

Proposal to supersede AASB Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*

Adverse Comments to the AASB by 29 August 2014



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

The AASB invites comments from constituents who hold a different view to those set out in this Exposure Draft by 29 August 2014.

Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au.
Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

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Background

AASB Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry* was originally issued as UIG Abstract 42 *Subscriber Acquisition Costs in the Telecommunications Industry* in October 2001 because concern had been expressed that in the absence of authoritative guidance, diverse or unacceptable practices in accounting for customer acquisition costs in the telecommunications industry may occur or develop. As part of the transition to International Financial Reporting Standards, the Urgent Issues Group decided in December 2004 to retain this guidance and replace Abstract 42 with AASB Interpretation 1042.

On 28 May 2014, the International Accounting Standards Board issued IFRS 15 *Revenue from Contracts with Customers* which is anticipated to be made as AASB 15 *Revenue from Contracts with Customers* in Q4 of 2014.

Proposal to supersede AASB Interpretation 1042 with AASB 15

AASB Interpretation 1042 would no longer be required once the anticipated forthcoming AASB 15 is applicable as the requirements of AASB 15 address the accounting for contract acquisition costs in the telecommunications industry. Therefore, the AASB proposes that AASB Interpretation 1042 be superseded by the anticipated forthcoming AASB 15 when that Standard is applied. The AASB's reasoning for this view is as follows:

- (a) it is consistent with the AASB's policy of not providing unnecessary local guidance on matters covered by International Financial Reporting Standards; and
- (b) several aspects of the requirements in AASB Interpretation 1042 (noted below) would not be consistent with the requirements in the anticipated forthcoming AASB 15.

COMPARISON OF AASB INTERPRETATION 1042 AND IFRS 15

Both AASB Interpretation 1042 and IFRS 15 specify requirements for accounting for contract acquisition costs. Both pronouncements also similarly identify contract acquisition costs that are capable of being recognised as an asset (in accordance with the specific recognition requirements in each pronouncement) as being the incremental costs incurred to obtain a contract. Specifically:

- (a) AASB Interpretation 1042 describes these costs as "those incremental subscriber acquisition costs that are directly attributable to establishing specific subscriber contracts and would not have been incurred had those contracts not been entered into" (paragraph 4); and
- (b) IFRS 15 describes these costs as "those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained" (paragraph 92).

The requirements in IFRS 15 apply to costs to obtain any type of contract with a customer that is within the scope of IFRS 15. In contrast, the requirements in AASB Interpretation 1042 apply only to subscriber (i.e. customer) contracts in the telecommunications industry. Consequently, the requirements overlap because the costs to obtain a contract with a subscriber in the telecommunications industry would be within the broader scope of IFRS 15.

Differences between AASB Interpretation 1042 and IFRS 15

The main differences between AASB Interpretation 1042 and IFRS 15 include:

- (a) Asset recognition – although it may not have a significant practical effect, the asset recognition criteria are described differently in AASB Interpretation 1042 and IFRS 15. In addition, paragraph 16 of AASB Interpretation 1042 states that examples of directly attributable costs include the costs of recording subscriber and contract information in relation to contracts entered into. Under IFRS 15, those costs could be included in the asset only if the incurrence of those costs is incremental to obtaining the contract.
- (b) Practical expedient – IFRS 15 includes a practical expedient for an entity to recognise the incremental costs of obtaining the contract as an expense when incurred if the amortisation period of the asset that would otherwise be recognised is one year or less. AASB Interpretation 1042 does not provide entities with a similar practical expedient.
- (c) Amortisation – AASB Interpretation 1042 states that the period for amortising the asset cannot extend beyond the stated period of the contract. In contrast, IFRS 15 states that the asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, and thus may include anticipated renewals of the contract.
- (d) Impairment – AASB Interpretation 1042 requires that impairment of the asset is determined in accordance with AASB 136 *Impairment of Assets*. In contrast, IFRS 15 has developed a specific impairment test for these assets.

If you disagree with the AASB's view that AASB Interpretation 1042 be superseded by the anticipated forthcoming AASB 15 when that Standard is applied please make a submission, including the reasons for your view, to the AASB by 29 August 2014.