

International Accounting Standards Board
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IFRIC Draft Interpretation D24 Customer Contributions

Grant Thornton International welcomes the opportunity to comment on the International Financial Reporting Interpretations Committee's Draft Interpretation D24 Customer Contributions ("D24"). We have considered D24 as well as the accompanying draft Basis for Conclusions.

We agree that accounting for customer contributions is an area of diversity in practice and therefore support the IFRIC's decision to develop guidance. We also concur with most of D24's analysis and proposals. However, we have concerns in two areas which are explained below.

Revenue recognition

Paragraphs 11 and 16-20 of D24 address how the credit should be accounted for where the customer contribution is recognised as an asset of the entity and recorded at fair value on initial recognition. The IFRIC's view is that the entity has an obligation to provide ongoing access to a supply of goods and services using the contributed asset. Paragraph 16 of D24 therefore requires that the credit should be recorded as an obligation and that this obligation should be reduced and revenue recognised over that access period (or the useful economic life of the contributed asset where this is shorter - paragraph 20).

We would question whether the entity will always have a **substantive** obligation to provide access to an ongoing supply of goods and services in practice. For example, in many jurisdictions utility providers are required by law or regulation to provide access to a supply of services such as gas, electricity or water to all customers. Customers who have contributed assets will therefore enjoy the same rights of access to a supply of ongoing services and will pay the same price for those services as other customers. In these circumstances, we do not believe the receiving entity's ongoing supply arrangements are a substantive obligation. Rather we consider that the entity's substantive obligation in exchange for the customer contribution is to provide a connection to the network supplying the services. In that case it would seem more appropriate to recognise the credit in revenue on connection.

We believe that our preferred analysis is more consistent with the guidance in paragraph 17 of the Appendix to IAS 18 Revenue, which addresses accounting for membership fees. Where a fee permits only membership, and all other products or services are paid for separately, the fee is recognised as revenue assuming IAS 18's other conditions are satisfied.

Moreover, we question whether the deferral of revenue over often lengthy periods results in useful information.

We therefore recommend that paragraph 11 is amended to require the receiving entity to analyse the substance of its performance obligations in relation to the customer contribution. The associated revenue should in our view be recognised as the substantive performance obligations are satisfied. In some cases this will be on connection and in others over the future supply period.

Recognition of an asset

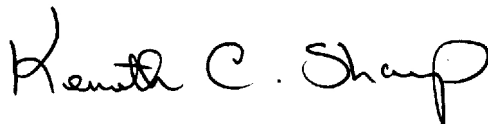
Paragraph 8 of D24 requires an entity that has received a customer contribution to assess whether the contributed resource qualifies as an asset. This is clearly appropriate. However, paragraph 4 of the draft Basis for Conclusions (BC4) explains that (in the IFRIC's view) a customer contribution will **in many cases** not give rise to an asset that meets the recognition criteria [emphasis added].

D24's scope section (paragraph 4) refers to an entity that 'receives an item of property, plant and equipment'. This presumably implies a transfer of legal title in most cases. If the reporting entity obtains title and uses the item in revenue generating activities we expect that the item should be recognised as an asset. We note that regulatory arrangements in many jurisdictions and industries might require the receiving entity to grant other suppliers access to the asset. However, if the receiving entity levies access charges this would not appear to preclude asset recognition.

We concur with the IFRIC's view in BC7 that detailed indicators of when an asset should be recognised are inappropriate. However, we are not convinced that non-recognition of an asset should be as commonplace as the IFRIC seems to suggest and therefore believe that BC4 as drafted might cause unnecessary confusion. If the IFRIC considers that the emphasis of BC4 is accurate, we would welcome some additional explanation in the final Basis for Conclusions. Alternatively, the IFRIC might decide to amend BC4 to be more neutral.

If you have any questions on our response, or wish us to amplify our comments, please contact our Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,



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