



October 15, 2003

Mr. Bob Stirling  
Secretary  
Emerging Issues Committee  
Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2

Dear Bob:

The Committee on Corporate Reporting (CCR) of Financial Executives Institute Canada is pleased to present its views on Draft Abstract D36, "Accounting by a Customer (including a reseller) for Certain Consideration Received from a Vendor." The following opinion is based on deliberation by the members of CCR. The remarks represent the views of the CCR and are not necessarily the views of Financial Executives International Canada or its members.

CCR disagrees with the consensus reached on Issue 2. While we acknowledge that this treatment may be required by Section 1751 of the Handbook, we believe that the resulting financial statements will misrepresent the results of operations in a given period or two or more periods, depending upon the contract terms. This will occur because in the periods for which the volume contingency has not been resolved, gross margins will be understated and, in the period in which the contingency is resolved, gross margins will be overstated. This is of even greater concern if the contract term crosses a year end. In our view, if the customer can present contractual evidence that the sales levels will be sufficient, either from historic or current experience, to ensure with reasonable assurance that required target purchase volumes will be achieved, the consideration should be accrued in the period.

This draft abstract will create a U.S. GAAP difference since the equivalent of Section 1751 does not exist in U.S. standards. Thus, the EITF was able to reach a different conclusion in EITF 02-16. Again, while we understand the accounting logic, this is an undesirable outcome as most preparers are trying to eliminate GAAP differences and it is directly contrary to the goal of harmonization.

CCR also believes that this abstract, if issued as proposed in the draft, will undermine the profession once again with the analyst, senior management and board of directors communities. The misstatement of margins in the interim periods until the contingency is resolved will not make business sense to these users of the financial statements and will create unnecessary variances in financial results.

CCR hopes its comments will be of use to the EIC.

Yours truly,

Karyn A. Brooks  
Chair, Committee on Corporate Reporting  
Financial Executives International Canada