-providers of the relevant goods or services. The Discussion Paper should provide guidance on determining customer and agency relationships for arrangements involving multiple parties, combined with associated guidance on determining the "gross" or "net" treatment of payments or other consideration provided to customers or others in the supply chain. It is our understanding that with respect to agency relationships, the Discussion Paper can be interpreted in a way that the definition of a contract encompasses relationships to end-users as well as to agents. On the other hand, the Discussion paper refers to the notion of "ordinary activities". For entities supplying goods and services via various forms of agents ordinary activities would typically refer to relationships with end-customers, only.

In the telecommunications industry, some end-users may have ongoing service contracts with a telecommunications provider that stipulate the minimum fees to be paid by the end-user over a contractual term, whereas other end-users may have no ongoing purchase commitments, such as customers with "prepaid" SIM cards. End-users with "prepaid" agreements may have offers from the telecommunications provider to purchase future services at certain fixed prices, however do not enter an agreement to purchase such services until service credit is purchased.

We believe that contracts require both offer and acceptance by the parties to the contract and that the Discussion Paper should be clarified to confirm that an offer to provide goods or services, whether to existing or to prospective customers, does not constitute a contract and should only be accounted for as a performance obligation to the extent that revenue for an existing contract should be deferred if goods or services are offered at a significant and incremental discount when compared to the existing contract with a customer. We consider that allocating revenue based on expectations of a customer's acceptance of an offer would be unreliable,

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theoretically unsound and unhelpful to users of the financial statements. For example, entities may potentially increase their reported revenue by simply mailing offers to customers that may create a performance obligation for the entity.

We are convinced that in our industry users of the financial statements strongly appreciate the link of revenues and cash flows as it provides a sound basis of estimating future cash flows. We are strongly in favour of a revenue recognition principle that does not cap the link between revenues and cash flows as we believe that this would negatively affect the understandability of financial statements.



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Question 4:

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

Response:

The definition of a "performance obligation" in chapter 3 of the Discussion Paper states that:

"An entity's performance obligation is a promise in a contract with a customer to transfer an asset (such as a good or service) to that customer."

We believe that the definition of a performance obligation is theoretically sound. However, in order for the accounting that arises from the definition to be reliable, consistent with the fundamental economics of an arrangement, consistent between reporting entities and practical (or possible) to implement, we believe that performance obligations to which revenue is allocated should:

- be restricted to the goods or services that a customer is seeking to acquire from an entity and exclude deliverables that are incidental or that lack standalone value in the eyes of a customer; and
- should only include deliverables that are provided in an entity's ordinary course of business.

As currently defined in the Discussion Paper, the term "performance obligation" can be interpreted so broadly that an unworkable and inappropriate number of such obligations may be identified even in a simple agreement. For example, in a regular mobile airtime contract a performance obligation may be construed as encompassing transfers of "assets" including:

- handset,
- connection,
- SIM card,
- allocation of a phone number,
- monthly allowances for various airtime services,
- fixed rates for airtime services used in excess of the monthly allowances,
- add-on options (e.g. DSL broadband, SMS or other airtime bundles, mobile TV, etc),

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- right to return options,
- warranty (both, standard warranties required by local laws and regulations and extended warranties),
- · helpdesk or shop-based customer support and
- promotional gifts.

Accounting for assets that are delivered at the same time as a single performance obligation does not alleviate the inherent complexity in allocating standalone values to incidental deliverables that are never delivered to (and would not be purchased by) customers on a standalone basis. As referred to at a later stage, the inherent difficulties in attributing values to those deliverables do not create information that is useful to users of the financial statements. In addition, if those deliverables were to be treated as separate performance obligations without any observability of the value of these deliverables comparability of financial statements will be negatively affected. The extent of additional disclosures required to transparently explain the measurement process is not feasible to be disclosed in the financial statements.

The number of performance obligations that would be identified, combined with the sheer volume of low value transactions, results in a number of relative standalone sales price that is simply impossible for a telecommunications company to apply. In each country within which they operate, telecommunication companies frequently have:

- millions of customers, subscribing to thousands of different tariffs, with a wide range of handset options for each tariff (i.e. many millions of possible permutations),
- multiple unlinked separate billing systems handling different types of customer or tariff; and
- complex supply arrangements for goods and services involving many different parties.

We therefore believe that our proposed amendments are critical for telecommunications companies to be able to apply the principles of the Discussion Paper. Further details on our proposed amendments are provided below.

Key goods or services

To determine the existence of a performance obligation the Discussion Paper focuses on whether a good "could" be sold separately:

"Assessing whether a good could be sold separately in a contract with a customer is a useful way of identifying a performance obligation."

We believe that in order to apply the principles of the Discussion Paper in a way that is reliable, reflecting the commercial substance of transactions, is useful for

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management and users of the financial statements and is consistent with customer accounting for purchases, deliverables that are incidental to the provision of the key goods or services that the customer is purchasing should be excluded from the performance obligations to which revenue is allocated. For example, a customer on a standard consumer mobile airtime agreement is likely to consider that the key service that they are purchasing is the provision of airtime, whereas helpdesk support is likely to be viewed as an incidental service. This may contrast with a large corporate customer for whom bespoke communication solutions are configured; in this context the need for quick and effective helpdesk support may be a significant factor in the customer's purchase decision. We believe that performance obligations for goods and services should be assessed according to whether a customer would, in normal circumstances, buy such goods or services on a standalone basis. Only if it can be demonstrated that customers actually bought the services the service should be treated as a performance obligation under the proposed model. The fact that customers actually bought the services limits management judgement with respect to the identification of performance obligations and as a consequence also limits inherent bias in attributing values to those performance obligations.

We also believe that if performance obligations are not identified based on a principle of a customer's willingness to buy the related goods or services on a standalone basis, that:

- revenue may be recognised for the delivery of assets to the customer that have no value to the customer; and
- such revenue recognised may be based on significantly flawed estimates of standalone selling prices since the ability of management to reliably estimate a standalone selling price is likely to be impaired.

We also note that focusing only on the passage of control to assess the transfer of assets to a customer could result in the inconsistent treatment of transactions that are, in substance, identical. For example, there is little substantive difference between the "Toolco" trial period example in the Discussion Paper (chapter 4) and the accounting for rights of return, discussed in chapter 3. In both cases, a focus on whether a right of return, trial period or right for a seller to reclaim an asset is a substantive clause that is likely to impact a customer's purchasing decision represents a sound basis for determining the appropriate accounting in a way that reflects the commercial reality of an arrangement.

Ordinary activities

The definition of a customer refers to the transfer of an asset "that represents an output of the entity's ordinary activities". We believe that performance obligations should also relate to goods or services provided in the ordinary course of business. Further clarity is required regarding the term "ordinary activities". It is common for

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telecommunication companies to provide handsets, routers or other equipment to customers as an incentive for the customer to subscribe for services. Whilst this is usual practice, we consider the ordinary activity of entities in the European sector to be the provision of telecommunication services, rather than the provision of equipment which is considered by management, investors and analysts to merely represent a net cost of acquiring customers rather than a revenue-generating activity in its own right.



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Question 5:

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

Response:

We broadly agree with the principle that performance obligations should be separated on the basis of when an entity transfers the promised assets to the customer. However, as discussed in our response to question 4, some additional criteria should be met when identifying a performance obligation:

- performance obligations should not be recognised separately for assets that are incidental to the primary goods or services that the customer is seeking to acquire,
- performance obligations should be determined with reference to whether the
 customer would purchase the asset on a standalone basis in normal
 circumstances. It is our view that the recognition of revenue for assets with
 no standalone value to the customer is inappropriate and is likely to be
 misleading to users of the financial statements. Absent standalone value,
 revenue should not be recognised, and
- performance obligations should relate to deliverables that represent "an output of the entity's ordinary activities". Further guidance should be provided for identifying the ordinary activities of an entity.

Revenue should only be allocated to performance obligations identified using relative standalone selling prices to the extent that the allocated revenue does not exceed the legally enforceable payments due from the customer under the terms of the contract without the delivery of future assets to the customer. Otherwise, revenue would be recognised on the basis of cash that is only expected to be received from the customer. Under current revenue recognition principles, revenue should not be recognised for payments from customers that are contingent on the delivery of future services. We believe that users of financial statements strongly appreciate and support this fact as it limits management judgement and strongly links revenue recognised in a period to cash received from the customer in that period. It is our understanding that any dissolution of revenues and cash received would be viewed negatively by users of the financial statements.





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Question 6:

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

Response:

We do not agree that the right of return is necessarily a performance obligation; we believe that in the majority of instances for telecommunication companies it should not be. Although customers may occasionally be prepared to pay additional consideration to obtain a right of return, in many cases the right of return solely arises from local customer protection legislation and is unlikely to be a factor in customers' purchase decisions. As discussed in question 4, we therefore believe that additional tests are required to determine whether a performance obligation exists. When a right of return is incidental to the primary goods or services that the customer is seeking to acquire, we do not believe that the right represents a performance obligation.

When a right to return does meet the criteria set out in our response to question 4, it should be accounted for as a performance obligation. Assessing the right of return as an acceptance clause on a case by case basis would lead to a potentially misleading deferral of revenue. We believe, therefore, that such performance obligations should be assessed on a portfolio, rather than on a contract-by-contract basis. It would be impractical to determine any revenue on a relative standalone selling price due to the vast number of different arrangements available to customers (potentially millions for a telecommunications company). It would be necessary, therefore, to allow revenue to be deferred on the basis of the standalone selling price for a right of return, rather than on a relative standalone selling price basis, similar to the permitted treatment for customer loyalty programmes under IFRIC 13.

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Question 7:

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Response:

We do not believe that sales incentives that are incidental to the main goods or services that the customer is seeking to acquire are performance obligations. Future incentives are not necessarily "chosen" by the customer.

We note that the examples provided in the Discussion Paper focus on the provision of future incentives, rather than those delivered up-front to the customer. In respect of the telecommunications industry, it is common to offer customers free or discounted hardware necessary to consume the services up-front. Such offers are inducements to the customer to purchase the airtime and other services that typically represent the ordinary activity of telecommunication companies. To the extent that the customer receives handset discounts, this is viewed by the industry and, we believe, by users of the financial statements as a cost of acquiring a customer. We believe that the allocation of revenue to such inducements reduces the comparability, usefulness and the reliability of reported revenue figures.

A separate consequence of allocating revenue to customer incentives using relative standalone selling prices would be that revenue recognised for services would vary according to the sales channel used. For example, if a customer signs up to an airtime tariff via a distributor who also provides a discounted handset, then the monthly airtime payments receivable from the customer generally equate to monthly airtime revenue. If another customer signs up to the same tariff and receives the same discounted handset directly from a telecommunications company, then under the existing revenue accounting methodology the monthly airtime revenue recognised is the same as for the customer acquired through the distributor. Applying the relative standalone sales price methodology per the Discussion Paper, however, would be likely to result in lower monthly airtime revenue. Although it is arguable that different contractual circumstances apply, we do not believe that such different accounting treatments should arise as a result of merely using different sales channels and that such differences would be unhelpful to users of the accounts.



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Question 8:

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

Response:

The Discussion Paper proposes to recognise revenue when the entity satisfies a performance obligation under a contract with a customer. A performance obligation is satisfied when the promised asset is transferred to the customer. An asset is transferred to a customer when the customer obtains control of it. The Discussion Paper clarifies that an asset is transferred to the customer regardless of whether goods are sold to a customer or services are rendered to the customer. In the latter case, the promised asset might be consumed immediately, i.e. an asset may also be transferred to a customer if the customer will not recognise the service as an asset. The Discussion Paper assumes that control typically is transferred to a customer if the customer takes physical possession of the asset.

We believe that the concept of control or transfer of control is not defined well enough to link revenue recognition to a transfer of control. Various IFRSs deal with the concept of control (IFRIC 12, IFRIC 15, SIC 12, IAS 39, ED 10) which from our perspective indicates that the concept itself is not as thoroughly defined as it should be. It is our understanding that one reason of the Boards to link revenue recognition to a transfer of control of an asset is that there is a common understanding among preparers and users of financial statements of when control passes from an entity to a customer and that hence there is a clear basis to determine whether the criteria of a passage of control are fulfilled.

We understand the examples referring to a transfer of control in the cases of a sale of goods but we strongly believe that for the transfer of control in cases of rendering of services the principle should at least be more clearly defined. We understand and appreciate the Boards' intention to develop a single set of principles for revenue recognition but we do believe that the concept of transfer of control is difficult to apply to both, the sale of goods and the rendering of services. From our perspective, an alternative would be two principles, one for the sale of goods and one for the rendering of services accompanied by a clear distinction of what is a good and what is a service.

We do have difficulties to understand the Boards reasoning why the concept of control is more appropriate as a basis for revenue recognition than the transfer of risks and rewards as under the current IAS 18. The benefits of the concept of risks and rewards is - since it focuses more on substance than on form – that it is less

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affected by legal structures that can ensure the transfer of control but not the transfer of risks and rewards. We recognise that in those circumstances usually not all performance obligations will be met but there will be other performance obligations that will have to be satisfied for risks and rewards to be transferred to the customer as well. Under the concept of the Discussion Paper the consideration to be received from the customer will have to be allocated to the various performance obligations. If for example a customer would receive an asset necessary to use services of the entity - like a handset in the telecommunications industry - but has a general right to return the asset, the right to return the handset would be a performance obligation as well. We have difficulties to estimate the value of the right to return and believe that - depending on the facts and circumstances - it could be possible that the major performance obligation would be the right to return the handset with a recognition of revenues over the term of the right to return the asset. This pattern of revenue recognition is difficult to align with the rationale of our business models and hence the information would be difficult to understand by users of the financial statements.

The Discussion Paper states that a performance obligation is satisfied if the control of the resource underlying the asset is transferred to the customer. We believe that the Boards should clarify what the "resource underlying the asset" is and whether there is a difference between controlling the asset and controlling the resource underlying the asset. For instance, in the telecommunications industry, customers typically need devices such as handsets, modems or laptops to use the services of the entity. It is clear when the customer takes physical possession of those devices. Nevertheless, the devices are of very limited use and functioning ability for the customer without a telecommunications network or other assets which the customer clearly will never take physical possession of. Should the resource underlying the asset refer to the latter, control would never be passed to the customer. We believe that it would be more appropriate to consider whether what has been transferred to the customer encompasses any usefulness for the customer.



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Question 9:

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Response:

The Discussion Paper proposes a single set of revenue recognition principles that would cover issues that are currently within the scope of both IAS 11 and IAS 18. Under the proposed model, revenue shall be recognised when performance obligations have been satisfied which is the case when assets are transferred to the customer.

We do have doubts that this approach is appropriate for construction-type contracts within the scope of IAS 11. To illustrate the effects of the proposed model assume an entity that enters into a limited number of high value contracts with customers over terms of three years. The constructed asset is transferred to the customer at the end of the term, i.e. at the end of year three. Since no assets are transferred in years one and two, the total revenue from the contract would be recognised at the end of year three.

We are not convinced that the proposed model would lead to information that is decision-useful for users of financial statements. Since the revenues recognised should have feedback value as well as predictive value for users of the financial statements especially in examples as summarized above, we do not believe this is the case. In many construction-type contracts a split of the contracts into various assets that are transferred over time - as in the example of the construction of a building in the Discussion Paper - and hence might give rise to revenue recognition under the proposed model often contradicts the business model under which those contracts are entered into, since customers will only accept the completed asset. We do believe that the current model of IAS 11 that in fact assumes performance over the term of the contracts leads to information that has more feedback value and predictive value to readers of financial statements. We believe that for construction-type contracts the proposed model does not lead to information that is relevant in decision-making for users of the financial statements and hence is not decision-useful.



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Question 10:

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Response:

Yes, we agree with the proposal. However, we recognise the lack of definition of transaction price in the Discussion Paper. We agree with the Boards' discussion of the preferability of transaction price as the relevant measurement attribute in comparison to fair value. Any measurement attribute that would allow the revenue recognition without performance of the entity does not adequately reflect the result of an entity's activities with customers.

As referred to in our response to question 3 above, we believe that the "boundaries" of the contract with the customer should be more clearly defined. The boundaries of the contract directly impact the transaction price as – depending on the definition of the contract – future prices have to be estimated. Since the total transaction has to be allocated to the various performance obligations, the amount of revenues allocated to performance obligations at an early point in time of the contract are affected to estimates regarding potential prices at a later point in time. We do believe that this creates a level of management judgment with respect to measuring revenues that is inappropriate.

b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

Response:

Yes, we agree. We consider the cost trigger as being more appropriate as it reflects the potential loss and is consistent with current standards.



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c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

Response:

As described before, the typical consumer business model in the telecommunications industry offers the customer discounted hardware as an incentive to enter into a contract with the operator under which the customer consumes future services. The allocation of cash expected to be received from the customer to the various performance obligations in the contract with that customer leads to revenues being allocated to the sale of the handset whilst the corresponding entry can only be a receivable since no (or little) cash has been paid by the customer.

If the allocation is based not only on amounts of cash contractually agreed upon, but on expected amounts of cash to be received from the customer, the question arises how changes in the amount expected to be received from the customer should be accounted for. Since the revenue recognised for the sale of the handset was based on assumptions with respect to the amount of cash to be received from the customer at that point in time, the amount of revenue recognised was correct. It is not clear to us whether changes in estimates would be accounted for as a reduction of revenue for future services to be delivered to the customer or as expenses from changes in estimates of the period in which they occur.

d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

Response:

We believe that the transaction price would be the relevant measurement attribute referred to in allocating revenues to the performance obligations in a contract with a customer.

With respect to the question whether the allocation of revenues to the performance obligations in a contract with a customer should be based on the relative standalone selling prices only, we refer to our response to question 4.



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Question 11:

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

Response:

Yes, we agree with the proposal. We do not believe that it is possible to differentiate between a payment to recover origination costs from other payments included in the transaction price. Any split would be arbitrary and open to diversity in practice.

However, the Discussion Paper does not address the accounting for costs in contracts with customers except for the statement that costs should be recognised as expenses unless they qualify for recognition as an asset in accordance with other standards. We would strongly welcome guidance on treatment of costs in other instances as well. Examples of issues that are heavily debated in practice relate to the presentation of costs as expenses or a reduction of revenues. Since these issues have always been under scrutiny by enforcement institutions we believe that any new standard on revenue recognition should also address the accounting for costs under a contract with a customer.

b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Response:

We believe that the Discussion Paper does in essence not differ from IAS 18 with respect to the treatment of costs under a contract. Costs are currently capitalised only if they qualify for capitalisation under other standards, otherwise they are expensed as incurred.

We also refer to our response to question 11 a).





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Question 12:

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

Response:

We believe that the transaction price should be allocated to the various performance obligations on the basis of observable stand-alone selling prices only. As referred to in our response to questions 4, we believe that absent observable stand-alone selling prices a separate performance obligation should not be identified.

It has to be noted that the "forced" allocation of payments from the customer to performance obligations may lead to a significant front-loading of revenues. In the telecommunications industry customers typically receive discounted hardware at contract inception. Under current revenue recognition principles, revenue would only be recognised to the extent that it is not contingent upon the provision of future services. Under the proposed model, absent any restriction of revenue recognition to the non-contingent amount, revenues allocated to the hardware received at contract inception would be recognised upon delivery of the hardware. In comparison to the current model, the proposed model would lead to a front-loading of revenues. In addition, if the provision of services would be the key activity of a telecommunication company, we do not believe that it is appropriate to allocate revenues to the sale of hardware. If entities were allowed to use the residual method as under IFRIC 13, we believe that revenue recognition would be easier to understand and would better reflect the substance of transactions as described above mainly because it does not dissolute cash from revenues.

For further discussion of our concerns with respect to the estimation of stand-alone selling prices, we refer to our response to question 13.

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Question 13:

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

Response:

Under the proposed model, the consideration to be received from the customer under a contract with that customer shall be allocated to the performance obligations under that contract. It is our understanding that the method to allocate the consideration to be received from a customer rather follows a mathematical allocation than a conceptual approach.

For each performance obligation an estimated stand-alone selling price shall be used in an allocation of the consideration to be received from the customer based on the relative value of the estimated stand-alone selling price in comparison to the sum of the estimated stand-alone selling prices of all performance obligations under the contract.

The proposed model increases complexity and potentially decreases reliability of the information presented under the proposed model in cases in which the estimates can not be based on observable inputs when no stand-alone selling price is available. The Boards therefore propose to use observable input data, whenever it is available. Nevertheless, since the Discussion Paper does not seem to incorporate any restriction that the estimates should meet certain reliability thresholds, comparability within entities and between entities might not be achievable if the procedures to determine the estimates necessary under the proposed model are not clearly set out. The increased complexity of estimating stand-alone selling prices in cases in which observable input data is not available affects not only accounting but internal control as well, since entities will have to ensure that consistent estimation techniques are used throughout the entity. From a practical point of view, these techniques would have to be applied on a contract-by-contract basis. In the mobile communications industry for example 100 handsets can easily be combined with 20 different tariffs plus additional options, the customer can choose as well. The number of handsets sold and tariffs offered change continuously which requires a constant revision of the allocation of consideration to be received from the customer upon a new customer entering into this new combination of handset and tariff. Given the numbers of handsets and tariffs above, the number of possible combinations of both illustrates the complexity of the proposed model.

From a conceptual point of view, the forced allocation of the consideration to be received from the customer to the different performance obligations under a contract with a customer would in our business lead to a recognition of revenues that is



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contingent on the provision of other performance obligations at a later point in time. Assume that a customer enters into a service contract and under the contract also receives a subsidized (or even free) handset as an incentive to enter into the service contract. Under the proposed model, a substantial part of the consideration to be received from the customer under the service contract will be allocated to the sale of the handset. Since the entity does not receive cash from the customer upon the sale of the handset, revenue will be recognised with a corresponding recognition of a receivable. This receivable is not enforceable on a stand-alone basis since receiving cash from the customer is contingent upon the entity fulfilling its obligations under the service contract. If the service contract is not fulfilled, the entity can not force the customer to pay the amount that has been allocated to the sale of the handset. We do not understand whether the recognition of contingent revenues is intended by the Boards under the proposed model.