2011-230
Comment Letter No. 35

redhat

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Ms. Lesilie F. Seidman, Chairman
Financial Accounting Standards Board
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March 12, 2012

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M6xh
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Submitted via electronic mail to director@fasb.org

Subject: File Reference No. 2011-230

Dear Madam and Sir,

Thank you for providing Red Hat, Inc. ("Red Hat") with the opportunity to review and comment on the exposure draft, *Revenue from Contracts with Customers, Revision of Exposure Draft Issued June 24, 2010 ("Exposure Draft"). Red Hat* is the world's leading provider of open source technology solutions and an S&P 500 company. Headquartered in Raleigh, NC, Red Hat has more than 70 offices worldwide.

We are pleased with the Boards' continued consideration of the comments received, including concerns Red Hat expressed in its previous comment letter on the joint revenue recognition project. We remain supportive of the Boards' efforts to converge revenue recognition standards for U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. Following are our comments related to Exposure Draft questions 4 and 5.

Question 4: *For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?*

While a scope exception for performance obligations expected to be satisfied within a year of contract inception is helpful, we continue to believe the primary issue is not administrative costs but rather the potential unintended consequence of accounting considerations resulting in sub-optimal business decisions. In our industry, like others, deals are occasionally bundled to induce diverse customers, often with contrasting perceptions of relative product values, to procure more products or services than they otherwise would have had we priced and sold such items separately. Moreover, certain contract arrangements incorporate multi-elements--strategically tying products and services---in order to extend market share. We believe that requiring entities to assess onerous contracts at the performance level, rather than the overall contract level, will result in accounting considerations outweighing economic considerations resulting in sub-optimal contract negotiations.

We suggest that onerous contract assessments be performed at the contract level consistent with the current guidance under International Financial Reporting Standards.

Question 5: *The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:*

1. *The disaggregation of revenue (paragraphs 114-116)*
2. *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
3. *An analysis of the entity's remaining performance obligations (paragraphs 119-121)*
4. *Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)*
5. *A tabular reconciliation of the movements of the assets recognized from costs to obtain or fulfill a contract with a customer (paragraph 128)*

With the exception of item 4, we believe data from most enterprise financial reporting systems should be currently available to meet the proposed disclosure requirements. With respect to item 4, we believe current reporting systems and processes would require extensive upgrades to meet such frequent, quantitative reconciliations at the performance obligation level.

While we prefer onerous contract assessment be performed at the contract level rather than the performance obligation level, as described in our above response to question 4, if analysis at the performance obligation is required, we believe disclosures should focus on *qualitative* analysis related to *material* changes in onerous contract liabilities. We believe qualitative analysis describing the underlying drivers of material changes in contract liabilities would provide financial statement users with the necessary transparency while financial statement preparers would avoid the potentially significant administrative cost of providing quantitative reconciliations at the detailed performance obligation level.

Thank you again for the opportunity to comment on the proposed revenue recognition standard. If you have any questions regarding our comments, please contact either Paul Bailey or Tracey Thompson at 919-754-4007.

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