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RE: Exposure Draft - Proposed Accounting Standards Update, Revenue Recognition (Topic 605) Revenue from Contracts with Customers

Williams Companies, Inc. ("Williams") appreciates the opportunity to provide our comments to the Financial Accounting Standards Board ("FASB") on the Exposure Draft for revenue recognition. Williams, through its subsidiaries, finds, produces, gathers, processes and transports natural gas. Our comments are primarily presented as responses to the questions addressed in the Exposure Draft.

Measurement of Revenue (paragraphs 34-53)

Question 4

The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If no, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

Variable consideration:

Our comments related to variable consideration are best presented in the context of the following topics:

Reasonable estimate

The factors currently detailed in paragraph 39 of the Exposure Draft appear to significantly limit the relevance of certain factors when determining whether variable components are considered reasonably estimable. Particularly concerning are the limitations related to information received from third parties and amounts of consideration not expected to be resolved for a long time. Current accounting guidance for many transactions readily allows and even requires estimation of items that would be considered highly susceptible to external factors under this proposal. In accounting for financial instruments, including derivatives, actual market activity and assumptions about market activity are used to determine the fair value. Determining oil and gas reserves requires the use of third party judgments, market activity assumptions and involves long

periods of time. The accounting guidance for asset retirement obligations also requires assumptions that involve long periods of time before resolution. Recently proposed lease accounting guidance requires certain estimations that would not be considered a reasonable estimate under this proposal. Moreover, the estimates required for certain disclosures proposed in this Exposure Draft do not include the same high standard for determining a reasonable estimate.

We recommend the Boards provide further clarification and additional guidance related to the characteristics of variable components that can be considered when determining a reasonable estimate of the transaction price. Also, we recommend the Boards consider the consistency of the proposed factors for determining a reasonable estimate in comparison to current accounting guidance and recently proposed accounting standards.

Variable consideration components

We believe the Boards should clarify the proposed requirement to encompass variable consideration in the measurement of revenues. For example: certain service contracts include a fixed charge that is indexed for inflation on a regular interval, whereby the inflation adjustment component is designed to compensate for increases in the costs to provide services in future periods. In this situation, including inflation rates in the initial estimate of variable consideration to arrive at a total transaction price that will be allocated to performance obligations distorts the pattern of revenue recognition in the same period as the costs incurred to provide the service.

We recommend the Boards provide further clarification on the types of variable consideration components that should be included when determining the transaction price. Specifically, we urge the Boards to address whether certain variable consideration components should be excluded from the estimate of total transaction price when including the component distorts the pattern of recognizing revenue in the same period the costs were incurred to complete the performance obligation.

Changes in transaction price:

The Exposure Draft proposes allocating any subsequent change in transaction price after contract inception to all performance obligations on the same basis as at contract inception. As proposed, any amounts that should be allocated to performance obligations already satisfied will be recognized through revenue as a cumulative effect adjustment in the period in which the transaction price changes. Transaction price changes will primarily occur as a result of revisions to the assumptions used in estimating the transaction price and as such, we believe these adjustments represent a change in accounting estimate. Current accounting guidance requires prospective recognition for changes in accounting estimates.

Recognizing a cumulative effect adjustment in the current period for changes in assumptions used to estimate transaction price would introduce revenue volatility in the income statement that is not representative of actual revenue realized for that period. This could decrease comparability between periods and industry peers.

The Exposure Draft also requires further clarification of the types of changes that may be considered a change in transaction price. For example: in a situation where a performance

obligation is satisfied continuously and revenue is recognized based on a charge per unit, it is not clear whether a change in the timing of the performance obligation that alters the charge per unit would be considered a change in the transaction price.

We recommend only recognizing material changes in transaction price estimates and that such changes are recognized prospectively. We also recommend the Boards provide further clarification and additional guidance related to the scope of what may qualify as change in transaction price.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognized revenue. If not, why?

Williams disagrees with the proposal to reflect a customer's credit risk in the amount of revenue an entity recognizes when satisfying a performance obligation. A requirement to reflect credit risk in transaction prices would introduce greater subjectivity and complexity to revenue measurement while providing no significant improvement in the usefulness of the information. This treatment would distort the consideration agreed upon for fulfilling a performance obligation and the normal matching relationship of revenue to the costs incurred to generate the revenue. While we agree assessment of collectability should be considered in the context of the transaction initially and on an ongoing basis, collectability should be recorded separately from revenue. The current practice of identifying potential credit risk losses through an allowance for doubtful accounts, independent of revenue recognition, appropriately addresses collectability issues.

Ouestion 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree with the proposal to reflect the time value of money when a contract includes a material financing component. We request the Boards provide further guidance for transactions in which a payment is made in advance for services performed over an extended period of time, including a suggested timing for considering discount rate adjustments, if any.

Disclosure (paragraphs 69-83)

Ouestion 10

The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

We believe the proposed disclosure requirements to present a reconciliation of contract balances and disclose detailed information about performance obligations are arduous and should be excluded from the final accounting standard. Such disclosures would provide little additional value to financial statement users in helping understand the amount, timing, and uncertainty of revenue and cash flows from contracts with customers and, in some instances, duplicates information already provided in the statement of cash flows. The proposed disclosures require numerous judgments and complex estimates for which the cost of providing such information is disproportionate to the perceived benefit. Such subjective judgments may also decrease comparability between industry peers.

Ouestion 11

The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If no, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We believe the proposed requirement to disclose the amount of all remaining performance obligations and the expected timing of their satisfaction will be overly burdensome, especially for situations when revenue recognition is not dependent upon estimation of the total transaction price. For example: in a situation where an entity has a single performance obligation that is satisfied continuously and the entity recognizes revenue at a flat per unit rate based on the service provided there is no need to estimate the performance obligation for purposes of estimating a total transaction price for revenue recognition. However, to comply with the proposed disclosure requirement, an estimate of the remaining performance obligation would be required.

In addition, the proposed requirement to disclose the amount of all remaining performance obligations and the expected timing of their satisfaction is inconsistent with conditions set forth in paragraph 24 of the Exposure Draft. Paragraph 24 states that "when an entity transfers promised goods or services to a customer at the same time, it is not necessary to apply the proposed recognition and measurement requirements to each performance obligation separately if accounting for those performance obligations together would result in the same amount and timing of revenue recognition as if they were accounted for separately." Requiring disaggregated disclosures for all remaining performance obligations is inconsistent with the premise that it is not necessary to separately measure performance obligations that are delivered together.

We recommend the Boards eliminate the requirement to quantitatively disclose performance obligations as these disclosures would provide nominal value to financial statement users while placing undue burden on financial statement preparers. Such requirement basically results in the disclosure of forecasted revenues. Instead, the Boards could consider requiring qualitative disclosures about the types of performance obligations and the expected timing to satisfy such performance obligations.

We also believe the proposed requirement to disclose onerous performance obligations duplicates current disclosure requirements. For public companies, disclosure of significant onerous performance obligations is addressed within the Management Discussion and Analysis (MD&A) requirements to disclose significant material trends. If the Boards continue to require additional disclosures of onerous performance obligations for financial statement purposes, we encourage focusing the disclosures on material contracts only.

Effective Date and Transition (paragraphs 84 and 85)

Question 13

Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?

While we understand the rationale of trend preservation in the proposed transition guidance, Williams does not believe the proposed guidance should require retrospective application. Retrospective application has numerous operational challenges and will be onerous to implement. The potential benefit of retrospective application does not sufficiently outweigh the significant time and costs that will be required to provide such information.

We recommend a prospective method of transition. The effective date should align with that of the proposed changes for lease accounting. We also recommend the Boards allow adequate time to make operational adjustments, develop appropriate systems and establish process controls required for transition as well as aligning the effective date of this proposal with the effective date of the lease accounting proposal.

Other Comments

Variable performance obligations:

The proposal does not fully address transactions with variable performance obligations. For example: certain service contracts include a fixed amount of consideration that is received incrementally over a specified period of time to perform services for a customer where the performance obligation can vary period to period over an unspecified timeframe. In these situations where the transaction price is fixed and known at inception of the contract and a variable performance obligation exists, the variability in the performance obligation impacts the ability to allocate the transaction price between the portion of the performance obligation that has been satisfied and the portion that remains unsatisfied. As such, the performance obligation must be estimated in order to allocate the transaction price. The proposal provides little guidance for estimating a variable performance obligations that is similar to and consistent with the proposed requirement for estimating the consideration expected to be received.

Significant judgments:

While Williams recognizes that revenue measurement often requires some level of estimation, we are concerned this proposal introduces a high level of subjectivity in the measurement of revenue that, in absence of providing greater clarity and guidance on the key concepts introduced

in the proposal, may decrease the usefulness of information included in financial statements. Without additional clarification and guidance, producing the significant judgments, assumptions and probabilities required to measure revenue under this proposal along with providing the objective evidence to support such measurements could be arduous and costly.

We appreciate the opportunity to comment on this matter and voice our concerns. We would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

Ted Timmermans

Controller and Chief Accounting Officer

Williams