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EFRAG

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Rome 24 April 2008

Re: EXPOSURE DRAFT IFRIC D24 – “Customer Contribution”

Dear Sirs,

We are pleased to provide you with our observations on your draft comment letter to D24 of IFRIC.

Efrag’s comment letter on IFRIC Draft Interpretation D24 (Customer Contribution) raises a number of criticism and concerns. OIC fully shares these concerns and in particular the fact that D24 is written in a way difficult to understand. We also have the following additional comments.

1. We wish to emphasize what we believe to be a serious inconsistency in the IFRIC’s document, that is that D24 seems to refer to IAS 37 to account for the obligation arising in connection with the contributed asset whilst in paragraph 11 it is stated that the initial recognition of the obligation (i.e. the liability) is equal to the fair value of the asset received. We disagree with this axiomatic statement. Under IAS 37 a liability is measured at the best estimate of the expenditure required to settle the obligation. We are not convinced that such best estimate is always equal to the fair value of the asset received. On the contrary, we believe that it will seldom be the case.
2. Furthermore, in BC22 it is stipulated that the time value of money should be taken into account in measuring the revenue. The same is true, under IAS 37, for measuring the liability (and we would like to have this statement included in the Interpretation). Simply because of this, a divergence between the fair value of the asset and the amount of the liability would inevitably occur.
3. One of Efrag’s comments is that it is unclear which standard or standards IFRIC is interpreting. We fully agree with this comment and we believe that D24 might discuss

other standards which may be impacted by the Interpretation. For instance we do not understand why IAS 20 was not taken into account. D24 itself accepts that the asset may be contributed by a Government. In this case the transactions would fall under IAS 20 or, if not, it should be explained why. We may envisage situations where a Government contributes an asset to an entity which has the obligation to supply services to a class of individuals. If the value of these services is significantly below the fair value of the asset, we are in presence of a Government grant. Again the difference between the values of the asset and the obligation comes into play, as discussed above.

4. The above matters lead us to conclude that D24 may have wider implications than those discussed in the document and that the title of the interpretation “Customer Contribution” is not appropriate.
5. In this connection, we would also invite IFRIC to consider the implications that D24 may have on IFRIC 12. Let us consider the case (not infrequent) that at the expiry of an initial concession (for instance, a motorway) the grantor (a public entity) assign the concession to another operator. Should the operator account for the transaction under IFRIC 12 or under D24 instead? We believe that IFRIC should discuss this situation because ambiguity may arise.
6. In paragraph 16 it is stated that “the period over which revenue shall be recognized shall be the period over which the entity has an obligation to continue to provide access to supply of goods or services” and in paragraph 20 it is stated that “the period over which an entity has an obligation to provide access to supply of goods and services using a contributed asset may be shorter than the useful life of the asset, **it cannot be longer**” (emphasis added). We disagree with this axiomatic (again) statement. In our view, the period could well be longer. In this case revenue should be recognized over this longer period and the entity should also assess if there is an onerous contract.
7. In BC 18 IFRIC rejects the first and the second option for determining what the obligation relates to. We agree with the conclusion, but the rationale for the rejection is not convincing because it simply says that “in many cases” the situation will not happen. Rejecting an alternative only because it may occur solely in limited situations is not in our view a sound reason.
8. If IFRIC proceeds with D24, we recommend to include detailed examples of how to account for this transaction both at the recognition stage and subsequently because the related accounting treatment is not totally clear and it is difficult to grasp from the mere wording.
9. Finally, we recommend that the final version of D24 deals also with the accounting from the prospective of the asset contributor.

Hoping the foregoing will help you in providing your comments to IFRIC, we remain
Yours sincerely,

Angelo Casò