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October 22, 2010

Technical Director
File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via Email to director@fasb.org

RE: File Reference No. 1820-100, Proposed Accounting Standards Update, *Revenue Recognition (Topic 605)*

Dear Technical Director:

We are pleased to comment on FASB's Proposed Accounting Standards Update, *Revenue Recognition*. We support the Board's objectives to develop one framework for accounting for revenue and to simplify the requirements entities need to consider, as well as to move toward convergence with the IASB in this area. Though we support the Board's efforts in this area, we have concerns whether the proposed principles based model can effectively address the various ways that revenue is recognized across all industries, especially as it relates to the construction industry. In addition we have other specific observations regarding the Exposure Draft (ED) described further below and in Attachment 1.

Overall Comments

We understand the Board's goal of reducing the multitude of guidance that currently exists for recognizing revenue. The current level of accounting on this topic creates significant complexity for preparers, auditors and users and therefore a comprehensive solution is needed. On the other hand, the current level of guidance has been developed over many years to address the many ways that different industries conduct their business, delivering goods and services and the recognition of revenue from those goods and services. Therefore the development of a principles' based model needs to be responsive to the many different ways revenue is recognized and provide sufficient implementation guidance to apply that model.

We believe the ED does not provide sufficient clarity for applying the proposed model in the construction industry. We include all companies that apply the revenue recognition guidance contained in SOP 81-1 originally, now codified in ASC 605-35, in this category. The current ED provides more subjectivity and the opportunity for wide interpretation in applying its principles as it relates to the construction industry. For example, the implementation guidance (IG 43 – Example 11) indicates that many of the tasks performed during construction, such as foundation

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development, structure erection, piping and wiring are integrated under the entire project management service while site preparation and finishing is not. We believe two individuals with similar knowledge and understanding could arrive at different conclusions regarding this example and whether this results in a single contract or multiple contracts and whether the activities are distinct or not.

This was also evidenced in a recent information webinar presented by the Construction Financial Management Association (CFMA), which included a panel of preparers, auditors, surety bond providers, and FASB where this issue was discussed and resulted in mixed views on this interpretation. We understand many of the industry participants viewed the site preparation and finishing work the same as other activities under the contract. We believe this simple example, which is a very common fact pattern in the construction industry, highlights potential confusion in applying the ED provisions and have concerns that more complex contracts will result in even more diversity in how the revenue recognition principles are applied.

In addition to the above concerns, we understand one of the primary user groups to the construction industry, surety bond providers, have also expressed some concerns with the ED, which include; substantial subjectivity, risks of manipulation, lack of comparability and loss of balance sheet indicators. These users have indicated that decision useful information they need, will not be provided on a consistent and reliable basis under the proposed model and therefore they continue to prefer percentage-of-completion accounting. Should the final standard not address these issues, we are concerned that the preference for percentage-of-completion accounting by these users will be required, which could result in either the need for multiple accounting models by preparers or reporting that reflects departures from GAAP. While these users do not represent all users in the construction industry, these observations strongly suggest that the proposed ED does not meet the needs of some of the primary users in this industry.

Performance Obligations versus Contract Segmentation

The ED requires a two tier approach to allocating contracts for revenue recognition. First, an entity shall evaluate a single contract to determine whether it should be segmented into two or more contracts based on independent pricing. Second, the entity should evaluate each contract (after segmenting) to determine whether separate performance obligations exist based on the obligations being distinct. Paragraph 15(a) and Paragraph 23 (a) are virtually identical when discussing segmenting and performance obligations. This creates unnecessary complexity to the ED and we recommend deleting the requirement to segment a contract and provide for evaluation of performance obligations only.

Disclosure Requirements

We believe the disclosures required are overly extensive and do not appear operational for many companies. We are also concerned with the inclusion of forward looking information contained in the financial statements which are then subject to audit procedures. We believe forward looking information is better included in disclosures outside of the basic financial

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statements where it may be subject to safe harbor protection. We provide specific comments on the disclosure requirements in Attachment 1.

Retrospective Application

We understand the benefits of applying retrospective application as described in the basis for conclusions, however, we do not believe it is practical or operational due to the many judgments and estimates required to be made under the ED, especially for long term contracts. It is also uncertain whether preparers will be able to reliably determine the amounts that would have been recognized in the past given the subjective judgments necessary to apply the ED.

Implementation Guidance

As previously mentioned, the ED replaces many different types of previously established GAAP that have been developed over many years with a principles based model. We support the Board's decision to include implementation guidance and helpful examples; however, we believe that many of the examples use simple fact patterns to demonstrate the principles. We also observe that the thought process and basis for the conclusion reached in the examples are not always clear enough in order to apply the concepts to other more complicated fact patterns. While we understand the Board's reluctance to provide a cookbook of examples, we believe it is critical to include sufficient examples and textual conclusions to help users apply the new revenue recognition model. We have provided specific comments to several of the examples to illustrate this point in Attachment 1.

Should you have any questions please contact James A. Dolinar.

Very truly yours,

Crowe Horwath LLP

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Attachment 1

Disclosure Requirements - Questions 10 - 12

As previously discussed, we believe the disclosures are extensive and recommend a careful evaluation of the cost benefit of providing all of these requirements. We have the following comments regarding specific paragraphs.

 Paragraph 74 Disaggregation of revenues – this disclosure requirement significantly expands the level of detail provided in financial statements, especially for nonpublic entities. We believe similar criteria to that provided in segment reporting would be useful to clarify the level of disaggregation needed. Specifically, we believe a focus on the information that the chief operating decision maker uses in evaluating revenues would be the appropriate basis for disaggregation.

It is also not clear if the disaggregation of revenue is required to be presented on the face of the income statement or if note disclosure is sufficient. If either approach is allowed, no change is necessary; however, if the Board intends this presentation to be on the face of the income statement, we believe the final standard should be very clear on this requirement.

- Paragraph 75 Reconciliation of contract balances these requirements appear burdensome and require a significant amount of information that in some cases is not currently captured by accounting systems. We recommend performing a thorough study of this information before concluding these should be required disclosures.
- Paragraph 78 Performance obligations we believe this disclosure is not appropriate to include in the basic financial statements, given the inherent uncertainty in prospective information. We believe information becomes less reliable the further out it is projected. In addition, there are no safe harbors available when provided as part of the financial statements. We believe the amount of current backlog information is useful information to disclose.

Implementation Guidance – Question 14

The following comments address specific issues identified regarding select examples.

Example 8 – Franchise rights

This example concludes that the entity cannot reasonably estimate future royalty payments because of the following facts: they have not yet operated in that region and the entity does not have experience with that type of franchise agreement, therefore the fixed fee is allocated to the other performance obligations. This example does not address the more common types of situations established franchisors typically encounter. In many situations the franchise agreement has been used many times in different regions or markets with new franchisees. It is unclear if the conclusion provided in the example would have changed for an established franchisor entering a new market, where only one of the criteria used in the example was met. We recommend including a contrasting example using a common fact pattern to provide guidance in those situations.

Example 11 – Construction contract

See previous comments regarding this example.

Example 23 – Slotting fees

This example uses a simple illustration for how to recognize slotting fees. We believe the example is not indicative of the more common practice whereby the slotting fees are not related to one purchase, rather they relate to purchases over a certain time period, accordingly it is not clear how the allocation would be made in those situations. In addition, the example indicates that the fair value of the slotting fees related to those services of stocking, displaying and supporting the products would be recognized as an expense. As stated above, the slotting services are normally performed over a period of time; therefore it is not clear whether the expense is recorded immediately or over some other method. We believe the final standard should provide a more robust example to illustrate more common fact patterns.

Example 24 – Sales incentive

The example provides a simple fact pattern for manufacturers issuing coupons. Large manufacturers currently issue many coupons on a daily basis and many times without a specific correlation to a specific sale(s). We believe a more robust example would provide more informative guidance in this area. In addition, it is not clear what point the Board is attempting to illustrate in the last sentence of the paragraph, which results in the same conclusion under the original fact pattern provided. The examples also do not address the situation when the manufacturer subsequently decides to issue coupons after the original sale.

Example 28 – Outsourcing services with set-up activities

This example addresses contract costs and how they should be treated under the ED. The last paragraph in the example indicates that certain costs would be considered for capitalization in accordance with paragraph 57; however, this conclusion does not provide any basis for how the conclusion was reached. We recommend providing the basis for this conclusion in the final standard.

Other Observations

Determination of Transaction Price

We agree with the concept of using a probability-weighted amount of consideration as the transaction price, especially when no one estimate of the consideration is better than another. However, we believe there may be many instances where management may be able to determine a best estimate of the transaction price and believe the Board should consider that option, when determination of a best estimate is reasonably determinable.

Collectibility - Question 5

Paragraph 43 requires that "an entity shall reduce the amount of promised consideration to reflect the customer's credit risk." We note that paragraph BC 100 provides the following: "For many contracts, an entity would expect to collect the full amount of promised consideration because the effect of the customer's credit risk would be immaterial. For those contracts, recognizing the full amount as revenue would be consistent with IAS 39, Financial Instruments: Recognition and Measurement, which acknowledges that short-term receivables with no stated interest rate may be measured at the invoiced amount if the effect of discounting is immaterial.

However, if the effect of the customer's credit risk is material, the transaction price would be the probability-weighted amount of consideration that the entity expects to receive". We believe the concepts of materiality contained in the basis for conclusions are important factors that provide useful guidance and recommend including those concepts in the standard itself or described as a practical expedient to avoid any confusion whether each sale made by an entity requires a credit risk adjustment even if such adjustment would be immaterial.

We also note that, excluding materiality considerations, the revenue recognition guidance requires a credit loss to be recorded at the date of sale, which does not appear to be consistent with the FASB's project on Financial Instruments. Under the proposed financial instruments model, a credit loss is not recorded on the date a loan is made, rather an assessment is required to be made regarding the expected collectibility of cash flows as of the financial reporting date.

Contract Costs - Question 8

The Board has decided to provide guidance on certain contract costs within the revenue recognition guidance. We believe contract costs should be considered under a separate project apart from revenue recognition. However, assuming the guidance on contract costs remains as part of this project, we recommend a clarification to the types of costs defined that directly relate to a contract. Specifically, we believe direct labor should indicate if it is a fully loaded cost, including overhead.

Contract Modifications

Paragraph 19 indicates that contract modifications that are interdependent with the existing contract should be recognized with a cumulative adjustment in the period of the modification. We understand the basis for this conclusion and agree that it is conceptually preferable; however, we believe it may add unnecessary complexity to the proposed standard in some applications, especially related to the construction industry. Specifically, it is unclear how change orders and contract options or additions, which were addressed originally by SOP 81-1, are evaluated under the ED. We recommend including implementation guidance to address these types of modifications in the final standard.

Warranty Obligations – Question 15

The implementation guidance provides different accounting for warranties based on the objective of the entity offering the warranty. If the objective of a warranty is to provide a customer with coverage for faults that arise after the product is transferred to the customer, a separate performance obligation is required for the warranty services. If the objective of the warranty is to provide a customer with coverage for latent defects in the product, (that is defects in the product as of the transfer date, but not apparent to the customer) that warranty is not considered a performance obligation and is accounted for differently. We believe companies generally do not separate warranty obligations between goods transferred with latent defects and those transferred with defects that arise after the transfer date and that this requirement adds unnecessary complexity to the proposed standard. We recommend one model for all warranty obligations.

We also understand the model for recognizing the customer's right of return on the basis of a probability-weighted amount differs from the recognition of the warranty obligation for latent defects, which is based on management's best estimate. We believe that conceptually, right of

return and warranty are very similar and recommend the same recognition model be used for both of these items to reduce different measurement models in the ED.

Bill and Hold Arrangements

The current accounting for bill and hold arrangements is presently contained in Staff Accounting Bulletin No. 104 (SAB 104) and provides detailed guidance to address the difficulties that have evolved in this area. While this guidance is prescriptive in nature, it has been very helpful to preparers and auditors in evaluating the recognition principles in these types of revenue arrangements. The implementation guidance in the ED includes specific criteria to be met in order to recognize revenue in these situations as well. We believe that the criteria while similar to SAB 104, does not include one important factor that would assist in evaluating these transactions. Specifically, we recommend including the following additional criteria: risks of ownership must have passed to the buyer.