June 30, 2015

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-250, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing

Dear Ms. Cosper:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to comment on proposed Accounting Standards Update (ASU) - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

The Committee is a voluntary group of CPAs from public practice, industry, education and government. This comment letter reflects the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

We appreciate and support the Board’s efforts to provide clarification on Topic 606 implementation issues. The Committee’s responses to specific questions posed by the Board are included below.

**Question 1:** Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

In general, the Committee believes that introducing optionality results in an inconsistent application of guidance across entities, so we disagree with the Board’s proposed change. The Board should reconsider the benefits of optionality, which we understand include practical expediency, versus the costs of decreasing comparability.

**Question 2:** Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.
The Committee holds multiple views on the issue of identifying only those performance obligations that are material.

As noted in Paragraph BC8 of the ASU, entities are expected to assess whether performance obligations are immaterial through the application of the materiality concept described in FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting (CON 8). CON 8 describes materiality as “an entity-specific aspect of relevance based on the nature and magnitude or both of the items to which the information relates in the context of an individual entity’s financial report.” It is unclear how this concept of materiality can be applied to determine whether a performance obligation is material at the contract level or how it could be applied consistently across entities. The Board should consider developing a topic-specific definition of “material.” Alternatively, the Board could use a term such as “significant,” which is widely understood and applied.

Alternatively, other Committee members believe the concept of materiality should not be applied at an individual contract level. While a performance obligation may be immaterial in the context of a single contract, if multiple such contracts exist, those immaterial performance obligations may aggregate to an amount that is material to the financial statements. These Committee members agree with the Alternative Views expressed in the ASU and consider this proposed amendment to be unnecessary as the concerns raised about immaterial performance obligations appear to stem from audit requirements rather than issues with the core principles within Topic 606.

Question 3: Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

Committee members disagree with the proposed amendment as it impacts cases where the seller is obligated to replace goods damaged in transit. Under the framework in Topic 605, which emphasizes risks and rewards, a seller who agrees to replace sold goods damaged in transit would not record revenue from the sale until the goods reach the customer and therefore would not identify the protection provided as a separate deliverable in the arrangement. Under Topic 606, the seller would recognize revenue from the sale when control transfers to the customer (i.e. shipping point), but the seller is providing a service (insurance) while the goods are in transit. A third party insurer would have to defer the premium on the contract. It is not clear why the Board would permit different treatment by the seller, who in this case is providing the same service as an insurer. Accordingly, we recommend that the Board not provide separate guidance on shipping when that activity occurs after control has transferred to the buyer. If the Board moves forward with its amendment regarding immaterial performance obligations, it should not provide separate guidance on shipping for the reasons set forth in the Alternative Views.

Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

In general, Committee members support the proposed revisions to paragraph 606-10-25-21 and the related examples. The revisions provide a needed level of clarification and will improve users’ ability to apply the guidance in a consistent and comparable manner. However, Committee members raised
questions regarding the conclusion to the example given in Case E, paragraphs 606-10-55-150G through 606-10-55-150I. In Case E, the seller determines that “the customer can benefit from the equipment together with other readily available resources (that is, consumables it could obtain from the entity or other entities)…Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 606-10-25-19(a).” The seller, however, is the only party that produces the consumables. If the seller stops producing the consumables, or alters the consumables in some way that makes them incompatible with the customer’s purchased equipment, the customer would no longer be able to use the equipment. If the equipment were not distinct from the consumables, the seller would have to combine the two and recognize revenue over the three-year term of the agreement. Committee members were unclear as to why this arrangement was different from a license of symbolic intellectual property.

**Question 5 through Question 7:** Revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples.

Committee members disagree with the proposed revisions to the licensing model. We understand that the Board’s intention is to help operationalize Topic 606; however, introduction of the terms “symbolic” and “functional” to differentiate the accounting for intellectual property introduces a new model of revenue recognition that we believe is unnecessary and creates confusion. Further, the new model presumes the licensor will undertake activities during the term of the license that significantly affect the intellectual property that is the subject of the license. We do not believe that presumption is necessarily correct. For example, the right to the Brooklyn Dodgers trademark is held by Major League Baseball. When Major League Baseball licenses the use of the Brooklyn Dodgers name and logo, the value to the license is based on what the Brooklyn Dodgers did before moving to Los Angeles many years ago. There are no ongoing activities that could significantly affect the value of the intellectual property, so requiring the licensor to recognize revenue over the term of the arrangement does not make sense. Some committee members have an alternate view that certain activities associated with protecting a trademark, like that of the Brooklyn Dodgers, do constitute ongoing activities that impact the value of a licensed asset.

We suggest that licensing be evaluated like any other transaction with customers. Facts and circumstances should be assessed to determine if the performance obligation is satisfied at a point in time or over time. The nature of the intellectual property should have no bearing on that decision. Alternatively, if the Board decides to retain the functional/symbolic framework, we suggest that the Board make the symbolic category a rebuttable presumption. Alternatively, some committee members believe that the inclusion of such a rebuttable presumption in the guidance would not be operable.

**Question 8:** Would paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property? If not, what alternatives do you suggest and why?

Committee members support the Board’s proposed clarification of guidance on sales-based and usage-based royalties. We believe that the proposed amendments will improve consistency in application of the guidance across entities.

* * *
Committee members had one additional comment that relates to the exposure draft process. Although the Board is in compliance with its Rules of Procedure, which require a minimum of 25 days to comment on this ASU, we feel that the time provided to comment on such significant changes to Topic 606 is inadequate. The Board should provide a minimum of 60 days to comment on such changes.

As always, the Committee appreciates the opportunity to express its opinion on the proposed guidance changes. We would be pleased to discuss our comments in greater detail at your convenience.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Ryan Brady, CPA
Vice Chair, Accounting Principles Committee
APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2015-2016

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)
- Ryan Brady, CPA (Vice Chair)  Grant Thornton LLP
- John Hepp, CPA  Grant Thornton LLP
- David Jamilowski, CPA  Baker Tilly Virchow Krause, LLP
- William Keirse, CPA  Ernst & Young LLP
- Scott Lehman, CPA (Chair)  Crowe Horwath LLP
- Reid Mitchell, CPA  Wipfli LLP
- Elizabeth Prossnitz, CPA  BDO USA LLP

Medium: (more than 40 professionals)
- Timothy Bellazzini, CPA  Sikich LLP
- Christopher Cameron, CPA  Kutchins Robbins & Diamond Ltd
- Michael Kidd, CPA  Mowery & Schoenfeld LLC
- Matthew Mitzen, CPA  Frost Ruttenberg & Rothlatt PC
- Krunal Shah, CPA  Mitchell & Titus LLP
- Jeffery Watson, CPA  Miller Cooper & Company Ltd

Small: (less than 40 professionals)
- Peggy Brady, CPA  Selden Fox, Ltd.
- Marvin Hoffman, CPA  Bronswick, Reicin, Pollack, Ltd.
- Brian Kot, CPA  Cray Kaiser Ltd CPAs
- Joshua Lance, CPA  Joshua Lance CPA, LLC

Industry:
- Rose Cammarata, CPA  CME Group Inc.
- Anand Dalal, CPA  Toji Trading Group LLC
- Ashlee Earl, CPA  Seaway Bank and Trust Company
- Jeffrey Ellis, CPA  FTI Consulting, Inc.
- Farah Hollenbeck, CPA  Abbvie
- Marianne Lorenz, CPA  AGL Resources Inc.
- Michael Maffei, CPA  GATX Corporation
- Ying McEwen, CPA  CNH Industrial N.V.
- Anthony Peters, CPA  McDonald’s Corporation
- Martin Ross, CPA  Riveron Consulting LP
- Amanda Rzepka, CPA  Jet Support Services, Inc.
- Richard Tarapchak, CPA

Staff Representative:
- Gayle Floresca, CPA  Illinois CPA Society