November 13, 2015

Sent via e-mail: director@fasb.org

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2015-320

AT&T, Inc. is pleased to respond to the Financial Accounting Standards Board's exposure draft on Narrow-Scope Improvement and Practical Expedients to the guidance in Update 2014-09 on Revenue from Contracts with Customers. The proposed standard is of interest to us as a leading provider of communications and digital entertainment services operating in the United States and around the world.

We appreciate the Board's responsiveness to stakeholders' requests to reconsider certain aspects of the new revenue guidance. We believe many of the changes put forth by the exposure draft are useful, will reduce diversity in practice and reduce the cost of implementing the standard. These changes include assessing collectability, providing a practical expedient for presenting the collection of sales taxes and other similar taxes, providing guidance on when to value nonmonetary consideration and more clearly defining a completed contract at transition. We do, however, have concerns about the proposed practical expedient on contract modifications at transition.

While the proposed practical expedient works well for contracts where modifications are treated as part of the existing contract, we believe a different practical expedient for contract modifications treated as terminations of the existing contract and creation of a new contract is needed. Our proposal would result in a more cost effective treatment for those types of modifications without significantly impacting the usefulness or faithful representation of revenue under the new revenue standard.

We suggest changing the practical expedient as follows:

<u>For contract modifications treated as if they are part of an existing contract (606-10-25-13b) an</u> entity need not separately evaluate the effects of contract modifications before the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph. An entity shall determine the transaction price of the contract considering all satisfied and unsatisfied performance obligations from contract inception to the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph. An entity shall perform a single allocation of the transaction price to each identified performance obligation on the basis of an estimate of the relative standalone selling price of each performance obligation. The transaction price allocated to an unsatisfied performance obligation shall be recognized as revenue when (or as) the performance obligation is subsequently satisfied (see paragraphs 606-10-25-23 through 25-37).

For contract modifications treated as if they are the termination of the existing contract and creation of a new contract (606-10-25-13a) an entity should evaluate the contract as if it was a new contract as of the last modification prior to the earliest reporting period presented under this standard.

For all modifications, an entity shall apply the guidance in paragraphs 606-10-25-10 through 25-13 to contract modifications after the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph.

The proposed change to the practical expedient recognizes the significant differences between contract modifications treated as a termination of an existing contract and creation of a new contract and those treated as part of an existing contract. While the revenue recognized subsequent to transition under our proposed practical expedient will be slightly different, we believe the difference will be immaterial while allowing a significant reduction in cost to implement. Please see Appendix A for an example of the kind of serial modifications that is typical in our industry that would be covered by our proposed practical expedient.

We appreciate the opportunity to comment on the proposed changes. If you have any questions concerning our comments, please contact Bill Schneider (214) 757-3215.

Respectfully,

Paul W. Stephens
Senior Vice-President & Controller

Appendix A – Serial Modification Example

An uncompleted contract as of 1/1/16 may have been the result of a customer relationship initiated several years prior as an initial two year contract, but was extended through a series of modifications making the modified contract length since inception five, six or even more years.

For example, a customer may have originally entered into a contract on 4/1/2011. That contract included a subsidized relatively low-cost feature phone (standalone sales price (SSP) of $250) and a two-year single line service plan with voice minutes and a texting plan but no data package (SSP of $50/month). After eighteen months (10/1/2012), the customer decides to purchase a second line and buys a subsidized smart phone (SSP of $650) and converts to a multi-line voice and text service plan for two years which includes a bucket of minutes and texts shared by both phones (SSP of $75/month) and a separate data plan for the smart phone (SSP of $30/month). This modification is treated as a termination of the previously existing contract and the creation of a new contract.

After six more months (4/1/2013), the customer is eligible to upgrade their feature phone and decides to enter into a new agreement to purchase a subsidized smartphone (SSP of $750) and extends their multi-line voice and text service plan for the required additional six months and buys a separate data plan for the new smart phone (SSP of $30/month). The modification is treated as a termination of the previously existing contract and creation of a new contract. The contract includes four performance obligations – 1) delivery of a smart phone (SSP of $750), 2) delivery of multi-line voice and text service for 24 months (SSP of $75/month), 3) delivery of a data plan for 18 months (SSP of $30/month) for phone 2 and 4) delivery of a data plan for 24 months (SSP of $30/month) for the new purchased phone.

After 12 more months (4/1/14) the customer decides to purchase a third smartphone and buys a subsidized phone (SSP of $850) which requires a two-year service plan for that line and converts their multi-line voice and text service plan to a multi-line plan that is based on a bucket of data shared by all of the phones (instead of minutes) and pays a per device charge for each of the three phones. The modification is treated as a termination of the previously existing contract and creation of a new contract. The modified contract includes 4 performance obligations – 1) delivery of a smart phone (SSP of $850), 2) a three line plan for 6 months (SSP of $150/month - $75 for the data package and $25 each for three required lines), 3) a two line plan for 12 months (SSP of $125/month - $75 for the data package and $25 each for two required lines), and 4) a single line plan for the required 6 remaining months (SSP of $100 - $75 for the data package and one $25 for the remaining line).

As of 1/1/16 this contract is not a completed contract as it has three more months remaining (1/1/16 – 3/31/16) on the final performance obligation listed above.

1. Not using a practical expedient would require an evaluation since the inception of the contract to determine the allocation of TTP among the initial 2 performance obligations and then at each modification, determine TTP by deducting the remaining contract asset from the TTP of the new contract in order to determine the amount of TTP to be allocated to the remaining performance obligations.

	SSP		Consideration		Allocated TTP	
4/1/2011 - Initial Contract						
Handset	$	250	$	-	$	207
Service		1,200		1,200		993
Total	$	1,450	$	1,200	$	1,200

	SSP		Consideration		Allocated TTP	
10/1/2012 - Modification 1						
Handset	$	650	$	100	$	527
Voice Service		1,800		1,800		1,458
Data Service		720		720		583
Contract asset from 4/1/11				(52)		-
	$	3,170	$	2,568	$	2,568

	SSP		Consideration		Allocated TTP	
4/1/2013 - Modification 2						
Handset	$	750	$	200	$	571
Voice Service		1,800		1800		1,371
Data Service 1		540		540		411
Data Service 2		720		720		548
Contract asset from 10/1/12				(359)		
	$	3,810	$	2,901	$	2,901

	SSP		Consideration		Allocated TTP	
4/1/2014 - Modification 3						
Handset	$	850	$	200	$	631
3 line plan		900		900		668
2 line plan		1,500		1,500		1,113
1 line plan		600		600		445
Contract asset from 4/1/13				(343)		-
	$	3,850	$	2,857	$	2,857

1/1/2016 - Transition Accounting		
Remaining Billing	$	300
Remaining Revenue	$	223
Remaining Contract asset	$	77

2. The FASB's proposed practical expedient would require an evaluation back to 4/1/2011 to determine the total transaction price (TTP) of the 13 performance obligations provided during the contract and then allocate the TTP across those performance obligations based on their SSPs at the time they were provided. This would have the effect of spreading the recovery of the original contract asset ratably over 5 year period rather than recognizing most of the recovery during the first 18 months of the contract with yet another significant majority of the remaining contract asset recovered over the next 6 months before the contract was again modified.

	SSP	Consideration	Allocated TTP
Handset 1	$ 250	$ -	$ 192
Handset 2	650	100	500
Handset 3	750	200	577
Handset 4	850	200	653
Service 1	900	900	692
Voice Service 1	450	450	346
Data Service 1	180	180	138
Voice Service 2	900	900	692
Data Service 2	360	360	277
Data Service 3	360	360	277
3 line plan	900	900	692
2 line plan	1,500	1,500	1,153
1 line plan	600	600	461
	$ 8,650	$ 6,650	$ 6,650

1/1/2016 - Transition Accounting

Remaining Billing	$ 300
Remaining Revenue	$ 231
Remaining Contract asset	$ 69

3. Our proposed practical expedient would allow an evaluation of the performance obligations, TTP and allocation from the inception of that final "new" contract as of 4/1/14 in the example. This would effectively result in a write-off any prior contract asset amount as of the last modification prior to the earliest reporting period presented in the financial statements and allow.

	SSP	Consideration	Allocated TTP
4/1/2014 - Last modification			
Handset	$ 850	$ 200	$ 706
3 line plan	900	900	748
2 line plan	1,500	1,500	1,247
1 line plan	600	600	499
Contract asset from 4/1/13		-	-
	$ 3,850	$ 3,200	$ 3,200

1/1/2016 - Transition Accounting	
Remaining Billing	$ 300
Remaining Revenue	$ 249
Remaining Contract asset	$ 51