IFRS

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Staff Paper

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Project	**Revenue Recognition**
Topic	**Effect of the proposed model on telecom (and other) companies**

Introduction

1. This paper considers concerns that have been raised by constituents in the telecommunications industry (and other industries with similar concerns) about the effect of the proposed revenue recognition model. As the Boards have redeliberated each step of the model, they have considered the relevant feedback from those industries. However, the Boards agreed to consider the overall effects of the proposed model on those industries upon substantial completion of their deliberations. Accordingly, this paper seeks the Boards' views on whether and, if so, how to address the concerns about those effects.

2. If the Boards decide to revise the requirements of the proposed model in response to concerns about the effects of the proposed model, the staff recommends that an entity should allocate the transaction price to separate performance obligations using a residual technique (rather than addressing the concerns by introducing the "contingent revenue cap" currently found in US GAAP).

3. This paper is organized as follows:

   (a) Effect of the proposed model (paragraphs 4–8)

   (b) Feedback on the proposed model (paragraphs 9–17)

   (c) Potential solutions (paragraphs 18–29)

(d) Staff recommendation (paragraphs 30–38)

(e) Appendix A: Illustration of different accounting depending on distribution channel

(f) Appendix B: Suggested reasons for a telecom company not recognizing revenue on delivery of handset in excess of amounts invoiced to the customer

(g) Appendix C: Summary of telecom user outreach conducted by the FASB

Effect of the proposed model

4. Companies in the telecommunications industry have a large number of contracts for the delivery of a handset and a network service. Many of those companies offer their customers “free” or heavily subsidized handsets at contract inception. In current practice, most network service providers recognize as revenue any consideration received for the handset at contract inception when the handset is delivered to the customer. If no consideration is received at contract inception, the entity would not recognize any revenue upon delivery of the handset. Revenue for the network service typically is recognized monthly as billed.

5. In contrast, in accordance with the proposed revenue model, an entity would allocate the total transaction price (i.e. the amount received for the handset plus the sum of the monthly service charges) across the handset and the network services on a relative standalone selling price basis.

6. Under current practice, the cost of the handset typically would be recognized as cost of sales upon delivery of the handset. Under the proposed model, the cost of the handset similarly would be recognized as cost of sales upon delivery of the handset.

7. The following example illustrates the effect of the proposed model on current accounting in the telecommunications industry for the sale of a handset and network service.

> An entity enters into a contract with a customer for a handset and twelve months of network services. The customer pays CU100 at the time of

delivery of the handset and CU20 per month for twelve months. At the end of the twelve months, the customer will continue to pay CU20 per month until the customer cancels the service or enters into a new contract.

The handset is sold on a standalone basis (i.e. without a customer's commitment to purchase a network service) for CU250. The entity sells network services on a standalone basis for CU20 per month.

The accounting under current practice is as follows:

	T_0	T_{1-12}	Total
Handset	100	0	100
Network service	0	240	240
Total	100	240	340

The accounting under the proposed model would be as follows:

	T_0	T_{1-12}	Total
Handset	173 [a]	0	173
Network service	0	167 [b]	167
Total	173	167	340

[a] CU173 = CU250 selling price of handset / (CU250 + CU240 selling price of network services) * CU340 transaction price

[b] CU167 = CU240 selling price of network services / (CU240 + CU250 selling price of handset) * CU340 transaction price

8. The proposed model similarly would affect other companies that have a primary business of providing a service over time and also provide a product upfront that is necessary to provide the service (e.g. providers of cable and satellite-based television services).

Feedback on the proposed model

9. Constituents in the telecommunications industry (and other industries with similar concerns) have provided feedback on the effects of the proposed model. That feedback has come in various forms including comment letters, roundtables, industry forums, conference calls, and financial reporting conferences. At the May

11, 2011 education session, the Boards received input directly from select representatives of the telecommunications industry.

10. The feedback from the telecommunications industry has been mixed. However, the vast majority of constituents have significant concerns about the effect of the proposed revenue recognition model. The main concerns are that:

    (a) They consider the handset to be a cost of acquiring or retaining a customer (and do not consider it to be a separate performance obligation).

    (b) Allocating consideration to a handset on a standalone selling price basis does not provide useful information because it results in an entity recognizing revenue for the network service at an amount that is less than the amount of cash received for ongoing network services.

    (c) Estimating standalone selling prices of the handset and network service would be complex and would require significant management judgment, which could lead to reduced comparability of financial reporting between companies.

    (d) Key metrics currently monitored by users (e.g. average revenue per user) would be less predictive of future earnings. Hence, if the proposed model is implemented, users would request that companies provide the same financial information as under current practice.

    (e) Entities in a similar economic position would have different patterns of revenue recognition for the network service depending on the choice of distribution channel for their handsets (as illustrated in Appendix A).

    (f) Applying the proposed model would be complex and costly because of the high volume of contracts and the various potential configurations of handsets and service plans. An entity would need to significantly modify its systems and processes.

    (g) Recognizing revenue for delivering a handset in an amount that exceeds the amount of consideration paid for the handset is not appropriate because the entity is entitled to the excess only when it provides the network service.

11. To address the concerns, most respondents from those industries suggest that the Boards retain the contingent revenue cap under ASC 605-25-30 (there is no equivalent guidance in IAS 18 although in practice most telecommunications companies applying IFRSs account for their contracts in accordance with US GAAP). In accordance with that guidance, the amount of consideration allocated to a delivered item (i.e. the handset) is limited to the amount that is not contingent on the delivery of additional items (i.e. the network service). Hence, when the handset is transferred, revenue would be recognized at the amount that the customer paid for the handset at contract inception. The remaining contractual payments would be recognized subsequently as the entity provides network services to the customer.

12. If the Boards eliminate the contingent revenue cap, some respondents (including some of the telecommunications industry representatives at the May 11, 2011 education session) suggest that the Boards consider the use of a residual technique as a way to mitigate the concerns in the industry. Under the residual technique, the remaining performance obligations (i.e. the network services) would be measured directly at the standalone selling prices of the goods or services underlying those performance obligations. The difference between that amount and the total transaction price would be recognized as revenue for the satisfied performance obligations (i.e. the handset).

13. In evaluating the proposed model, respondents also suggested various reasons why they think it would not be appropriate to recognize revenue by allocating the transaction price to a handset on a relative standalone selling price basis. Appendix B summarizes those reasons along with the staff’s analysis.

14. A few respondents from the telecommunications industry support the proposals in the Exposure Draft. They think that allocating the transaction price on a relative standalone selling price basis is appropriate because:

(a) a telecommunications company is in the business of selling handsets as well as services (handsets are sometimes sold on a standalone basis), and

(b) it would not be appropriate to recognize a loss upon delivery of a handset when the contract as a whole is profitable.

Therefore, those respondents think that the proposed model would accurately reflect the substance of their contracts with customers.

User outreach

15. The staff and Boards have conducted extensive outreach with users of financial statements and analysts who follow the telecommunications industry and other industries. Users have expressed many of the same concerns as preparers (as summarized in paragraph 10). Appendix C provides details on recent user outreach conducted by the FASB.

16. The IASB also has conducted extensive user outreach. The feedback was mixed:

    (a) Most analysts believe the boards' proposals will provide less useful information due to the potential 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 inflows.

    (b) Some analysts support the boards' proposals as they believe the proposed approach better depicts the exchange between the entity and its customers and the flows of assets (handsets) from the entity. Those analysts believe handsets are an increasingly significant revenue stream that must be tracked, and that the proposed model would result in more comparable revenue for ongoing network services. They also note that revenue is a key metric of performance (reported in the income statement on an accruals basis) and that cash flow information should be derived from the cash flow statement.

17. In addition, the IAS Investor Perspectives blog on this topic in June 2010 provoked few responses and those responses were split both for and against the proposals.

Potential solutions

18. In the light of feedback received, the Boards must decide whether to revise the proposed model. In support of not revising the proposed model, the staff notes the following:

    (a) The objective of the revenue project is to create a single model for both US GAAP and IFRSs that would be applied consistently across various transactions and industries. It is not possible to achieve that objective without affecting the accounting for some transactions and industries.

    (b) If the Boards decide to revise the proposed model in response to concerns from a particular industry, other industries might expect the Boards to revise the proposed model in response to their concerns. If that were to occur, some constituents might question whether the revenue project has achieved its objective to create a single model that would be applied consistently across various transactions and industries.

    (c) To address concerns about the costs of applying the proposed model to a large number of contracts, the final standard will clarify that in some circumstances an entity might apply the proposed model to a portfolio of contracts with similar characteristics. One of the Big 4 publications on the effects of the proposed model in the telecommunications industry highlighted how an entity might do that.

19. However, if the Boards decide to revise the proposed model in response to feedback received (especially from users) the staff thinks there are two main alternatives for the Boards' consideration:

    (a) Allow broader use of the residual technique, or

    (b) Introduce the contingent revenue cap of US GAAP (i.e. limit the amount of consideration allocated to a satisfied separate performance obligation to the amount that is not contingent on the satisfaction of future separate performance obligations).

Alternative 1: Allow broader use of the residual technique

20. At the April 2011 Joint Board meeting, the Boards tentatively decided that a residual technique of estimating a selling price is appropriate in some circumstances. Using a residual technique, an entity would determine a standalone selling price of a good or service by reference to the total transaction price less the standalone selling prices of other goods or services in the contract.

21. At present, the staff thinks a telecommunications company would not use a residual technique because the circumstances are different from those for which the Boards intended a residual technique to be applied. The Boards decided that a residual technique would be appropriate if the selling price of a good or service is "highly variable". The staff thinks that wording was intended to capture either of the following circumstances, neither of which seems to apply to the handset:

    (a) Variable pricing—a price is variable when an entity sells the same good or service to different customers (at or near the same time) for different amounts. Variable pricing is common in the software industry or in situations with little or no variable/incremental costs of providing a good or service. In contrast, the costs of handsets are a significant variable cost to a network service provider.

    (b) Uncertain prices—a 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. In contrast, handsets are sold on a standalone basis by various entities.

22. However, some constituents think it would be appropriate to apply the residual technique to a typical contract for a handset and a network service. Others have indicated that a residual technique would provide some, albeit limited, relief in applying the proposed model to a network service contract. Proponents of applying the residual technique think it would be appropriate for the following reasons:

    (a) The pricing of a handset (or handset class) is variable because the amount of consideration an entity receives for the same handset can vary from customer to customer depending on the type of network service plan. In addition, the price of a handset declines rapidly over time.

(b) Handset sales on a standalone basis by network service providers are not common in most jurisdictions.

(c) The pricing of a network service plan is relatively stable over time and does not vary significantly from customer to customer nor does it change significantly over time.

(d) Network services are sold on a standalone basis (e.g. for a month to month service plan or on a SIM only basis for twelve months).

23. Because the revenue model would be applied by all industries in the scope of the revenue standard, the staff highlights the following consequences of allowing broader use of the residual technique:

(a) Other companies (e.g. cable and satellite-based television services providers and technology companies) also would apply the residual technique in similar circumstances. The staff's outreach suggests that many of those other companies also would support the residual technique. However, it is not possible to identify all potential consequences of allowing broader use of the residual technique.

(b) The revenue model would be more practical than the model proposed in the Exposure Draft in situations in which an entity has stable pricing for remaining services but various bundles and variable pricing for products that the entity delivers upfront. That is particularly true when an entity has a high volume of contracts. The model would be more practical because rather than estimating the selling prices of the handset and the service (and allocating the transaction price on a selling price basis), an entity simply would attribute to the service an amount of consideration equal to its standalone selling price (estimated if necessary).

(c) Any discount for purchasing a bundle of goods or services would be attributed entirely to goods or services transferred upfront. Some people think that residual allocation technique is not consistent with the core principle of the proposed model.

(d) If the standalone selling price of the remaining service (e.g. a network service) is less than the amount invoiced at the time the service is provided, the residual technique would not necessarily allow an entity to recognize revenue as billed. The entity still might be required to allocate some unbilled amounts to a product delivered upfront (e.g. a handset).

Alternative 2: Introduce the contingent revenue cap

24. Most constituents in the telecommunications industries (and other industries with similar concerns) suggest that the Boards introduce the contingent revenue cap of existing US GAAP. That guidance (Paragraph 605-25-30-5 on allocating consideration in a multiple element arrangement) states that the amount allocated to a delivered item (e.g. the handset) is limited to the amount that is not contingent upon the delivery of additional items (e.g. the service). In accordance with that guidance, a telecommunications company recognizes revenue as amounts are billed to the customer (i.e. none of the amounts billed when network services are provided would be allocated to the handset).

25. The Boards considered the contingent revenue cap during redeliberations on how to constrain the amount of revenue recognized. However, the Boards were concerned about the potential unintended consequences of applying the contingent cap to situations other than to those in which it is applied in current practice. For example, in many services contracts (including construction), it would be appropriate to recognize revenue when services are provided even though the amount of consideration is contingent on the entity's future performance. Otherwise, the entity would not recognize any revenue until completion of the contract (which would not depict the transfer of goods or services to the customer).

26. The contingent revenue cap in existing requirements is used by companies other than just telecommunications companies. The following examples illustrate how

those requirements have been applied by an entertainment and media, and a software company.

Entertainment and media example

An entity enters into a five-year advertising contract with a customer to display advertising in the entity's stadium. Based on the facts and circumstances, the entity determines that a separate performance obligation exists for each year. The payment schedule and the estimated standalone selling prices of each individual year are (ignoring the effects of time value of money):

	Payment Schedule	Standalone selling price
20X1	CU50 million (10%)	CU100 million (20%)
20X2	CU50 million (10%)	CU100 million (20%)
20X3	CU125 million (25%)	CU100 million (20%)
20X4	CU125 million (25%)	CU100 million (20%)
20X5	CU150 million (30%)	CU100 million (20%)
Total	CU500 million	CU500 million

Payment is contingent on the entity providing advertising services each year. For instance, if the entity were unable to perform advertising services for whatever reason after 20X1, the entity would be entitled to no more than CU50 million specified in the contract for services performed in that year.

Software example

An entity enters into a three-year contract with a customer to deliver Product X electronic design automation (EDA) software for designing electronic systems. In addition, the entity agrees to deliver to the Customer all new software modules if introduced over the next three-years. The contractual payments terms are CU10,000 per month over the next 36 months.

Payment is contingent on providing additional software models (if the entity introduces a new product).

27. Applying the proposed model to the examples above would be complex and would require significant judgment because of the uncertainty of the prices of each separate performance obligation. Applying the contingent revenue cap would

significantly reduce the complexity and level of judgment by permitting an entity to recognize revenue as invoiced to the customer.

28. Proponents of the contingent revenue cap note the following:

(a) The potential adverse consequences of applying the contingent revenue cap to other industries (e.g. construction) could be mitigated by clarifying how to apply the contingent revenue cap. That is, the amount of consideration could be limited to satisfied *separate* performance obligations. For other industries that at present do not apply the contingent revenue cap, the contracts typically consist of a *single* performance obligation (e.g. construction).

(b) The FASB recently decided to carry forward the contingent revenue cap as part of EITF Issue No. 08-1 *Revenue Arrangements with Multiple Deliverables.*

(c) For contracts to deliver intangible products, the contingent revenue cap would significantly reduce the complexity and level of management judgment required to apply the proposed model. For example, consider a contract for delivery of many intangible and distinct products over time. If the payments are back-end weighted, there often is a risk that the contract will be renegotiated in future periods (and concessions made) if the contract does not play out as expected. In those situations, it may be appropriate to recognize revenue in accordance with the contractual billing terms.

29. Opponents of the contingent revenue cap note the following:

(a) Limiting the amount of consideration allocable to a satisfied separate performance obligation does not meet the core principle of the proposed model because revenue would not depict the amount of consideration the entity expects to receive for the delivered good or service.

(b) It would be arbitrary to limit amounts allocated to satisfied *separate* performance obligations (but not to satisfied portions of a *single* performance obligation).

(c) For many contracts that currently are accounted for under the contingent revenue cap, the amount of consideration allocated to delivered items truly is not contingent because even if the customer cancels the contract, the customer would be obliged to pay for the delivered item(s). For example, in some contracts for the sale of a handset and a network service, the contract either is not cancellable or if it is, the customer is obliged to pay a termination fee that corresponds with the value of the handset delivered upfront. (During the staff's outreach, some telecommunication companies suggested that although the contract is enforceable, it may not be practical for the entity to enforce every contract that is cancelled.)

Staff recommendation

30. Views among the staff are not unanimous about whether to revise the proposed model. However, if the Boards decide to revise the proposed model, the staff prefers allowing broader use of the residual technique rather than introducing the contingent revenue cap of US GAAP. That is because the staff thinks the contingent revenue cap has a much greater risk of unintended adverse consequences. In addition, the Boards already have tentatively decided to permit the use of a residual technique in some circumstances. Applying the technique to the telecommunications industry (and to similar contracts in other industries) would specify additional circumstances in which an entity would use that technique.

31. Permitting the use of the residual technique as described above in paragraphs 20–23 would be a departure from the Boards' original basis for permitting the residual technique. That is, the Boards decided that a residual technique would be an appropriate method of estimating a standalone selling price that, in turn, is used as a basis for allocation on a relative standalone selling price basis. Applying the

residual technique more broadly would change the proposed relative standalone selling price allocation.

32. Under the residual technique described above, an entity would recognize revenue for the remaining service (e.g. network service) at the standalone selling price of that service. In some cases, that standalone selling price would be equal to the amount billed to the customer because the entity sells the service on a standalone basis for the same price as when the service is bundled with another product (e.g. a handset). In those cases, an entity would recognize revenue as the services are billed to the customer (consistently with most current practice).

33. In other cases, however, the standalone selling price would not be equal to the amount billed to the customer. That might be the case if the entity sells the service on a standalone basis for a price that is different from the price when the service is bundled with another product (e.g. a handset). In those cases, the entity would be required to determine the standalone selling price for the service bundled with the handset.

34. Determining the standalone selling price would require judgment, especially when an entity either does not have observable prices of a service on a standalone basis or has observable data points that appear to be conflicting. For example, a network service provider might sell a network service on a standalone basis (i.e. a SIM-only contract) for CU25 per month for twelve months. However, the same network service might also be sold for CU40 per month to customers who originally purchased the service as part of a bundle with a handset but who presently are out of contract and paying on a month-to-month basis.

35. Although an entity would be required to use judgment to determine the standalone selling price of the service, the staff notes that the residual technique would require fewer estimates than applying the proposed model in the Exposure Draft. Consider the following table:

	Residual technique	**Proposed model in Exposure Draft**
Prices required	Standalone selling price of	Standalone selling price of

(estimated if necessary)	the remaining service.	the handset. Standalone selling price of the remaining service.
Amount of revenue recognized for the remaining service (e.g. the network service)	Equal to the standalone selling price of the remaining service.	Different from the standalone selling price of the remaining service. (Based on the allocation using the selling prices of the handset and the service)

36. The residual technique would simplify the application of the revenue model to contracts in the telecommunications industry (and in similar circumstances). However, allowing the use of the residual technique in those circumstances would introduce the risk of the residual technique being used too broadly. To mitigate that risk, the staff thinks it is important to specify when the residual allocation technique would be appropriate in circumstances beyond those for which the Boards previously decided it would be appropriate.

37. The staff thinks the residual technique would be appropriate (in circumstances beyond those for which the Boards previously decided it would be appropriate) only if all of the following conditions are present:

    (a) The entity has a large number of contracts,

    (b) Those contracts consist of various configurations of separate performance obligations,

    (c) For each of those contracts, the entity satisfies one or more performance obligations at or near contract inception and has a remaining performance obligation for a good or service that is similar across the contracts,

    (d) The remaining performance obligation in each contract is for a good or service with a standalone selling price that does not vary significantly over time when an entity sells the same good or service to different customers.

38. In the above circumstances, the staff thinks that the residual technique would be appropriate for two main reasons:

(a) the residual technique would simplify the application of the model when an entity has a large number of contracts that, despite various possible configurations of goods or services, leave the entity with a large number of similar performance obligations. Attributing to the remaining performance obligations an amount of consideration equal to their standalone selling prices would be simpler than allocating consideration to all performance obligations on a relative standalone selling price basis.

(b) applying the residual technique in those circumstances would result in information that many constituents (including most users) think is more useful. For instance, users of financial statements of telecommunications companies view those companies primarily as network services providers. Hence, users are interested mainly in predicting future services revenue. The residual technique would attribute to the service the standalone selling price of the service which would provide useful information in predicting future service revenues when the selling price does not vary significantly.

Questions for the Boards

Questions
Do the Boards want to revise the proposed model to address some of the concerns raised by constituents in the telecommunications industry (and other industries with similar concerns)? If yes, do the Boards agree that an entity should allocate the transaction price using a residual technique in the circumstances described in paragraph 37?

Appendix A Illustration of different accounting depending on distribution channel

A1. Under the Boards' proposal in the Exposure Draft, telecommunications service providers would have a different pattern of revenue recognition for network service depending on whether a handset is sold directly to end customers or indirectly through dealers. Network service revenue sold through a dealer would be recognized at the invoiced amount while service revenue for handsets sold directly to customers would be recognized at a reduced amount (because some of the monthly service payments would have been allocated to the handset). Many industry representatives consider this less useful information. In addition, the staff notes that one accounting firm has published a white paper that mentions possible structuring opportunities for telecommunication service providers to achieve the same accounting as current practice if the proposed model is finalized without any changes. Possible structuring opportunities include injecting the store portfolio into a minority-owned business or structuring store-share agreements to achieve minority ownership by the sharing telecommunications operators.

A2. Some industry representatives, however, support the proposal in the Exposure Draft. They note that direct sales are different from sales made through dealers. In direct sales, the entity sells a bundle of goods and services and so it is appropriate that the discount on the handset is allocated to all goods or services in the contract. For customers obtained through dealers, the entity sells only a service. The dealer is the principal in the sale of the handset to the customer and has the ability to establish the selling price of, and any discount on, the handset independently. Although the dealer generally offers similar discounts to those offered through the direct channel in order to remain competitive, the sale of the handset is a separate transaction from the sale of the service and, therefore, no discount should be attributed to the service.

A3. The following example illustrates the different patterns of revenue, expense, and profit recognition for a telecommunications company depending on the distribution channel for a handset:

Telco sells two years of network services to customers, however sourced, at CU40pm. If Telco sells a phone directly to a customer, a customer pays CU200 for a phone that costs CU450 and retails for CU500 if sold on a standalone basis. If a phone is sold through a third-party dealer, Telco pays the dealer a CU250 commission.

EXISTING ACCOUNTING	**M $_0$**	**M $_1$**	**M $_{2-24}$**	**Total**
Direct sales				
Revenue	200	40	920	1160
COS	-450	-	-	-450
Profit	-250	40	920	710
Dealer sales				
Revenue	-	40	920	960
COS	-	-	-	-
Expense (commission)	-250			-250
Profit	-250	40	920	710

PROPOSED ACCOUNTING	**M $_0$**	**M $_1$**	**M $_{2-24}$**	**Total**
Direct sales				
Handset revenue[1]	400	-	-	400
Services revenue[2]		31	729	760
COS	-450			-450
Profit	-50	31	729	710
Dealer sales				
Handset revenue	-	-	-	-
Services revenue	-	40	920	960
Expense (commission)	-	-10	-240	-250
COS				
Profit	-	30	680	710

Notes:

1. Handset revenue of CU400 = Total transaction price of CU1,160 * (CU500 standalone selling of handset / CU500 + CU960 standalone selling price of network services)

2. Service revenue of CU760 = Total transaction price of CU1,160 * (CU960 standalone selling of network services / CU960 + CU500 standalone selling price of handset)

Appendix B Suggested reasons for a telecom company not recognizing revenue on delivery of handset in excess of amounts invoiced to the customer

Reason for not recognizing revenue	Staff comments and analysis
The contract is not enforceable.	Although the relatively small sums involved by contract, compared with recovery costs, may make it uneconomic to pursue defaulters, the contract is enforceable.
The transaction price is too uncertain because the customer may choose to purchase additional services (e.g. minutes in excess of base plan) or a regulatory act in the future could change the amount of consideration to which the entity is entitled.	In accordance with the proposed model's guidance on uncertain consideration, the transaction price does not include amounts that the customer would pay if the customer chooses to purchase additional services or if the contract is modified. Hence, the transaction price consists only of the amount of consideration paid upfront for the handset plus the contractually-stated sum of monthly service fees.
The handset is not a separate performance obligation. Rather, it is a marketing incentive or a cost of acquiring (retaining) a customer.	The entity clearly promises to deliver a handset and a network service. Those two deliverables meet the definition of a separate performance obligation.
If revenue is recognized in excess of the amount invoiced, the resulting contract asset would not meet the definition of an asset.	The Boards considered this argument before issuing the ED. The Boards decided that although the entity presently does not have the right to collect consideration from the customer, it clearly has a valuable contractual right that meets the definition of an asset. That asset arises from the transfer of a handset to the customer.

Appendix C Summary of telecom user outreach conducted by the FASB

Summary of outreach conducted

- 7 calls with 14 users; 4 buy side, 10 sell side
- 1 email with views from 6 buy side analysts
- The companies they follow include technology (all), telecom (wireless and wire line), cable, satellite, and retail

Feedback on the proposed model

- Users believe there will be inconsistency between companies in estimating the standalone selling prices for both phones and services
    - Currently, there are not active markets for buying handsets and services separately
    - The pricing and packages are variable over time and by customer
    - The proposal will make it difficult to determine the amount that customers are paying the carrier for handsets and services
- Users believe current accounting is reflective of the economics of the Telecom business
    - Phone subsidies/discounts that are provided to the customer are viewed as acquisition costs and users try to analyze the service business on a standalone basis
    - Handset subsidies and how they change over time are transparent in the current model
    - A few users indicated that the proposal makes sense from a theoretical perspective, but in practice management judgment will create issues with comparability
- Some users highlighted that it will be more difficult to calculate free cash flow from operations because actual revenue is not reflective of current cash inflows
- Users stated that the proposal is trying to fix the wrong problem
    - Current accounting and disclosure does not provide visibility into the expense structures of Telecom companies
- Users are concerned that key metrics will be altered, including: ARPU (average revenue per user), service margins, monthly recurring expenses and one-time cost per gross add
- User suggested the following improvements to existing presentation and disclosures:
    - The cost of equipment should be presented separately from cost of services in the income statement
    - Subsidies for new versus existing customers
    - Investors would like additional disclosures and consistency around total equipment cost, equipment expense, costs to acquire customers and further breakdowns of expense allocated for new vs. existing customers
- One user supported the proposed model and thought it would provide better information about the economics of the business, particularly when companies offer different subsidies for the same phone