



Cisco Systems, Inc. 170 West Tasman Drive San Jose, CA 951344706

Phone: 408 526-4000 Fax: 408 526-4100 http://www.cisco.com

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Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street London EC4M6xh United Kingdom

Submitted via electronic mail to director@fasb.org

Re: File Reference No. 2011-230, Exposure Draft: Revenue from Contracts with Customers

Dear Ms. Seidman and Mr. Hoogervorst:

Cisco Systems, Inc. ("Cisco") appreciates the opportunity to comment on the joint Exposure Draft, *Revenue from Contracts with Customers* ("Proposal" or "Revised Exposure Draft"), recently issued by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") (collectively, "the Boards"). We view this proposed standard as critical and highly impactful to a large number of companies and a significant step towards convergence between U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS").

The Revised Exposure Draft is broadly impactful to all companies and fundamentally changes the revenue recognition concepts previously applied under U.S. GAAP from a risk and rewards model to a control based model. The Boards, preparers, analysts, regulators and other constituents should carefully consider the impacts from a technical accounting, practicality, and operability perspective as its impacts will be pervasive. The estimated costs to implement this proposed standard will be significant and the Boards should consider the impact of the other significant convergence efforts that remain outstanding. A particular aspect that we consider exceptionally difficult is the method of transition from current standards to the Revised Exposure Draft. We believe that allowing preparers the option to use a prospective or modified prospective method, in addition to the retrospective method, could ease the burden of implementation, and shorten the time needed for preparers to transition to the new standard while achieving the Boards' goal of convergence. Each company's facts and circumstances in terms of operational complexities and costs of adoption will vary. Providing companies with the ability to determine the best method of adoption based on its specific operational, risk management, cost, and other considerations, will serve to ensure that the transition is properly managed and risks are appropriately mitigated, while achieving the Boards' desired goal of convergence.

The change management aspect of the overall convergence efforts is considerable and should not be underestimated. The alignment for implementation of the various proposed standards, the costs of implementation, and the impact on companies and key constituents, including investors, needs to be carefully considered and balanced.

Overview and Summary

We are supportive of the Boards' objective of creating a single revenue recognition model that will increase comparability of revenue recognition practices across entities and industries, better align revenue recognition principles with the conceptual frameworks, and further advance the Boards' convergence efforts. We appreciate the openness to feedback and extensive outreach by the Boards and their respective staffs over the course of the development of both the initial and Revised Exposure Drafts. We appreciate that many of the original concerns raised from the initial Exposure Draft have been effectively addressed through a highly interactive and iterative process and we believe that significant progress has been made.

There remain a number of areas where the concepts may be difficult to apply, do not appear cost beneficial, or both. Also, there are several areas in this Proposal that will require a greater level of judgment where we believe the Boards should provide further clarity or consider a more practical approach. Lastly, while we agree with the Boards' objective of providing additional information to users of financial statements, we are very concerned about the proposed disclosure requirements, which are extensive, and are not considered in the context of a broader disclosure framework. We have outlined those areas below and in our response to the questions in the Proposal included in the Appendix to this correspondence.

Specific Comments

Transition

Each company's facts and circumstances regarding the complexities and associated costs with adoption of the Revised Exposure Draft will vary as factors including systems capabilities, processes, resources, costs, extent of business and financial statement impact, and user needs are unique to each company. Keeping the primary goal in mind of converting all companies on a global basis to the new standard, we believe that flexibility with regard to adoption method should be provided such that companies can make the optimal choice in consideration of their company specific situation and the needs of their financial statement users. Consequently, we believe that the Proposal should provide companies the option to adopt using the retrospective method prescribed in the Revised Exposure Draft as well as a modified prospective approach.

While we agree that retrospective application would provide users of financial statements with useful information, we believe this may be extremely costly and burdensome for some financial statement preparers and user needs may be able to be met through the use of a robust modified prospective based approach. For many financial statement preparers, particularly those with numerous, large and complex multiple-element arrangements, the retrospective application of the proposed guidance would require preparers to track, monitor and account for transactions under current U.S. GAAP as well as the current Proposal for the period to be applied retrospectively. The costs to track and report under dual accounting principles for an extended period of time may be extremely cost prohibitive for some companies. For example, for Cisco, we would essentially have to double the number of resources we have performing and executing revenue arrangement technical accounting assessments today as well as enable systems to maintain dual accounting records. We expect that the incremental costs would be substantial. Many companies. including Cisco, have developed significant custom and complex accounting system solutions to comply with the current revenue recognition guidance and these proposed changes would require significant modifications to those systems. The lead times required to make the necessary system and process changes and provide three years (and potentially five years including financial highlights) of comparative financial data would be significant. As the application of the Proposal requires specific transaction level analysis and accounting, retrospective application will require dual record keeping for each individual transaction for each period reported. We are not aware of a system solution that exists today which would provide such dual tracking capabilities at a transactional level, for a large, complex, multinational, such as Cisco. The ability to maintain dual ERPs is not feasible for large, complex enterprises.

We believe the Proposal should allow for retrospective application, but also allow for modified prospective application on all new contracts as of a pre-established effective date. Although we have not completed an assessment of the impact of retrospective application, we believe approximately 80% or more of our existing contracts begin and end within the same annual reporting period. We do not believe the benefits of restating the remaining 20% would outweigh the costs. However, we would still need to assess and track the full population of transactions, as we will not know at the outset which transactions will begin and end in the same annual reporting period. Also, allowing modified prospective application would shorten the lead time necessary for preparers to adopt the new standard. Additional quantitative and qualitative disclosures regarding the current and expected future impact of this standard on the timing of an entity's recognition of revenue would assist financial statement users assess current and expected future revenue trends. We believe an approach similar to that used for the adoption and transition to Accounting Standard Updates: Standards Updates: No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, and No.2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements has proven to be successful. As we adopted those changes, we believe we were able to meet the needs of our financial statement users while also maintaining implementation costs within reasonable parameters.

We believe the ultimate goal should be to align all companies on the same revenue standard. With that end goal in mind, each company should be provided the flexibility to leverage the adoption method that is optimal for their company and its financial statement users. We have a recent proof point with the adoption of the recent changes for multiple-deliverable revenue arrangements where the flexibility was afforded by the FASB which, in our view, provided both companies and users with appropriate decision useful information on balance with the cost/benefit trade-off. We strongly encourage the Boards leverage this very recent successful approach.

Distinct Goods and Services

We believe that the Boards have improved the proposed model significantly from the initial Exposure Draft. We agree with the concept that "distinct" goods or services represent separate performance obligations. However, we have concerns regarding implementation of the concept of bundled goods or services introduced in paragraph 29 of the Proposal. We are particularly concerned about the application of paragraph 29 (b). We presently rely on guidance in the existing literature, particularly in ASC 985, that provides criteria for understanding when services are essential. The concept of services being essential appears to be closely related in concept to those in paragraph 29 (b), however these criteria in ASC 985 are not included in the Proposal. We would ask the Boards to consider including the indicators/criteria set forth in ASC 985 or to include additional implementation guidance that would help companies understand when goods and services are deemed to be highly interrelated. We have also discussed this concern as part of our response to Question 1 in the Appendix.

Management Judgment

The Proposal will introduce new areas that require the application of significant management judgment. While we are supportive of a principles based approach, we are concerned that these new areas requiring significant judgment could result in inconsistency in practice and we therefore recommend that further clarity be provided in the Proposal. The areas of particular concern are as follows:

Variable Consideration - We understand that the Boards' overall objective is to recognize revenue at an amount that reflects the value of consideration that the entity expects to be entitled upon transfer of goods or services to a customer. We also understand the Boards have received feedback from financial statement users that recording variable consideration at the amount the entity expects to receive would prove useful and more relevant than the information produced under the existing revenue standards. Although we believe that the Boards have made a significant improvement by placing an overall constraint on revenue to that which is reasonably assured, we believe further restrictions should exist related to the recognition of variable consideration. Specifically, we believe the Boards' should establish a clear and defined minimum threshold such as "probable" before revenue can be recognized. This term may have different meanings globally; consequently, we would suggest the term be clearly defined in the Revised Exposure Draft or through the implementation guidance. We believe such a threshold will help conceptually in recording a contract asset (or any asset); as such an asset will be more likely to meet the U.S. GAAP definition of an asset, as a probable future economic benefit, as set forth in FASB Concept Statement 6. Additionally, we believe that the users of the financial statements would expect that the revenue recognized represent a probable future cash inflow as we would assume that users' expectation of the reliability of the revenue measure will be high. We are concerned that the proposed application of this concept will lead to inconsistency in practice. As estimating variable consideration is subjective, we believe that including a minimum threshold, as outlined above, will provide greater comparability across companies and help ensure the integrity and consistency of the application of the guidance in practice and increase the reliability of the revenue measure beyond what may be achieved by the current Proposal.

Additionally, we are concerned that with an inconsistency related to the treatment of sales-based royalties on sales of intellectual property licenses. We believe that this area should be expanded to include all economically similar transactions where the ultimate revenue outcome is determined by a party, other than the seller. We believe that a better approach is to place an overall minimum threshold on all variable consideration, as outlined above. We are concerned that the guidance, as drafted, may result in a vendor recording revenue associated with variable consideration before the reseller would be able to. We discussed this further in response to Question 3 in the Appendix and have included an example of a transaction for which we believe the principle outlined in paragraph 85 should apply.

Customer Credit Risk - As with variable consideration, we believe that there should be a minimum recognition threshold related to collectability that must be met in order to recognize revenue. We believe that such a threshold should require collection to be "probable", consistent with our preceding discussion. This assessment should be made at the outset of the transaction. We have outlined our views in response to Question 2 in the Appendix.

Incremental Costs of Obtaining a Contract - We do not agree with the Boards' conclusion that the incremental costs of obtaining a contract should be capitalized, particularly as they relate to sales commissions. In BC224, the Boards express concern about expensing a sales commission at the inception of a long-term agreement as it would fail to acknowledge the existence of an asset. Based on further discussions in BC225, it would appear that this asset is not part of the contract asset, as it is required to be presented separately. The issue the Boards appear to be addressing is related to the matching of these costs to the period in which the benefit is recognized. We would acknowledge that there are circumstances, particularly within certain industries, where expensing these items upfront could potentially produce confusing or even misleading financial information. We also acknowledge that the Boards have provided a practical expedient; however, we believe that the intended benefits in this area are outweighed by the incremental process, systems, and other costs that it will impose unnecessarily on many other companies. As such, we suggest an approach that would only require capitalization of these costs in situations where such costs are significant or highly variable. We would also be supportive of maintaining existing U.S. GAAP which provides for a policy election. We are not only concerned in this area in terms of operationality; we are also concerned with the recognition of an asset where the expected future benefit is uncertain. Furthermore, other than the notion of "matching", which has been largely disconnected from revenue recognition in U.S. GAAP for a number of years (except for certain specific industries, such as long term construction contracts), we do not understand why the Boards would require recognition of an asset solely for purposes of reintroducing the matching concept. We believe that this area of concern requires further consideration and recommend that it be removed from the scope of the Proposal and separately addressed as part of a broader project on cost capitalization. We understand that the Boards have provided a practical expedient for those contracts with terms less than one year. Although, this is somewhat helpful it may lead to differing accounting treatments for contracts with similar characteristics differentiated only by an arbitrary one year threshold.

Disclosures

We agree with the Boards' objective of providing additional information to investors and other users of financial statements, but the cost and burden imposed on preparers of financial statements should be taken on balance as well as whether the proposed disclosures truly provide decision useful information. We believe the disclosures should be principles-based allowing preparers to provide the information necessary for users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As this standard applies to a number of industries, we believe this approach will allow preparers to provide relevant information to users of the financial statements. We also believe that these disclosures should be considered in the context of an overall disclosure framework project. There are a number of projects currently underway, including the leasing project and we believe there needs to be a consistent approach to disclosure that meets financial statement user's needs, avoids significant redundancy, and takes into consideration the cost and benefits from both a user and preparer perspective. We believe disclosures should be evaluated at a holistic level as opposed to continuing incremental additions as new standards are adopted. The disclosure requirements of the Revised Exposure Draft are an example of these types of incremental additions where the requirements are not determined within a broader disclosure framework, but are determined solely from the perspective of the specific standard being introduced. This approach has led to disclosure overload over the course of many years.

We have specific concerns regarding the proposed requirement to disclose disaggregated revenue. We believe the current information companies provide in accordance with U.S. GAAP segment reporting requirements is adequate and meets the needs of investors. Unlike current segment reporting guidance, the proposed guidance on disaggregation of revenue does not carry an overarching framework or principle which can be applied, such as restricting the disclosure to relevant information based on how management views and operates the business.

With respect to the other proposed interim disclosure requirements, we believe they should be included to the extent they provide an update to the previously filed annual report consistent with current practice under existing SEC rules and regulations. In general, we believe our concerns, and the concerns of other public filers, could be addressed through the development of a more broadly developed disclosure framework, rather than developing reporting requirements on a project-by-project basis, which will further perpetuate the disclosure overload issue the Boards are also attempting to address in parallel.

Consistency Across Convergence Projects

As the Boards make progress on the convergence projects, we believe one of the core objectives of the Boards should be to ensure consistency across the accounting standards, particularly with respect to transition methodology and disclosures. As currently drafted, there are inconsistencies in the transition approach for leasing, financial instruments, revenue recognition and other projects, which will result in inconsistencies and reduce comparability. We are particularly concerned that inconsistencies may develop between the Revised Exposure Draft and the Proposed Accounting Update on Leases (Topic 840). These two standards are closely related and they should both reflect clear and consistent guidance on areas such as the definition of a performance obligation, the interaction between the two standards, and transition and disclosure requirements. We believe these areas of concern need to be resolved before the standards can be issued.

Selected Questions

Please refer to the Appendix for our detailed responses to selected questions raised by the Boards.

We thank the Boards for the opportunity to provide our comments on the Revised Exposure Draft. If you have any questions regarding our letter or would like to discuss our views in further detail, please feel free to contact me directly at (408) 526-7815 or prbhatt@cisco.com.

Sincerely,

Prat Bhatt

Vice President, Corporate Controller and Principal Accounting Officer

Cisco Systems

PudBlett

Appendix: Detailed Responses to Questions on the Revised Exposure Draft

Question 1:

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Response:

We agree with the Proposal that when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. However, we have concerns about the application of this principle to bundled transactions. We are particularly concerned about the application of paragraph 29 (b). We presently rely on guidance in the existing literature, particularly in ASC 985-605 paragraphs 78-85, that provides criteria for understanding when services are essential. The concept of services being essential appears to be closely related in concept to those in paragraph 29 (b), however these criteria in ASC 985 are not included in the Proposal. If the Boards determine not to augment the Revised Exposure Draft criteria in ASC 985, we believe it would be beneficial to augment Example 4 in the implementation guidance as follows:

Scenario 1

An entity licenses customer relationship software. The software is considered to be off-the-shelf software in that it can be used without significant customization. However, the customer in this case has requested that the software vendor provide customization services that included significant modifications to the features and the functionality of the code. In addition the vendor will be building complex interfaces. The customer has agreed to a total fee of \$600,000, but has requested that half of the payment be made up front and the remainder be paid after successful completion and acceptance of the software and services.

Based on the fact that the vendor is significantly modifying the software, building custom interfaces, and the timing of the payment is coincident with the successful completion of the services, the vendor is providing a significant service of integrating the goods and services (the license and the consulting services) into the combined item for which the customer has contracted. Hence, the entity would account for the license and consulting services together as a single performance obligation. Revenue for that performance obligation would be recognized over time by selecting an appropriate measure of progress toward complete satisfaction of the performance obligation (assuming the criteria in paragraph 35 are met for satisfaction of a performance obligation over time).

Scenario 2

An entity licenses customer relationship software. The software is considered to be "off-the-shelf" software in that it can be used without significant customization. In addition to the software license the customer has issued a request for proposal on customization services on the software. In this case, the services involve significant modification to the existing code of the software. The software vendor routinely provides these services and is highly qualified to perform them; however, these services are also available from multiple other venders who are equally qualified to provide the services. As these services do not carry a significant degree of difficulty, the customer, in this case, is looking to find the vendor who will provide these services at the lowest cost. The software vendor wins the bid on providing the services. The license will be paid on net 30 terms, and the services will be billed monthly, with net 30 terms on a time-and-materials basis.

Based on the fact that that these services are available from other vendors, do not carry a significant degree of risk, and the vendor is an experienced provider of these services, they do not represent a significant service of integrating the good or service into the combined item for which the customer has contracted. Hence, the entity would account for the license when transfer of the license is made to the customer. The consulting services would be recognized over time by selecting an appropriate measure of progress toward complete satisfaction of the performance obligation (assuming the criteria in paragraph 35 are met for satisfaction of a performance obligation over time).

We believe it would be helpful to preparers to have more contrasting examples to aid the understanding of application of paragraph 29 (b) to bundled arrangements.

Question 2:

Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

Response:

We do not agree with the Boards' conclusion that collectability is a measurement issue. We understand from BC170 that the Boards believe there are significant consequences in having collectability as recognition criteria. Those were a) that the Boards would have to establish a collectability threshold, b) that collectability is established at a portfolio level and would be difficult to assess at a contract level and c) that it is inconsistent with the accounting for receivables which incorporates the assessment of collectability in the measurement of the financial asset. We will address each of those below:

- a) The Boards would need to establish a probability threshold—those thresholds exist in both IFRS and US GAAP as outlined in BC168, and they appear to be relatively well aligned. We believe either definition would be sufficient.
- b) That collectability is established at a portfolio level and would be difficult to assess at a contract level—although collectability for purposes of valuation of existing receivables may be performed at a portfolio level, the granting and monitoring of credit is performed at an individual customer level. This is the mechanism currently used to monitor and determine if collectability is reasonably assured.
- c) That it is inconsistent with the accounting for receivables which incorporates the assessment of collectability in the measurement of the financial asset—We do not understand the conceptual basis for recording an asset impairment at the inception of a transaction for which is it not probable that collection will occur. We do not believe that an asset is created as it does not meet the U.S. GAAP definition of an asset.

We believe that there should be a minimum recognition threshold related to collectability that must be met in order to recognize revenue. We believe that such a threshold should require collection to be "probable" consistent with our preceding discussion. This assessment should be made at the outset of the transaction. Additionally, we believe a minimum threshold will ensure a level of integrity, consistency and comparability for users of the financial statements.

Question 3:

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Response:

In general, we believe that Paragraphs 81 and 82 are an improvement to the overall revenue model and will help ensure consistency among preparers. Although we believe that the Boards' have made a significant improvement by placing an overall constraint on revenue to that which is reasonably assured, we believe further restrictions should exist related to the recognition of variable consideration. Specifically, we believe the Boards' should establish a clear and defined minimum threshold such as "probable". This term may have different meanings globally, consequently, we would suggest the term be clearly defined in the Revised Exposure Draft or through the implementation guidance. We believe such a threshold will help conceptually in recording a contract asset (or any asset); as such an asset will be more likely to meet U.S. GAAP definition of an asset, as a probable future economic benefit, as set forth in FASB Concept Statement 6. Additionally, we believe that the users of the financial statements would expect that the revenue recognized represents a probable future cash inflow as we would assume that users' expectation of the reliability of the revenue measure will be high. We are concerned that the proposed application of this concept will lead to inconsistency in practice. As estimating variable consideration is subjective, we believe that including a minimum threshold, as outlined above, will provide greater comparability across companies and help ensure the integrity and consistency of the application of the guidance in practice and increase the reliability of the revenue measure beyond what may be achieved by the Proposal.

Additionally, we request that the Boards review paragraph 85 and consider whether this should be more broadly applied to all economically similar transactions (i.e. those where factors outside the entity's control would ultimately determine the amount of revenue to be recognized). Based on our review of BC203, the Boards did not articulate why this should not be applied more broadly. We believe that a better approach is to place an overall minimum threshold on all variable consideration, as outlined above. We are concerned that the guidance, as drafted, may result in a vendor recording revenue associated with variable consideration before the reseller would be required to. We have shared an example of a transaction that we believe is economically similar to a sales-based royalty that should receive similar treatment with your respective staff members and have included it below for your consideration:

Example

Fact Pattern:

- Company A manufactures computer servers and related equipment and, on occasion, has used internally developed equipment to establish a data center to provide hosting services for customers.
- Company A enters into an agreement with Service Provider B to host data center on Customer A's facilities
- Company A can sell capacity on the data center to other providers but presently Service Provider B is its only customer

Service Provider B agrees to a committed annual fee of \$10M for three years

In addition to its annual fee, Service Provider B agrees to a "success bonus" for subscribers above certain levels to be measured at the end of year three. This success bonus is not within the control of Company A, as it is solely based on Service Provider B's efforts. The success bonus amount will vary between \$0 and \$10M depending on how successful Service Provider B is in obtaining subscribers for the data center.

Revenue Guidance

Company A will recognize the fixed amount of consideration of \$10M and determines that it is reasonably assured some amount of the success based bonus. Company A determines, based on history with similar customers and transactions, that it will book the most likely amount of success bonus of \$5 million. In year one, and each subsequent year it will recognize \$10M annual fee plus \$1.67M (\$5M/3 years = \$1.67M) of performance bonus as the services are provided to Service Provider B.

Our concern with this example is that had Company A sold intellectual property to Service Provider B it would have been precluded from recognizing revenue on a very similar economic transaction. We believe that other examples exist in other industries including insurance and advertising. We ask the Boards reconsider broadening paragraph 85 to include economically similar transactions.

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 a 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?

Response:

We do not agree with the proposed scope of the onerous test. We believe that the onerous test should be applied at the unit of account at which negotiations occurred with the customer, which in many cases would be at the contract level. We believe this would be the most representationally faithful depiction of the underlying economics of the transaction. For example, certain performance obligations may traditionally be sold at a loss with the understanding that the overall transaction will be profitable. We do not believe recognizing that loss up-front is reflective of the underlying economics of the overall transaction.

Question 5:

The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and 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 the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements

Response:

We agree with the Boards' objective of providing additional information to investors and other users of financial statements, but the cost and burden imposed on preparers of financial statements should be taken on balance as well as whether the proposed disclosures truly provide decision useful information. We believe the disclosures should be principles-based allowing preparers to provide the information necessary for users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As this standard applies to a number of industries, we believe this approach will allow preparers to provide relevant information to users of the financial statements. We also believe that these disclosures should be considered in the context of an overall disclosure framework project. There are a number of projects currently underway, including the leasing project and we believe there needs to be a consistent approach to disclosure that meets financial statement users' needs, avoids significant redundancy, and takes into consideration the cost and benefits from both a user and preparer perspective. We believe disclosures should be evaluated at a holistic level as opposed to continuing incremental additions as new standards are adopted. The disclosure requirements of the Revised Exposure Draft are an example of these types of incremental additions where the requirements are not determined within a broader disclosure framework, but are determined solely from the perspective of the specific standard being introduced. This approach has led to disclosure overload over the course of many years.

We have specific concerns regarding the proposed requirement to disclose disaggregated revenue. We believe the current information companies provide in accordance with U.S. GAAP segment reporting requirements is adequate and meets the needs of investors. Unlike current segment reporting guidance, the proposed guidance on disaggregation of revenue does not carry an overarching framework or principle which can be applied, such as restricting the disclosure to relevant information based on how management views and operates the business.

With respect to the other proposed interim disclosure requirements, we believe they should be included to the extent they provide an update to the previously filed annual report consistent with current practice under existing SEC rules and regulations. In general, we believe our concerns, and the concerns of other public filers could be addressed through the development of a more broadly developed disclosure framework, rather than developing reporting requirements on a project-by-project basis, which will further perpetuate the disclosure overload issue the Boards are also attempting to address in parallel.

Question 6:

For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Response:

We believe that existing GAAP is sufficient in this area and this issue should not be part of the revenue project.