



Hans Hoogervorst
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Copies to: International Accounting Standards Board Members
Henry Rees, Senior Project Manager, IASB

15 February, 2013

“Revenue from Contracts with Customers”

Dear Mr Hoogervorst,

At the Board meeting on 17 December 2012, the IASB and the FASB discussed the application of the Exposure Draft “Revenue from Contracts with Customers” (the ‘ED’) proposals to bundled arrangements under which an entity promises to transfer services to a customer together with a distinct good that relates to the provision of those services. These types of arrangement are prevalent in the telecommunication and cable industries.

Although we are disappointed that it seems likely the telecommunications industry will not be permitted to record revenue in a way that is generally favoured by both users and management, we are grateful to the Staff and Board members for their time spent with us and with users of our financial statements over recent years to understand the impact of the ED on our industry.

Our understanding of the Boards’ tentative decisions is that the principles of the ED should be applied to such contracts but that wording will be provided to make it clear that preparers can practicably apply a portfolio method of accounting. We welcome this, because if a contract by contract accounting approach was instead required, we believe the IT implementation would be extremely costly, complex, time-consuming and impracticable in the likely time-frame for mandatory adoption of the new standard. Consequently, it is very important to us that the final standard is sufficiently clear on this point, to alleviate any risk that supervising authorities (e.g. market regulators) or auditors may otherwise require a contract by contract approach.

We believe that portfolio accounting would likely be applied through the monthly creation, in each geographic market, of a number of portfolios. Such portfolios might be segregated according to appropriate measures such as contract duration or other factors. Portfolio level revenue adjustments would be then determined, for example up-front revenue might be allocated to handsets sold in the direct channel based on cost plus an adjustment to simulate the relative standalone selling price outcome and accrued handset revenue amortised over the contract term.

Portfolio-level accounting will still likely require data such as handset costs, customer up-front handset contributions and commissions payable to be captured, combined with estimates such as the expected proportion of customers that will be offered early contract renewals, the timing of such renewals, consumer borrowing rates and appropriate handset margins, and allocated to each monthly portfolio.

Based on discussions with some audit firms, we believe the following proposals, which we understand are consistent with the Boards' current thinking, will be important to include in the final standard if a portfolio approach is to be both practicable and properly understood by all interested parties; we therefore wish to emphasise their importance for when the Boards are finalising the drafting of the standard:

- Clarification that a portfolio approach can be applied without the need to generate extensive evidence that the outcome is the same as contract by contract accounting as a practical expedient for preparers.
- Clarification that when a portfolio approach is applied, it may be necessary to make use of certain estimates and assumptions and that this is acceptable as long as it is reasonable to expect that this would produce an outcome at the portfolio level that would be consistent with the principles of the revenue standard.
- Revenue adjustments for contract modifications should be applied prospectively where services, such as mobile airtime services, are delivered over a period of time.
- Where such wording is not included in the main body of the standard or an illustrative example, sufficient discussion in the basis of conclusions to enable preparers, supervising authorities and other parties to understand the above to mitigate the risk that contract by contract calculations will still effectively be required to demonstrate the accuracy of portfolio accounting.

We also understand that it is the intention of the Boards to allow preparers sufficient time to adopt the new standard, taking into account any need to restate comparative periods. When determining the transition timetable and requirements, we ask that the Boards take into account the following:

- We do not currently have the data collection and/or collation capabilities to implement a portfolio approach in all of our operating businesses.
- It is uncertain whether IT systems can be upgraded to collect or collate such information retrospectively on a timely or reliable basis.
- In order to restate revenue for active customer contracts at the opening balance sheet date, data will need to be collected as at the inception date of such open contracts.

We will be happy to engage in further discussions with the Staff with a view to achieving suitable wording in the final standard.

Yours faithfully,

/s/ Andy Halford

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/s/ Gervais Pellissier

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