

International Financial Reporting Interpretations Committee  
1st Floor  
30 Cannon Street  
London  
EC4M 6XH

25 April 2008

Dear Sir or Madam

**IFRIC Draft Interpretation D24, Customer Contributions**

We are responding to your invitation to comment on the above draft interpretation, published in January 2008, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the draft interpretation. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**Overall comments**

We welcome the opportunity to respond to the draft interpretation. We generally support the IFRIC in its efforts to reduce diversity in accounting treatment, but we do not believe this interpretation is necessary because there are principles in existing standards that are sufficient to deal with the issues addressed by the proposals. Customer contributions given in exchange for an obligation to provide access to services often reflect specific industry or regulatory features. It is these features that cause diversity in accounting treatment, reflecting different facts and circumstances, rather than divergent interpretations of the accounting literature.

The accounting issues raised by the types of customer contributions dealt with in the proposed interpretation affect property, plant and equipment, leases and revenue recognition. The principles in IAS 16, IAS 17, IAS 18, IFRIC 4 and SIC 27 provide the guidance necessary for entities to develop appropriate accounting policies. We are not aware of significant difficulties applying these principles in practice or that there is any need for the additional guidance in this interpretation. We also note that some customer contributions may fall within the scope of IAS 20 dealing with government grants or IFRIC 12 dealing with service concession agreements, which provide guidance in these areas.

The proposed interpretation is inconsistent with the existing literature in some areas. For example, the control of benefits test applied in the draft interpretation to the recognition of the contributed asset is inconsistent with the criteria in IAS 17 for recognising a finance lease asset and with the criteria for derecognising property, plant and equipment in IAS 16. The proposed interpretation also conflicts with the option in IAS 20 to record government grants at nominal value.

We are also concerned that, although the scope of the interpretation is very narrow, there are many similar situations to which the principles established by the proposal might be applied by analogy, for example outsourcing arrangements and the contribution of intangible assets.

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We have included in the appendix to this letter some issues that the IFRIC should consider if it decides to move forward with this interpretation.

If you have any questions in relation to this letter please do not hesitate to contact Richard Keys (020 7212 4555) or Tony de Bell (020 7213 5336).

Yours faithfully

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

**Appendix A**  
**Detailed comments on the IFRIC Draft Interpretation D24, Customer Contributions**

**1. Scope**

- a. Government grants and service concession arrangements should be excluded from the scope of the interpretation as these arrangements are dealt with in IAS 20 and IFRIC 12.
- b. The interpretation should be clear that it does not address the wider issue of connection fees, which arises in a variety of situations not covered by the interpretation. The interpretation should be applied only when there is clear linkage between the contribution and the acquisition or construction of the asset.
- c. Paragraph 21 of the draft interpretation suggests that cash contributions that are not in the scope of the standard should be classified as "proceeds for providing the asset to the customer, using IAS 11 or IAS 18 as applicable". We believe the nature of any cash payment made by the customer should be analysed and addressed by considering all of the relevant guidance.
- d. IFRIC 4 and the proposed interpretation deal with the right to use property, plant and equipment. The proposed interpretation defines a contribution as an item of property, plant and equipment that the access provider is required to use. IFRIC 4 requires an assessment of whether the fulfilment of an arrangement is dependent on the use of a specific asset, and whether the arrangement conveys a right to use the asset. An arrangement where a customer contributes an asset in exchange for the entity assuming an obligation to provide access to a supply of goods or services might fall into both categories, so the appropriate standard should be clarified.
- e. Assets may be contributed between entities under common control for the purpose of providing services. Such transactions should be excluded from the scope of the interpretation.

**2. Recognition of the asset**

- a. The guidance for recognition of the asset refers to the Framework and requires that the entity assess whether it controls the resource and whether future economic benefits are expected to flow to it from that resource, including the power to restrict others' access to those benefits. This basis of assessment is very different from the basis used in IAS 17 for the recognition of assets that are used in a finance lease arrangement. A lease will be classified as finance "if it transfers substantially all the risks and rewards incidental to ownership". We do not understand why the determination and classification of the lease in accordance with paragraph 14 should be different from the assessment for the recognition of the asset under paragraphs 8-10. It may also lead to non-symmetrical accounting between the contributor, which will apply the derecognition criteria in IAS 16 (based on IAS 18), and the access provider that recognises the asset.
- b. The assessment in paragraphs 8-10 should also specify whether the risks incidental to ownership were transferred to the entity that will provide the access to the services. For

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example – electricity cables or pipelines used to transfer liquids can create different kinds of public hazards. The access provider may undertake to maintain the asset as long as the customer is using its services because this will be in its line of business, but may not be responsible for problems with the asset. In many cases, regulations or agreements will define the “point of sale” and the responsibilities of the parties to and from that point.

**3. Revenue recognition**

IAS 16 defines the cost of an asset as the fair value of the consideration given to acquire the asset. An obligation to provide access to a supply of services using the asset would fall into this definition, but the nature of the obligation might vary. An obligation to stand ready to provide a service might, for example, suggest the immediate recognition of revenue by applying the guidance in example 17 of IAS 18, which might not be appropriate. The interpretation should require that all of the guidance in IAS 18 be applied to determine when the income is recognised and whether the income is revenue or other income.

**4. Examples and application guidance**

The suggested guidance is not intuitive and in some areas is difficult to understand. We believe the interpretation would be enhanced by some specific examples and application guidance.