



April 5, 2013

Ms. Leslie Seidman, Chairman  
Financial Accounting Standards Board  
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Norwalk, CT 06856-5116

Mr. Hans Hoogervorst, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Submitted via electronic mail

Dear Ms. Seidman and Mr. Hoogervorst,

FEI's Committee on Corporate Reporting (CCR) appreciates the opportunity to provide its views on matters discussed at the Revenue Recognition Working Group meeting held on March 26, 2013. CCR remains supportive of the joint FASB-IASB revenue recognition project and commends the Boards and their staff for the progress made in developing a revenue standard that can be applied across various jurisdictions, industries, and transactions. Upon completion of the Boards' substantial redeliberations, the project recently entered the critical stage of drafting the final revenue standard. The purpose of this letter is to highlight key issues and recommendations for the Boards' consideration in drafting the final revenue standard in order to facilitate a successful implementation of the final standard.

The key issues and recommendations relate to the current drafting of principles in the standard that CCR believes are unnecessarily complex. CCR recommends clarifying the drafting of these principles in order to avoid the need for excessive volume of illustrations and other implementation guidance, and unnecessary diversity in practice upon implementation of the standard.

The key issues relate to the following topics:

- Constraining estimates of variable consideration,
- Licenses,
- Identifying separate performance obligations, and
- Time value of money

These matters are discussed below.

### **Constraining estimates of variable consideration**

Revenue is a key metric to users of financial statements and CCR agrees with the Boards' desire to ensure that users can place a high degree of confidence in revenue amounts that are based on estimates of variable consideration from a customer. During redeliberations, the Boards made tentative decisions to add rigor to the requirements for estimating variable consideration. Those decisions added the notions of "no significant revenue reversal" and "high confidence" to the criteria and indicators from the 2011 Exposure Draft regarding "predictive experience". CCR thinks those added notions are helpful in evaluating variable consideration but thinks that the current drafting of the constraint is unnecessarily complex and seems to have multiple conflicting objectives.

For example, the core measurement principle of the proposed revenue standard is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferred goods or services. However, the proposed constraint based on the Boards' tentative decisions seems to contradict that core principle because, in many instances, applying the constraint would result in an entity recognizing revenue at an amount that is less than the amount to which the entity expects to be entitled.

To clarify the objective of the constraint and simplify the drafting, CCR recommends that the Boards specify a single objective based on the degree of confidence that an entity has in its estimates of variable consideration and the resulting amount of revenue recognized based on those estimates. The core measurement principle of the proposed model and the definition of the transaction price could be amended to align with that single objective—i.e. the measurement objective would be to recognize revenue in an amount that reflects the consideration to which the entity is reasonably confident to be entitled. To help an entity determine whether it has sufficient confidence to include estimates of variable consideration (or part of the variable consideration) in the transaction price, CCR recommends that the standard require an evaluation of various factors including all of the following:

- The risk and potential magnitude of subsequent reversals of amounts previously recognized as revenue,

- The ability of the entity to predict the amount of consideration to which it will be entitled based on its experience or other relevant evidence,
- The susceptibility of the amount of consideration to factors outside the entity's influence, and
- The amount of time until the uncertainty is expected to be resolved.

CCR believes that drafting the constraint as suggested above would continue to achieve the objective of ensuring that users can place a high degree of confidence in revenue amounts that are based on estimates of variable consideration. In addition, CCR thinks the suggested drafting would simplify the model because the Boards could eliminate the concept of a minimum amount of revenue, which would allow for an entity to estimate only one constrained amount in practice rather than estimating one amount that fails the constraint test and then another amount that passes a new minimum amount test.

## **Licenses**

During redeliberations, the Boards decided that some licenses, by nature, are "rights" that an entity transfers at a point in time while other licenses are "access" that is transferred over time. The Boards have proposed that a license provides "access" and is transferred over time if (a) an entity is required to undertake activities that maintain or enhance the intellectual property related to the license and (b) the customer benefits as the entity undertakes the required activities. CCR questions the need for this additional guidance on licenses because it seems to add unnecessary complexity to the revenue standard due its overlap with the proposed guidance on identifying separate performance obligations and determining when they are satisfied.

However, if the Boards decide to retain the requirement for an entity to perform the "rights versus access" evaluation, CCR recommends drafting the guidance with the simple objective of determining whether the nature of the license is a right or access. To make that determination, an entity would consider various factors including but not limited to the following:

- Ongoing activities related to the underlying intellectual property that the entity may be required to undertake (i.e. an entity that is required to maintain or enhance the related intellectual property is more likely to be providing access than if the entity is not required to undertake such activities),
- The degree of exclusivity of the license (i.e. a license with a high degree of exclusivity is more likely to provide access than a non-exclusive license),
- The term of the license (i.e. a term license is more likely to provide access than a perpetual license), and
- The payment terms (i.e. a license is more likely to provide access if the customer pays over time than if the customer pays upfront).

## **Identifying separate performance obligations**

CCR thinks the Boards have made good progress in developing separation criteria that can be applied by companies across a wide range of industries. However, CCR thinks the Boards can clarify the principle of one of the separation criteria. The Boards have proposed that if a customer can benefit from a good or service on its own, then the good or service is distinct only if the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract. The proposed standard includes various indicators to help an entity determine whether a good or service is “highly interrelated” with another good or service in the contract.

Companies across various industries sell goods or services that are “highly interrelated” with other goods or services in the contract. However, it is our understanding that the Boards’ intention for many of those contracts is that the goods or services should be accounted for separately. For example, if an entity sells a product (e.g. software, hardware, or telecommunications equipment) with a highly interrelated service (e.g. PCS, maintenance, or network services), then the contract would have more than one performance obligation based on an evaluation of the proposed indicators of highly interrelated goods or services. In those cases, CCR thinks the model is unnecessarily complex and confusing because the indicators of the distinct criterion can override the implied principle of the criterion.

To clarify the principle of the criterion, CCR recommends describing the criterion as “largely separable risks in the context of the contract” and then adding the “highly interrelated” wording as an indicator (along with the other indicators that the Boards have proposed). As a consequence, the indicators would relate more clearly to the principle and none of the indicators would override the principle.

## **Time Value of Money**

CCR remains concerned about the practicality of determining whether a contract has a significant financing component and recommends that the Boards clarify in the final revenue standard that a significant financing component is not expected to be common in most contracts with customers. That could be achieved by requiring that an entity not account for the time value of money in a contract with a customer unless it is readily apparent that the parties to the contract have negotiated a financing component that is significant to the contract. A financing component would be significant only if (a) the amount of consideration promised in the contract differs significantly from what the cash selling price would be if the customer paid cash at the time of transfer of the promised goods or services, and (b) the difference is due primarily to the intended purpose of financing rather than another purpose, for example the convenience of a customer prepayment or the mitigation of the risk of the counterparty failing to perform their contractual obligations.

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CCR remains committed to the success of the revenue project and encourages the Boards to consider the issues and recommendations in this letter in order to simplify and clarify the drafting of the final revenue standard which will lead to a more successful implementation of the final standard. Please feel free to contact Lorraine Malonza at (973) 765-1047 if you would like additional information on any of the issues or recommendations in this letter.

Sincerely,

A handwritten signature in cursive script, reading "Loretta Cangialosi".

Loretta V. Cangialosi  
Chair, Committee on Corporate Reporting  
Financial Executives International

Cc: Paul Beswick, SEC Chief Accountant