

March 28, 2002

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
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Letter of Comment No: 23
File Reference: 1050-001
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**Proposal for a New Agenda Project on
Issues Associated with the Recognition of Revenues and Liabilities**

Dear Mr. Lucas:

We are pleased to provide the following comments on the Board's proposal to add a project to its agenda on issues associated with the recognition of revenues and liabilities:

Is there a need for the FASB or others to comprehensively address issues associated with the recognition of revenues and liabilities? If yes, should the FASB take on such an effort or defer to others? If so, to whom?

We strongly support the Board's proposal to add a project to its agenda on the recognition of revenues and liabilities. As stated in our previous correspondence on the issue of revenue recognition and in our responses to the annual Financial Accounting Standards Advisory Council survey in recent years, we believe that revenue recognition is the single most important issue in financial reporting today. The evolution of business models and resulting increased complexity of revenue transactions, as well as continuing changes in how capital markets value some companies (often emphasizing revenue over other financial measures), have placed significant pressure on existing authoritative guidance dealing with revenue recognition and have highlighted potential shortcomings in the conceptual literature. Various issues related to revenue recognition continue to absorb much of the agenda of the Emerging Issues Task Force (EITF). The EITF has struggled during the past two years to address certain revenue recognition issues (e.g., EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables"), and its failure to resolve these issues strongly suggests that the subject is too broad for the EITF to address in an appropriate and timely fashion.

We understand that the International Accounting Standards Board (IASB) currently does not have a project on its agenda addressing revenue recognition broadly. Because of the critical need for more comprehensive guidance on revenue recognition, we believe that the Board should move forward with a project on revenue recognition immediately (and work with the IASB if that body decides to add a project on revenue recognition to its agenda). While harmonization and convergence of accounting standards are desirable, the Board should not allow these efforts to delay a final standard in this much-needed area.

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Is the proposed scope of such a project as described in the proposal insufficient, appropriate, or too ambitious?

We believe that the proposed scope of the project as described in the proposal is overly ambitious. We believe that the Board should issue a new, general accounting standard on issues associated with revenue recognition that will apply to the majority of business entities and revise, but only to the extent necessary, the related guidance on revenues and liabilities in Concepts Statements 5 and 6.

In order to make the project more manageable and to provide much needed guidance in a timely manner, we believe that entities in certain industries should be excluded from the scope of the new standard because transactions in those industries often have unique characteristics that potentially could consume much of the Board's time. For example, revenue transactions by insurance companies and companies that are subject to Statements of Position issued by the AICPA's Accounting Standards Executive Committee (AcSEC) initially could be excluded from the scope of the project. After issuance of the new standard, AcSEC or the Board could reexamine revenue recognition guidance for those industries and make conforming changes to existing authoritative guidance, if necessary.

We also support the proposed approach to work on the project in two distinct but interrelated phases (both a "top-down" approach that focuses on improving the conceptual guidance and a "bottom-up" approach that focuses on detailed authoritative literature). We believe that the iterative process of developing guidance at the concepts level and the standards level would be a productive and practical approach and will expedite completion of this vital project.

Should specific issues identified above or in the appendix be excluded from the scope of the proposed project? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.

We believe that the fundamental recognition criteria in Concepts Statement 5 that apply to all elements of financial statements should not be broadly reconsidered, because doing so may not significantly clarify issues related to revenue recognition and likely would result in a significant delay in completion of a project on revenue recognition.

In addition, with regard to the additional criteria for the recognition of revenues in Concepts Statement 5 (specifically, that revenues be both realized or realizable and earned) we acknowledge that application of these criteria often results in the recognition of liabilities that do not meet the definition of liabilities in Concepts Statement 6. However, we believe that the criterion that revenues be earned should not be eliminated because we believe that revenues should be recognized only when the "earnings process" has been completed. Admittedly, such an approach would not reconcile revenue recognition practices to the definition of a liability. Instead, we would recommend a pragmatic approach of modifying the definition of liabilities to exclude liabilities resulting from the deferral of revenue caused by the application of the additional criteria for revenue recognition described in Concepts Statement 5.

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We believe that the Board can productively address issues related to revenue recognition by making only modest clarifications to the conceptual guidance and focusing more on “how to” guidance, as opposed to undertaking a complete overhaul of the conceptual literature. For example, we believe that clarified guidance on accounting for multiple-deliverable arrangements, what is an “earnings process,” and the impact of customer cancellation rights, customer acceptance rights, and return rights, would resolve many difficult revenue recognition issues.

We also believe that in this project the Board should not address issues related to (a) distinguishing gains from revenues, (b) which items should be included in other comprehensive income, and (c) whether revenues should be reported gross or net. We believe that it would be more effective to address these issues in the Board’s project on reporting financial performance, and thereby make any project on revenue recognition more manageable.

Should specific issues not identified above or in the appendix be addressed as part of the proposed project? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.

We believe that the specific issues identified in the proposal provide a sufficient starting point for the Board to begin addressing issues associated with the recognition of revenues.

Should the proposed project, in addition to developing a new, general accounting standard on revenue recognition and revising the related guidance on revenues and liabilities in Concepts Statements 5 and 6, develop a new, general accounting standard on liability recognition?

We do not believe that a project to develop a general accounting standard on liability recognition is necessary at this time. While we recognize that revenue recognition issues often involve liability recognition, we believe the Board should focus its attention only on those liability recognition issues necessary to facilitate the project on revenue recognition before addressing other liability recognition issues. We believe that other issues related to liability recognition should be addressed in a separate, lower-priority project.

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Again, we strongly support the Board’s proposal to add a project to its agenda on the recognition of revenues and liabilities. However, we believe that the Board should carefully define the scope of the project in order to provide guidance in this important area in a timely fashion. We are available to discuss any aspect of our letter with Board members or the FASB staff.

Very truly yours,

