



October 22, 2010
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
Technical Director File Ref # 1820-100

RE: Proposed Accounting Standards Update, Revenue Recognition (Topic 605)

We appreciate the opportunity to provide the Financial Accounting Standards Board (the "Board") with comments on its Proposed Accounting Standards Update *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (the "Proposal")*.

First Data Corporation is a leading provider of electronic commerce and payment solutions for merchants, financial institutions, and card issuers worldwide. First Data's portfolio of services and solutions includes credit, debit, private-label, smart and stored-value card issuing and merchant transaction processing services; fraud protection and authentication solutions; check guarantee and verification services; as well as internet commerce.

We support the Board's objectives in issuing the Proposal, in particular the efforts to develop a common revenue standard for U.S. GAAP and IFRS and to improve comparability across industries. Additionally, we generally agree with the main principles in the Proposal; however, we believe that several requirements need further consideration. Our concerns are included below in our responses to several of the Board's questions.

Question 1: *Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether to:*

- (a) combine two or more contracts and account for them as a single contract;*
- (b) segment a single contract and account for it as two or more contracts; and;*
- (c) account for a contract modification as a separate contract or as part of the original contract.*

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Question 1 Response: We generally agree with the proposed principle; however, we do not fully agree with the application of this principle to contract modifications. We do not believe that recognizing the cumulative effect of a contract modification is appropriate, even if the prices of the modified contract and the existing contract are interdependent. These cumulative effect adjustments could lead to increased earnings

volatility and likely do not provide users a better reflection of the economics of a company's contracts with customers. Additionally, cumulative effect adjustments could result in premature recognition of the true economic impacts of a contract modification.

The Board highlights the consistency of this proposed provision with the accounting for subsequent changes in transaction price; however, we believe these two situations are fundamentally different. The transaction price is an estimate. As the estimate of revenue earned for performance obligations satisfied to date changes, we agree that a cumulative effect adjustment is appropriate. However, when revenue is appropriately recognized in a manner that reflects the existing contractual terms, we do not believe it is appropriate to effectively adjust that revenue when the terms subsequently change. These changes should be reflected prospectively. The Board also indicates that this proposed provision addresses risks associated with varying contract structures and timing. However, we believe that the provisions for combining contracts at inception adequately address these concerns. An entity would already be required to consider other contracts that are in-substance part of the original contract. In our view, this should include modifications that are known or expected at the time of the original contract. That is, the initial accounting would appropriately reflect all of the performance obligations and the estimated transaction price of the combined contract. We believe that modifications that arise at a later date are indicative of changes in circumstances that are unrelated to the original combined contract. A contract modification effectively renegotiates the vendor/customer relationship with prospective economic implications for both parties. As a result, we believe that these are separate agreements and should be accounted for as such.

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 not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

Question 4 Response: We agree with the principle of recognizing revenue on the basis of an estimated transaction price; however, we do not agree with the proposed requirement that the transaction price be determined using probability-weighting. We believe that this could be overly complex requirement for most transactions and could be replaced by "best estimate". A company should be able to choose the technique that it believes will provide the best estimate of the transaction price. A company could decide that probability-weighting is the best technique but should not be required to do so.

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 recognizes revenue? If not, why?*

Question 5 Response: We disagree with this proposal as we do not believe there is anything wrong with existing guidance and practice for recognizing the impact of a customer's credit risk.

We believe that the current requirement that collectability be reasonably assured is an appropriate gateway to revenue recognition. If a transaction does not meet this basic requirement, we do not believe revenue should be recognized. We understand that the Board has concerns with the arbitrary nature of thresholds such as "reasonably assured" or "probable"; however, we believe that some threshold is necessary to prevent premature recognition of revenue if collectability is uncertain.

We also disagree that credit risk should affect the amount of revenue recognized, especially in light of the proposed requirement that subsequent changes to the assessment of credit risk are to be recognized outside of revenue. This increases the subjectivity used in determining revenue without a mechanism for truing up to actual results. Additionally, the risk of collectability or bad debt, whether related to the receipt of cash or other consideration, is a distinct risk to an enterprise. It is separate from those associated with fulfilling performance obligations or negotiating the amount of consideration that a customer will pay. We believe that it would be confusing and less useful to users of financial statements to bifurcate this risk of collectability by reflecting a portion of it within revenue and another portion outside of revenue.

In BC 101, the Board concludes that an entity satisfies its performance obligations in exchange for a promise of payment. The Board also compares the receipt of a promise of payment to the accounting for noncash consideration. The Board uses this comparison to support its conclusion that the amount of revenue recorded should be equal to the value of the promise to pay. We believe that this logic is flawed in several ways.

Entities provide goods and services in exchange for consideration, not for a promise of payment. Revenue should reflect the value of the performance obligations satisfied as determined by the value of the consideration that the customer has agreed to pay. The Board notes that the value of noncash consideration can change from the point an entity satisfies the performance obligation and the time it receives the noncash consideration. This is an appropriate basis for concluding that changes in the value of this consideration should not affect revenue once a performance obligation is satisfied; however, it is not applicable to cash transactions. The risks created by noncash consideration are separate from those created by extending credit. That is, the risks associated with its value are unrelated to whether or not the customer actually delivers the noncash consideration. In a cash transaction, the value of cash does not change from the time the performance obligation is satisfied. Thus, the only risk in a cash transaction is the risk of collectability. As a result, a receivable to be satisfied in cash is fundamentally different than one that will be satisfied with noncash consideration.

We believe that the risk of collectability will be best understood by users when it is presented separately from revenue. Once a performance obligation is satisfied and collectability is reasonably assured, revenue should be recognized in the amount of consideration that is due (subject to allocation of the consideration among multiple performance obligations). The risks associated with collectability are best presented as it currently is; separate from revenue.

In short, we believe that the current accounting model for collectability risk is appropriate and that the proposed changes are not an improvement.

Question 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?*

Question 10 Response: The proposed disclosures may provide information that could be useful to certain users of financial statements but we do not believe this information is critical to their understanding of an entity's financial position or results of operations. Additionally, we do not believe the reconciliation proposed by paragraph 75 could be implemented without incurring additional costs. These costs will outweigh the benefits of the information provided.

Question 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 not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

Question 11 Response: The proposed disclosures may provide information that could be useful to certain users of financial statements but we do not believe this information is critical to their understanding of an entity's financial position or results of operations. Additionally, we do not believe this disclosure could be implemented without incurring additional costs. These costs will outweigh the benefits of the information provided..

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?*

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

Question 13 Response: While we believe that comparability among periods presented is important, we do not believe it is practical to apply the proposed guidance retrospectively. This is due to the significant amount of judgment by management to properly record revenue at the time transactions occur. To retrospectively apply this guidance with knowledge of actual results (e.g. changes in estimated transaction price, etc.) would not result in objective financial statements and they may be inconsistent with periods subsequent to adoption where management judgment and estimates will have an impact on results. Conceptually, we believe this guidance should be adopted prospectively with sufficient lead time to allow for companies to prepare for the changes as well as to accumulate enough years of comparable financial statements before they are required to be presented. However, we also recognize that keeping multiple sets of books for several years may not be practical either. As a result, we do not propose an alternative transition method but we believe that the Board should give additional

consideration to developing a practical transition method that preserves trend information.

Question 15: *The Boards propose that an entity should distinguish between the following types of product warranties:*

(a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.

(b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

Question 15 Response: We understand the proposed distinction but believe that it may be difficult to make this distinction in practice. Additionally, we believe that in both cases, the underlying accounting concern is that some performance obligation has not been satisfied while a product warranty is still in effect. We believe that an appropriate accounting model for all product warranties is simply to treat them as separate performance obligations. In most cases, we believe that the amount of transaction price allocated to these obligations can be recognized over the warranty period.

Question 16: *The Boards propose the following if a license is not considered to be a sale of intellectual property:*

(a) if an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license; and

(b) if an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?

Question 16 Response:

We do not agree that different patterns of revenue recognition should exist for exclusive and nonexclusive licenses as proposed by the Board. In both types of licenses, we believe that the performance obligation is satisfied when the customer is able to use and benefit from the license. In BC224, the Board concludes that the constraints created by an exclusive license on a licensor suggest the existence of a performance obligation. We disagree with this conclusion as it effectively develops an accounting model based

on opportunity cost. We do not believe this is appropriate and are not aware of any other accounting standards that make such a link between opportunity cost and accounting. Under the proposed model, an entity may sell a nonexclusive license to two parties and recognize revenue upon delivery. However, if instead, the entity negotiated an exclusive license to one of those two customers for the same term and the same total consideration (i.e. one customer is willing to pay twice as much for exclusivity). The economic results would be the same however the accounting treatment would be significantly different. On their own, neither license arrangement has a remaining performance obligation. The proposed framework for identifying and separating performance obligations should be sufficient. That is, we believe that the framework will require entities to identify the typical additional obligations in license arrangements (e.g. maintenance) and to make determinations as to how to account for each of those obligations.

Question 18: *Should any of the proposed guidance be different for nonpublic entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?*

Question 18 Response: We believe that there should be one set of accounting standards applicable to both public and nonpublic entities. Comparability is important and an entity's source of capital should have no impact on the accounting standards that it follows or upon the timing of adoption.

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We appreciate the opportunity to share our views and recommendations with the Board regarding the proposed Accounting Standard Update. If you have any questions regarding the contents of this letter please contact Jeff Billat at 303.967.8339 or Rick Seidlitz at 303.967.7387 at your convenience.

Sincerely,

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Rick Seidlitz
Director
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