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Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
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**File Reference No. 1660-100, Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers***

Dear Mr. Golden:

Intel is pleased to respond to your request for comment on the Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*. We support the goal of creating a comprehensive contract-based revenue recognition standard that promotes the objectives of convergence, simplification, and comparability of revenue across companies and geographical boundaries. We appreciate that the Board released the Discussion Paper, prior to finalizing the model, in the spirit of gathering input during the early stages of developing a comprehensive model. We understand that, as a result, the model lacks certain critical guidance. To facilitate the Board's due process, we have focused our input on the proposed model and identified certain recurring transactions and common issues that should be considered in developing the final model.

We support the Board's asset and liability approach to revenue recognition. We believe that, all too often, existing revenue recognition literature results in deferred revenue (credits) that does not represent liabilities. Further, the volume of literature that address many fact patterns in many industries results in a mentality of getting revenue recognition right according to the *rules* that govern the transaction rather than the *economics* that govern the transaction. We believe that a revenue recognition model that places primacy upon assets and liabilities over all other conditions will result in financial information that more faithfully represents the economics underlying revenue transactions. Developing a single revenue recognition model is difficult due to the complexity of revenue transactions with varying contractual rights and obligations that are customized to capture the varying risks and rewards associated with a multitude of products, services

and licenses. It is therefore unreasonable to expect that a final revenue recognition standard will simplify revenue recognition and eliminate problems for preparers, auditors, regulators or standard setters. Rather, we expect that a comprehensive revenue recognition standard that focuses on assets and liabilities will more appropriately shift the debate to evaluating whether an entity's liabilities provide a faithful representation of its obligations to its customers. In order to achieve that objective, we believe that a number of areas within the proposed model need to be enhanced and certain principles contained in current U.S. GAAP should be carried forward into the final standard. We have highlighted our primary views below and provided responses to the questions, included in the Discussion Paper, in the Appendix to this letter.

***The definition of contracts and customers needs to be enhanced***

It is unclear whether non-revenue generating arrangements with customers should be combined with revenue generating arrangements and accounted for under the scope of the model. Many companies have arrangements with their customers that are non-revenue generating arrangements. Joint development arrangements and cooperative advertising arrangements are two examples of non-revenue generating arrangements. One view is that these non-revenue generating arrangements are not within the scope of the model because they do not arise in connection with the provision of goods or services that constitute an entity's "ordinary" or "ongoing major or central" activities. Another view is to combine these arrangements with revenue generating arrangements and recognize performance obligations for the promise contained in the non-revenue generating arrangement (the promise to provide cash, in the cooperative advertising example) in addition to a contract asset for the benefit to be received (advertising, in the cooperative advertising example). However, absent additional guidance on the identification of contract assets, including these non-revenue generating arrangements within the scope of the model could result in a reduction of revenue. We do not believe that such a result would reflect the economics of either the revenue arrangement or non-revenue arrangement. Rather, we believe that principles contained in EITF Issue 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, SOP 93-7, *Reporting on Advertising Costs*, for cooperative advertising programs and EITF Issue 07-1 *Accounting for Collaborative Arrangements* for joint development arrangements should be carried forward into the final standard.

It is unclear whether the definition of customer should be interpreted broadly or narrowly. The application of the customer definition provided under EITF Issue 01-9 is fairly broad. Under current practice, *any* transactions with entities that are customers are assessed to determine whether the transactions impact the measurement of revenue generating arrangements. For example, a joint development arrangement that require a vendor to transfer cash to a customer is currently assessed to determine whether cash payments should reduce revenue. Alternatively, the final standard could provide a more narrow definition of customer, such as an assessment of whether the counterparty is acting in the capacity of a customer in the contemplated arrangement. A narrow interpretation could have significant impacts on the accounting for certain transactions, such as the original design manufacturer (ODM) example set forth in the following discussion of control.

***The definition and identification of performance obligations needs to be enhanced***

The Discussion Paper defines a performance obligation as “a promise in a contract with a customer to transfer an asset (such as a good or a service) to that customer.” We believe that additional refinements to the proposed interpretation of the definition and application guidance to determine whether performance obligations can be aggregated or disaggregated are necessary to enhance the model.

The proposed performance obligation definition identifies standard warranties as performance obligations. We do not agree that standard warranties are performance obligations. Standard warranties provide customers with a contractual right which guarantees that the delivered product will function according to specifications for a certain period of time. The contractual promise embodied in the arrangement, in our view, is a functioning product. In that regard, standard warranties are inextricably linked to delivered product and do not provide customers with additional assets *beyond* the delivered assets. We believe that the proposed interpretation is overly theoretical and does not accurately reflect the economic realities associated with entities’ obligations to their customers. Rather, we believe that standard warranties are contingent costs associated with delivering product as specified. Standard warranties, therefore, should not be viewed as performance obligations but as costs associated with delivering product. Therefore, we believe that warranties should continue to be accounted for under FAS 5, *Accounting for Contingencies*.

Another example that illustrates the need for additional guidance on the performance obligation definition are arrangements in which a delivered item is dependent upon the delivery of a future service in order to provide value to the customer. The discussion paper sets forth a painting example, in which paint is delivered to a customer site prior to the delivery of the painting services. In the painting example, the paint and painting service could be separated if transfer of control of the paint and painting services occurs in different periods. Further, if the customer takes control over the paint prior to the provision of services, the customer can derive value from the paint if the painting company is unable to deliver the service. However, in more complicated product and services arrangements, the customer may not receive any value from the delivered item without the future service that only the entity can provide. These cases raise the question: what is the “asset promised to the customer?” One view is that the customer perceives that there are two promised assets: a product and a service. Another view is that the customer perceives that is one promised asset: a service. Under that latter view, the product enables the delivery of the service and, therefore, the “promised asset” is the provision of services.

The Discussion Paper does not address how performance obligations should be aggregated or disaggregated, other than to state that performance obligations that are transferred to customers at different times should be separated. We believe additional guidance is necessary. For example, many companies offer post-contract customer support arrangements. These arrangements often include multiple services, such as when and if available software updates, bug fixes or other extended warranty support, and

phone support. Each service within post-contract customer support arrangements can be delivered to the customer at different times. Existing literature and practice has evolved such that aggregation of these elements is fairly consistent among entities. However, it is unclear whether these services would be aggregated and considered part of the same *stand-ready* performance obligation, or if each service should be recognized as a separate promise in the contract and revenue allocated to each performance obligation and recognized accordingly.

We believe that these examples and issues illustrate that, absent additional guidance, varying practices and interpretations will develop and undermine the project's stated objectives.

***A final standard requires a robust definition of control***

The Discussion Paper states that revenue is recognized when an entity transfers a promised asset to the customer. The Boards proposed that an entity has transferred that promised asset when the customer obtains "control" of the resource underlying the promised asset. "Control," however, is not defined in the Discussion Paper. We believe that varying interpretations of control can lead to inconsistencies in the application of the guidance. Consider the following fact pattern:

- Vendor A sells a component to an Original Design Manufacturer (ODM) and fully transfers legal title and physical control of the component to the ODM.
- The ODM assembles the component on its product and then sells the assembled final product to Vendor A. The ODM does not have the right to sell the final product to customers other than Vendor A.
- The legal title of the final product is transferred to Vendor A, but the ODM retains physical possession of the product.
- Vendor A does not have any legal obligation to purchase the assembled final product from the ODM; however, Vendor A has established such a practice.
- Customer C orders the final product from Vendor A.
- Vendor A provides instruction to the ODM to transfer physical possession and title of the final product to Customer C.

Assume that the definition of customer is broad and that the ODM is considered a customer and, therefore, this transaction is within the scope of the model. Also, assume that the definition of control is narrowly defined by physical control and transfer of title. In this case, based upon a narrow definition of control, Vendor A would recognize revenue twice: once when the ODM takes physical control and transfer of title of the component, and a second time when physical possession and title of the final assembled product is transferred to Customer C. We do not believe the financial reporting of double recognition would reflect the true economics of the arrangement. We believe that the narrow definition misses an important economic characteristic of the transaction: Vendor A expects to purchase the final product as a result of selling the component. Perhaps the seller's expectation to purchase the final product is an implicit obligation to the ODM and, therefore, would be viewed as a performance obligation. This view is unsatisfying because it would also result in double revenue. Another view is that the definition of

control should be broad enough to capture substantive implicit and explicit obligations inherent in the transaction. Using a broad view, one could conclude that Vendor A never relinquished control to the ODM and, therefore, Vendor A would not recognize revenue. The guidance in SAB 104, *Revenue Recognition*, provides sufficient guidance to conclude that delivery has not occurred and, therefore, revenue is not recognized in the ODM example. We believe that further clarification that is consistent with SAB 104, under a broad view approach, would provide financial information that best reflects the economics underlying the transaction.

***We support the goal and are available to help***

In summary, we support the Board's goal of creating a comprehensive contract-based revenue recognition standard. A model that places primacy upon assets and liabilities will go a long way towards providing financial statement users with decision-useful information. We also believe that additional refinements and clarifications to the model are necessary to achieve the stated objectives. We would be happy to discuss these refinements and clarifications with you or answer any questions that you might have. If you have any questions, please contact me at (503) 712-3205, or Kevin McBride, Accounting Policy Controller, at (971) 215-1229.

Sincerely,

Leslie Culbertson  
Vice President, Director of Corporate Finance

## Appendix Response to Discussion Questions

### Question 1

Do you agree with the Boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

As stated in our letter, we agree with the Boards' proposal to base the revenue recognition principle on changes in an entity's contract asset or contract liability. We believe that a number of areas within the proposed model need to be enhanced and certain principles contained in current U.S. GAAP should be carried forward into the final standard.

### Question 2

Are there any types of contracts for which the Board's proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

We believe that more clarity is required in the area of combining contracts to ensure that the proposed principle provides decision-useful information.

To illustrate, consider cooperative advertising arrangements. Our cooperative advertising arrangements are contracts with customers that are entered into and negotiated separately from sales contracts with the same customers. Under these cooperative advertising arrangements, we reimburse customers for marketing activities for certain of our products, subject to defined criteria. In accordance with EITF 01-9 and SOP 93-7, we record cooperative advertising costs as marketing, general and administrative expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the fair value of that advertising benefit received is determinable. We record any excess in cash paid over the fair value of the advertising benefit received as a reduction in revenue. It is unclear in the Discussion Paper whether such cooperative advertising arrangements are in scope of the proposed revenue recognition model.

Our initial interpretation of the Discussion Paper is that our cooperative advertising arrangements would not be within the scope of the proposed standard. The definition of revenue (paragraph 1.18) suggest that revenue arises from changes in the assets and liabilities in connection with the provision of goods or services that constitute an entity's

“ordinary” or “ongoing major or central” activities. The payment of cash by the entity for the benefit of advertising services is not a provision of goods or services, nor is it an output of our ordinary revenue generating activities.

If these cooperative advertising arrangements are included within the scope of the proposed standard, we believe that the advertising services received would represent a *contract asset* and the cash to be paid to the customers would represent a performance obligation (contract liability). We believe that identifying the advertising services as a contract asset most faithfully reflects the economics underlying the cooperative advertising arrangement. Such arrangements represent a payment for advertising benefit exchange, when the advertising benefit provides an identifiable benefit to the entity that is sufficiently separable from the customer’s purchase of the entity’s products.

Due to the absence of guidance on combining contracts and the identification and recognition of non-cash contract assets in the Discussion Paper, there may be inconsistencies in how different entities may interpret and apply the guidance in the proposed standard. If the proposed standard does not provide any guidance on the combining of contracts, which currently exists in U.S. GAAP, the Boards’ would not meet their objectives of providing a more robust revenue recognition framework, simplifying the preparation of financial statements and removing the weaknesses existing in current standards and practices.

### **Question 3**

Do you agree with the Boards’ definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We interpret the Boards’ definition of a contract as “an agreement between two or more parties that creates enforceable obligations” to be similar to the SAB 104 definition of “persuasive evidence of an arrangement.” As a result, we do not think that it will be difficult to apply this definition, regardless of the jurisdiction, as it has not historically posed a problem. However, as previously indicated, we believe that the Boards’ need to address how to account for separate contracts with the same entity or related parties that are entered into at or near the same time to ensure that the objectives of the revenue recognition project are met.

#### Question 4

Do you think the Boards' proposed definition of performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We believe that further application guidance is needed to ensure that performance obligations are identified consistently among entities.

The proposed performance obligation definition identifies standard warranties as performance obligations. We do not agree that standard warranties are performance obligations. Standard warranties provide customers with a contractual right which guarantees that the delivered product will function according to specifications for a certain period of time. The contractual promise embodied in the arrangement, in our view, is functioning product. In that regard, standard warranties are inextricably linked to delivered product and do not provide customers with additional assets *beyond* the delivered assets. We believe that the proposed interpretation is overly theoretical and does not accurately reflect the economic realities associated with entities' obligations to their customers.

Another example that illustrates the need for additional guidance on the performance obligation definition are arrangements in which a delivered item is dependent upon the delivery of a future service in order to provide value to the customer. The discussion paper sets forth a painting example, in which paint is delivered to a customer site prior to the delivery of the painting services. In the painting example, the paint and painting service could be separated if transfer of control of the paint and painting services occurs in different periods. Further, if the customer takes control over the paint prior to the provision of services, the customer can derive value from the paint if the painting company is unable to deliver the service. However, in more complicated product and services arrangements, the customer may not receive any value from the delivered item without the future service that only the entity can provide. These cases raise the question: what is the "asset promised to the customer?" One view is that the customer perceives that there are two promised assets: a product and a service. Another view is that the customer perceives that is one promised asset: a service. Under that latter view, the product enables the delivery of the service and, therefore, the "promised asset" is the provision of services. We believe that in instances in which the value of the delivered asset (product) is solely dependent upon the delivery of an undelivered asset (another product or service), the delivered item cannot produce the economic benefits intended under the arrangement and, thus, should not be viewed as a stand-alone accounting unit.

### Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

The Discussion Paper does not address how performance obligations should be aggregated or disaggregated, other than to state that performance obligations that are transferred to customers at different times should be separated. We believe additional guidance is necessary. For example, many companies offer post-contract customer support arrangements. These arrangements often include multiple services, such as when and if available software updates, bug fixes or other extended warranty support, and phone support. Each service within post-contract customer support arrangements can be delivered to the customer at different times. Existing literature and practice has evolved such that aggregation of these elements is fairly consistent among entities. However, it is unclear whether these services would be aggregated and considered part of the same *stand-ready* performance obligation, or if each service should be recognized as a separate promise in the contract and revenue allocated to each performance obligation and recognized accordingly. One view is that since the activities underlying each service are not delivered on the same date, each activity must be recognized as a stand-alone performance obligation. Another view is that while the activities underlying each service may not be provided at the same time, the entity has provided the “promise” to stand-ready during the contract period. Under this view, an entity would aggregate performance obligations that represent stand-ready obligations of similar duration. Rational arguments about whether the accounting best reflects the economics underlying the transaction can be made under either view. In our view, the stand-ready view has the benefit of simplifying the accounting. Aggregating stand-ready performance obligations in which performance (standing ready) is provided ratably over time, such as those commonly included in post-contract customer support arrangements, is a practical interpretation of the model and would reflect the economics underlying the transaction. Regardless, the example demonstrates the need for additional guidance.

### Question 6

Do you think that an entity’s obligation to accept a returned good and refund the customer’s consideration is a performance obligation? Why or why not?

We believe that the accounting for any series of transactions should ultimately reflect the economics underlying the transaction. On the surface, an entity’s promise to accept a returned good and refund the customer’s consideration is inherently a promise in a

contract with a customer to transfer an asset (cash refund) to that customer. Application of that view, in isolation from the result of the series of accounting transactions, will result in accounting that distorts economic reality.

Consider the example provided in paragraph 3.34 of the Discussion Paper whereby an electronics retailer provides a right of return on a good for a full refund within 90 days as long as the good is in good condition upon return. Further assume:

- The sales price of the electronic good is \$100
- The cost of sales of the electronic good is \$75
- The right of return performance obligation is measured at \$10
- The customer returns the good the day following the purchase and that the packaging is unopened.

It is our understanding that the application of the Discussion Paper would result in the following net positions *after* the full amount of cash is returned to the customer:

Item	Amount	Rationale
Cash	Zero	Cash receipt of \$100 less cash return of \$100
Inventory	\$25 net increase	Decrease of \$75 upon sale, increase of \$100 upon “repurchase” of returned good
Revenue	\$100 net increase	Recognition of \$90 when good is sold, recognition of \$10 when good is returned
Cost of sales	\$75 net increase	Recognition of \$75 upon sale of good

In summary, the company’s assets would *increase* by \$25 and their net income would increase by \$25 even though the company’s economic position remains *unchanged*. We do not believe that these series of accounting transactions properly reflect the economic position of the electronics retailer. Rather, the effect is an overstatement of revenue and inventory.

In our opinion, we believe that the standard should take a broader view that ensures that application of the principles will best reflect the economics of the series of transactions. Under this view, the performance obligation would be relieved to revenue, the cash refund would be offset against revenue and the inventory would be brought back on the balance sheet at its historical cost via an adjustment to cost of sales. The net effect of this approach is that the entity’s financials remain unchanged post customer return. After all, in this example, the entity’s economic position is also unchanged post customer return.

#### Question 7

Do you think that sales incentives (for example, discounts on future sales, customer loyalty points, and “free” goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We agree that some sales incentives, such as loyalty programs, should be considered a performance obligation if they are provided in a contract with a customer. We agree that in many cases, the sales incentive increases the value (or reduce the cost) of the good and/or service. As such, the customer would be willing to pay more for the good and/or service and this amount should be bifurcated from the amount of revenue attributable to the good and/or service and recognized when the sales incentive is fulfilled.

However, we believe that the substance of sales incentive arrangements may differ significantly and, therefore, require different accounting. For example, in the case of a customer loyalty program, the promise to the customer to provide a “free” product or service based upon the customer’s purchases is clearly linked to the purchase transaction. As a result, revenue should be bifurcated from the transaction price and allocated to the performance obligation because it represents an additional promise to the customer for which no additional contract asset is received. However, we do not believe that cooperative advertising arrangements discussed in Question 2 should be considered performance obligation related to the customer’s purchase.

#### **Question 8**

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We agree that an asset has transferred to a customer (and therefore a performance obligation has been satisfied) when the customer controls the promised good or when the customer receives the promised service. However, as addressed in the main body of the comment letter, the Boards need to provide a definition of control in the proposed standard. Also, as discussed in Questions 4 and 5, we believe more guidance is required to identify the “promised asset” (i.e. performance obligation) and whether performance obligations can be aggregated. Recognition of revenue upon the transfer of control is a significant departure from the current risks and rewards model. As such, “control” needs to be defined to ensure consistent interpretation and application of the new revenue recognition principle.

We provided an example of how this issue could impact subcontractor arrangements in the main body of this letter. The problem can also be articulated using a very simple and common example. Consider an example in which an entity ships a good to its customer. Under typical arrangements, customers assume the risks and rewards of the product either FOB destination or shipping point. The customer may not have physical possession of the good but, at that point, they may substantively control the future economic benefits of the goods because:

- the seller cannot use the good to satisfy other performance obligations;
- the buyer controls the means by which it takes physical possession; and

- the buyer assumes all inventory risk (other than standard warranty)

Under the proposed standard, it is not clear if the entity controls the resources underlying the asset until the point that the good is in the physical possession of the customer. Or, is it the customer, who dictated the method of delivery and assumes the risk via that delivery mechanism that controls the resources underlying the asset. In more complicated arrangements, the lack of a clear and consistent definition of control in the proposed standard may result in different entities interpreting the guidance differently, thereby obfuscating the objectives of the Boards' revenue recognition project.

Absent guidance in the final revenue standard, entities may look to for other definitions of control to determine when to recognize revenue. The definitions of control contained in other authoritative guidance currently do not complement each other. For example, in determining the definition of an asset in the Conceptual Framework Project, the notion of control is not expected to be the same as that in consolidation accounting. In addition, the concept of control used in the IASB's Exposure Document on derecognition of financial instruments appears to be closely aligned with the underlying economics of an asset transfer. A potential result of conflicting definitions of control within this other existing guidance and projects is the inconsistent use of the definition by entities when applying the revenue recognition model, thereby defeating the projects' objective.

#### **Question 9**

The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

The satisfaction of a performance obligation is dependent on how performance obligations are defined and aggregated, and when it is determined that a customer controls the promised good or when the customer receives the promised service. It is difficult to answer this question, beyond the examples provided, without further guidance on these matters.

### Question 10

In the Boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

- (a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?
- (b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligations if that cost exceeds the carrying amount of the performance obligations? Why or why not?
- (c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.
- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

- (a) We agree that performance obligations should be measured initially at the transaction price. Simply stated, this is the amount that is expected to be received for fulfilling the performance obligations and therefore, is the amount that should be recorded as revenue. We agree that this method will result in a better depiction of an entity's performance in a contract since revenue is recognized only when an entity transfers an asset to the customer and the revenue is based upon a contracted amount. This, in turn, also simplifies measurement. Measurement based upon an exit price would not represent the actual amounts the entity is contracted to receive and would be difficult to measure. Invariably, because of the complexity in measurement, there would be a lack of application consistency between entities.
- (b) We agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligations if that cost exceeds the carrying amount of the performance obligations. Basing the determination of an onerous contract on costs, rather than cost plus a margin, reflects when the effort to fulfill an obligation has exceeded the transaction price and the entity is no longer achieving a margin, i.e. it is no longer profitable for the

entity to fulfill the obligation. If a margin was included in the costs to determine if a contract was onerous or not, one could argue that the contract is not technically onerous since the entity is still earning a profit on fulfilling the obligation.

While we agree with the measurement of onerous contracts based upon costs to complete, the proposed standard will need to address some the areas that were left open in the Discussion Paper. For example, it would be helpful if the proposed standard provided examples of costs that should be included in the assessment of an onerous contract (i.e. direct costs or indirect costs).

In addition, the Discussion Paper also leaves other questions open regarding the remeasurement of performance obligations. For example, if the contract contains multiple performance obligations and one of the performance obligations is deemed onerous but the contract on a whole is deemed profitable, should the onerous performance obligation still be remeasured? Or, if a performance obligation is deemed to be onerous, should a test be performed to see if the overall contract is deemed onerous? Further clarification in this area would be helpful.

- (c) The proposed measurement approach may not provide decision-useful information at each financial statement date in instances in which a company is providing services over long periods of time. In this case, the estimated selling price may change significantly, although it may not trigger an onerous test. The inability to remeasure the performance obligation(s) may result in an original estimate that is no longer relevant.
- (d) For the sake of consistency, we think that all performance obligations should be subject to the same measurement approach.

### Question 11

The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligations. The Boards propose that an entity should recognize those costs as expenses unless they qualify for recognition as an asset in accordance with other standards.

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?
  - (b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.
- (a) In some cases, including amounts that an entity charges to a customer to recover the costs of obtaining the contract in the initial measurement of an entity's performance obligations overstates the performance obligation relative to its economic value. However, we agree with the Discussion Paper that this disadvantage is preferable to the disadvantages of the current exit price (par. 5.35).
- (b) We believe that expensing cost in situations in which services are being provided over a long period of time with the intention of delivery a final product (development of a new technology, proof of concept, audit report, etc) at the end of the arrangement term does not provide decision-useful information. In particular, it is necessary for the entity to incur the costs to generate the final product and the entity is willing to incur those costs with the intention that it will realize a margin upon delivery of the final product. That is, the costs are associated with the development of an asset to the entity: the entity controls the work product (workpapers, the developed know-how, etc); the entity expects to derive a future economic benefit (consideration from the customer); and, the work product is the result of past events. We believe that standard setting, whether in this project or another project, must address this issue in order to avoid entities providing misleading financial information about their assets and liabilities.

**Question 12**

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's standalone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We believe that the proposed model will improve upon existing revenue recognition guidance by allowing the allocation of the transaction price to the performance obligations on the basis of the entity's standalone selling prices of the goods or services underlying those performance obligations. Furthermore, allowing preparers to estimate standalone selling prices where observable prices are not available represents a considerable improvement over existing revenue recognition guidance. This will allow revenue to be recognized when individual performance obligations have been fulfilled, rather than requiring performance obligations to be bundled and revenue deferred due to an inability to estimate selling prices or due to the requirement for VOE or VSOE. The change in the measurement approach from current practice to the proposed standard will allow companies to better reflect the underlying economics of an arrangement.

**Question 13**

Do you agree that if an entity does not sell a good or service separately, it should estimate the standalone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

As mentioned in response to Question 12 above, we agree that if an entity does not sell a good or service separately, it should be allowed to estimate the standalone selling price of that good or service for purposes of allocating the transaction price. We feel that this change will better reflect the underlying economics of an arrangement in instances in which the goods or service can be sold separately (or others sell similar goods and services separately). Otherwise, as discussed in Question 5, we believe that the promises should be aggregated into one performance obligation.