



## Accounting Standards Board

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10 April 2008

Dear Stig

### Re IFRIC Draft Interpretation D24 'Customer Contributions'

The Urgent Issues Task Force (UITF) is responding on behalf of UK Accounting Standards Board (ASB) to the draft comment letter issued by EFRAG in connection with D24 'Customer Contributions'. The UITF wishes to thank EFRAG for allowing it this opportunity to comment.

The UITF has responded directly to the International Financial Reporting Interpretations Committee (IFRIC) and a copy of the letter submitted to IFRIC is attached to this paper.

The UITF is generally in agreement with the matters raised by EFRAG. As to the provisos and exceptions, noted in the draft covering letter to IFRIC, the UITF agrees with EFRAG that it would be better if explicit reference was made to IAS 18. The UITF does not however consider there is a need to rework the draft Interpretation starting from a rationale based on IAS 18.

In contrast to EFRAG, the UITF has taken the view that the scope of D24 is limited to apply only to contributions where there is an ongoing obligation to provide access. The UITF does, however, agree with EFRAG, and notes in paragraph 1 of the Appendix to its response, that the scope of the Interpretation requires clarification.

We set out in Appendix to this letter our review of EFRAG's detailed comments on IFRIC D24.

Should you have any questions regarding our comments please do not hesitate to contact either Michelle Crisp or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Mackintosh', written in a cursive style.

**Ian Mackintosh**

Chairman

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## Appendix to EFRAG's detailed comments on IFRIC D24

### GENERAL COMMENTS

#### *Accounting solution proposed by D24*

1. The UITF does not agree with paragraph 1(b) of the draft response. The UITF does not consider that D24 requires that when an access provider receives a cash contribution it is first required to determine whether the transaction is a sale of property, plant and equipment. This is because paragraph 21 of D24 states:

*"An entity that receives a cash contribution shall first consider whether the asset that must be acquired or constructed as a result of receiving the cash contribution will meet the criteria for recognition as an item property, plant and equipment of the entity. If not, the entity shall account for the cash contribution as proceeds for providing the asset to the customer, using IAS 11 or IAS 18 as applicable."*

2. The UITF considers that this paragraph requires the entity to determine whether the asset to be acquired or constructed meets the definition of an asset (as in paragraph 8 of D24). Where the cash contribution does not give rise to the recognition of property, plant or equipment an entity should then consider if a sale in accordance with IAS 11 or IAS 18 has been made.

#### *Summary of EFRAG's position*

3. In paragraph 2 EFRAG states that it considers the central issue is "has there been a sale and, if there has not been a sale, what, if anything, has the access provider given up or accepted in return for the contribution". It is then noted, in paragraph 3 of the draft response, that had the issue been considered from this perspective the starting point would be IAS 18. In its response to the IFRIC the UITF noted (see paragraph 9 of the appendix to the UITF letter) that it would be helpful if specific reference was made to IAS 18. The UITF does not, however, consider that the starting point needs to be IAS 18. The UITF is of the view that the IFRIC is addressing customer contributions that are received and used to provide access to a supply of goods or services (that is future sales are made).
4. In contrast to EFRAG's view (set out in paragraph 5(a)) the UITF considers that the scope of the D24 applies only where the contribution must be used to provide access to a supply of goods or services (i.e. where there is an obligation).

## DETAILED COMMENTS

### Scope

5. In relation to paragraphs 6 to 10 the UITF is in agreement that the scope paragraph of the draft Interpretation could be improved. In relation to the matters raised in these paragraphs the UITF considers:
- (i) that the scope of the draft Interpretation is restricted to situations only where there is an ongoing obligation;
  - (ii) it is unclear if the draft Interpretation is limited to cases where the access must be provided with the specific item contributed;
  - (iii) D24 is applicable only to entities that receive contributions. This is because paragraph 4 (scope) states:  
*“The draft Interpretation applies to all situation in which an entity receives (emphasises added) an item of property, plant and equipment or cash it is ...”;*
  - (iv) that it should be clarified whether the draft Interpretation includes cash contributions made where the access provider transfers items of stock to property, plant and equipment.

### Recognition of a customer contribution as an asset

*Does the Interpretation need to say anything on this issue?*

6. In its response to the IFRIC the UITF has suggested that some of the wording from this section of the draft Interpretation could be removed. However, the UITF considers that some guidance regarding whether the contributed resource qualifies for recognition as an asset is required as part of the Interpretation (see paragraphs 6 and 7 of the appendix to the UITF letter).

*Definition and recognition of an asset*

7. The UITF is not in agreement that paragraphs 8 to 10 of the draft Interpretation should be relabelled 'existence' and 'recognition'. In its view existence is not a term generally applied in IFRS literature. The UITF therefore considers that the current title should be retained.
8. The UITF is not in agreement with paragraph 15(a) that the material in paragraphs 9 and 10 on assessing whether the contributed resource qualifies for recognition as an asset should be expanded on and provided as application or implementation guidance.
9. In relation to paragraph 15(b) of the draft response the UITF also notes in its response to IFRIC that it is unable to locate where the material in paragraph 10 of the draft Interpretation is derived from in existing IFRS literature. The UITF

agrees IFRIC should try to avoid any confusion by using current terminology but also considers that material should be referenced to existing IFRS literature.

#### *Measurement of the asset*

10. The UITF considers measuring the asset received at fair value is appropriate. It also considers that the matters raised by EFRAG in paragraphs 16 and 17 of the draft response to IFRIC could be addressed in the drafting of the basis for conclusions to D24.

### **Obligation to provide access to a supply of goods of services and provision of access to a supply of goods or services**

#### *Identification of the obligation*

11. The UITF is in agreement with paragraph 20 of the draft response to IFRIC and notes it raised this matter in paragraph 9 of the appendix to its response. As noted previously, in relation to paragraph 21, the UITF considers that the draft Interpretation applies only where there is an ongoing obligation.

#### *Measurement of the obligation*

12. The UITF has set out its thoughts concerning the measurement of the obligation in paragraph 8 of the appendix of its letter to IFRIC. In this paragraph the UITF notes the matter being addressed really concerns the accounting for deferred revenue as opposed to the measurement of the obligation directly and hence there is a need to reference the material in the draft Interpretation to IAS 18.

#### *Recognition of revenue*

13. In paragraph 25 EFRAG notes its concerns regarding the recognition of revenue. In its response the UITF notes that determining the period over which revenue should be recognised requires consideration of all of the contractual the terms and conditions. The UITF therefore agrees with EFRAG that the period over which an entity has an obligation to provide access is subject to the facts and circumstances underlying the individual transaction.
14. The UITF considers that paragraph 26 of the draft response is unnecessary as it is clear the matter is that of accounting for deferred revenue in accordance with IAS 18.

### **Determining whether the ongoing arrangement contains a lease**

#### *Application of IFRIC 4*

15. In paragraphs 28 to 32 it is noted that EFRAG considers that paragraph 9(a) of IFRIC 4, which provides that where the purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines

while obtaining or controlling more than an insignificant amount of the output or other utility of the asset, will always be achieved and that therefore there will be few assets recognised in accordance with D24. The UITF is not in agreement with this because it considers that in the situation being addressed the customer (purchaser) contributes the asset but does not have the right necessarily to operate the asset in a manner it determines. In any case the UITF considers that it is correct for an entity to determine whether the ongoing arrangement contains a lease in accordance with IFRIC 4.

### **Accounting for a cash contribution**

16. The UITF has no comments, which it has not already raised, in relation to this section of the letter.

### **Transition**

17. The UITF also supports prospective application.

### **Other comments**

18. In its response to the IFRIC the UITF has suggested the terms used in D24 could be improved by referring to “customer specie contributions” and “cash contributions”. The UITF has also suggested the titled of the Interpretation could be amended to clarify the scope of the Interpretation to ‘Customer Contributions and Related Obligations’.