

March 12, 2012

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Mr. Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street London, EC4M 6XH United Kingdom

Submitted via email to: director@fasb.org

Attn: Technical Director - File Reference Number 2011-230

Dear Madam and Sir:

eBay Inc. ("eBay" or "we") appreciates the opportunity to comment on the Exposure Draft entitled "Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605), Revenue from Contracts with Customers" (the "ED"), jointly developed by the Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards").

eBay is a global organization that encompasses multiple industries across the technology sector. We appreciate the complexities of applying numerous accounting concepts to contracts with customers and, therefore, support a transition to a more unified, principles based approach to revenue recognition. We are pleased to note that the revised ED represents a significant improvement over the 2010 ED in a number of areas and have provided our comments to certain of the Boards' questions below:

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?

We believe that the proposed definition of performance obligations that are transferred over time is generally appropriate and is a significant improvement from the 2010 ED. However, the revised ED continues to provide insufficient guidance to ensure consistent application for certain services. While the Boards acknowledge in BC88 that service

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obligations can be satisfied at a point in time, the criteria in Paragraph 35 seem to be so encompassing that they most likely eliminate the possibility of performance obligations within service industries being satisfied at a point in time. Specifically, the application of Paragraph 35(b)(i) could result in nearly all services in which an "entity's performance does not create an asset with an alternative use to the entity" being satisfied over time.

The Boards acknowledge the potential ambiguity of Paragraph 35(b)(i) in BC97 by noting that there will be cases where "it is less clear that the customer benefits from the entity's performance as it occurs" and, therefore, provided two other criteria for services to be recognized over time. However, we believe there are still situations that are not captured through these two other criteria and where it remains unclear if the criteria in Paragraph 35 (b)(i) should apply; these situations could create inconsistencies in practice for recognizing revenue over time versus at a point in time for similar services.

Take for example the consulting contract described in BC102, but modified so that neither the terms of the contract nor local contract law requires compensation for the consultant if the customer terminates the contract prior to completion. While the consultant does not provide a report until the end of the contract, there are likely to be periodic meetings where the customer is updated with the progress of the project and any interim findings. Because of these informal communications, the consultant may conclude that the customer simultaneously receives and consumes the benefits of the entity's performance so that the criteria in Paragraph 35(b)(i) is met and, therefore, the services should be recognized over time. Another consultant faced with the identical fact pattern may view the interim communications and meetings as insufficient to support a conclusion that the customer receives the benefits of performance prior to delivery of the final report. Based on the fact pattern, the other two criteria in paragraph 35(b) would not be met and, therefore, the consultant would conclude that the service is delivered at a point in time.

As highlighted by the above example, which is very similar to many other service arrangements such as success-based fee service contracts (e.g., the sale of a house by a real estate agent), the same fact pattern could result in two different conclusions as to when a performance obligation is satisfied.

In order to improve clarity for service obligations that are not satisfied over time but at a point in time, we recommend that the criteria in Paragraph 35(b)(i) be modified, or further implementation guidance be provided, to clarify how the "benefits of the entity's performance" received by the customer is to be interpreted. For example, in the case of services provided in success-based fee arrangements, we believe that the customer benefits from the entity's performance and that the obligation is satisfied at the point in time when the good is sold or the success-based fee is otherwise earned. We noted only one example in the implementation guidance (IG64) relating to paragraph 35 and 36, which primarily focuses on determining whether an asset has an alternative use to the entity, and not how the criteria in Paragraph 35(b) should be applied. We believe preparers in the service industry would benefit from further examples in the

implementation guidance to illustrate the criteria in Paragraph 35(b), including examples of services arrangements that would fail all three criteria.

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?

We consider the revised ED to be a significant improvement over the 2010 ED in the area of measurement of revenue relative to credit risk and agree that "net" revenue should, over time, reflect the amount of consideration received.

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?

We agree that accounting principles can better reflect the economics of certain contractual arrangements by including a restriction on cumulative revenue recognized when the amount of consideration is variable. We generally agree with the list of indicators in Paragraph 82; however, applying the restrictions in Paragraph 85 only to intellectual property licenses as opposed to all similar sales-based royalty arrangements will result in different accounting conclusions for economically identical arrangements.

For example, consider an online advertising contract allowing a third party to place its advertising on an entity's website. The entity earns a sales-based commission when a user "clicks through" to the advertiser's site and ultimately makes a purchase (i.e., "consideration that varies on the basis of the customers' subsequent sales" as defined in Paragraph 85). Based on the entity's extensive experience with the advertiser and similar arrangements, the entity is reasonably assured of achieving a certain level of sales-based commission for each click-through. In some instances, the advertiser has access and rights to use, through a license, the entity's website technology to manage its advertisement. This license is not considered a performance obligation that is distinct from the advertising itself. In these instances, the sales-based commission would be recognized only when a purchase is made due to the restrictions in Paragraph 85 relating

to intellectual property licenses. However, in those instances in which advertisers are not granted such a license, Paragraph 85 would not apply and the entity would record a sales-based commission that is reasonably assured once a user clicks through to the advertiser's site, prior to any purchase. We believe the economic substance of these arrangements is identical and, as a result, the accounting treatment should also be the same. However, due solely to the restriction in Paragraph 85 relating to intellectual property licenses, the timing of revenue recognition would differ.

We also note that the situations described in Examples 12, 14, and 26 all contain consideration that varies entirely on the basis of the customers' subsequent sales activity, which is outside of the entity's influence or control. However, due to the restrictions in Paragraph 85, two of these scenarios are accounted for differently than the third scenario. The insurance agent in Example 14 has no additional performance obligations and no more influence or control over the primary factors impacting customer renewal rates (e.g., value, pricing of the insurance product or matters unrelated to the product, such as decisions by the customer to cease insurance coverage altogether) than the intellectual property licensors in Examples 12 and 26 have over their customers' subsequent sales activity.

Based on the inconsistencies highlighted above, we recommend that either (i) the indicators in Paragraph 82 for whether an entity has insufficient predictive experience more adequately incorporate cases where the amount of consideration is subject to factors purely outside the entity's control; and/or (ii) revise Paragraph 85 to apply to all contracts with sales-based consideration, such that economically similar arrangements have consistent accounting treatment.

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?

It appears reasonable to limit the instances where such obligations are recorded to those that are sufficiently long-term such that immediate loss recognition would be meaningful to financial statement users. A period of one year seems to reflect satisfactorily this concept.

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.

We support the Boards' intentions to require more meaningful revenue disclosures in the financial statements and acknowledge the challenge of implementing a uniform set of standards.

However, we believe the principles in Topic 280 Segment Reporting, when appropriately applied in annual and interim financial statements, adequately meet the Boards' objectives for disaggregated revenue disclosures, including the Board's views set forth in BC 249-253. Rather than adopting an entirely new disclosure framework, which is likely to be initially adopted with significant inconsistencies across financial statement preparers, we suggest the Boards expand the applicability of Topic 280, a standard currently applied by many entities and for which significant implementation guidance is readily available. We believe this approach minimizes the overall impact to financial statement preparers and provides the most familiar, meaningful information to financial statement users. Accordingly, we believe the significant and extensive proposed changes to the current requirements are unnecessary.

Notwithstanding the above, we believe the proposed requirements to report disaggregated revenue information at each interim reporting period provide little incremental benefit relative to its cost. Expensive new systems and processes will be required to capture information not currently accumulated or used internally. Because such information is

not currently used by management to evaluate our risks and opportunities, we will incur such costs for the sole purpose of meeting the proposed disclosure requirements. Moreover, for organizations in several business lines or that experience significant seasonality, the reported information pursuant to the proposed requirements will be extensive, overly granular, and prone to frequent changes, all of which may obscure the entity's true financial performance and trends as seen from the perspective of management, ultimately resulting in less useful disclosure.

We also believe that the disclosure requirements of items 2-5 in the above question 5, in total, are voluminous, particularly for entities operating in multiple industries, and will be of limited use to financial statement users in most industries. Moreover, we expect that we will incur significant costs to create new systems, processes, and resources to accumulate, evaluate, and present this information within the short interim reporting timelines. Even if disclosures are immaterial in a given period, we will nonetheless incur a majority of these costs to quickly compile and monitor this information to continually demonstrate its immateriality. We also believe the proposed disclosures, when presented at interim periods, promote a short-term view of the business that is contrary to how management and most financial statement users view and evaluate the business. To address the Boards' objectives while at the same time reflecting the concerns above, we recommend the following changes to items 2-5, which we believe should substantially reduce implementation costs without significantly reducing the benefit to financial statement users:

- Item 2 Remove the requirement to report a tabular reconciliation of the
 movements in contract balances on an interim basis. We believe this
 highly detailed information provides limited user benefit for periods less
 than one year. In addition, such information is inconsistent with how our
 business is managed, and will add significant time and cost to the financial
 reporting process.
- Items 3, 4, 5 Remove the requirement to disclose quantitative information on an interim basis. Each of these proposed disclosure requirements involves contractual items with periods exceeding one year. We believe an annual requirement is more meaningful to the evaluation of business trends and is better aligned with the duration of the underlying contracts. However, we acknowledge that qualitative disclosure of significant interim period developments may be useful for financial statement users and, as such, we recommend that the qualitative disclosure requirements be retained.
- Item 4 In addition to our recommendation above, we recommend removing the requirement to provide quantitative information on onerous performance obligations on an annual basis (paragraph 123). We believe such information is potentially misleading to financial statement users when profitable contracts contain numerous performance obligations, one

or more of which constitutes an onerous performance obligation. A tabular reconciliation of only the onerous performance obligations obscures critical information essential to the proper evaluation of an entity's business activities which, even with explanatory qualitative disclosure, could have the effect of distorting the underlying economics of, and business rationale for, an entity's contractual arrangements.

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?

We agree with the proposal to align the concepts for other sales-type activities to those embodied within revenue recognition.

Conclusion

In summary, we strongly support the Boards' objective of establishing a unified set of principle-based standards for revenue recognition, and believe that the revisions incorporated into the revised ED represent significant improvement over the 2010 ED. We appreciate the opportunity to provide our feedback on the areas we believe can still be improved upon.

We would be happy to speak with you to elaborate on or clarify any of our views expressed in this comment letter. Please do not hesitate to contact me at (408) 376-6636 (or pdepaul@ebay.com) or Olivier Marie, Director of Accounting Policy, at (408) 967-3224 (or omarie@ebay.com).

Very truly yours,

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Phillip P. DePaul

Vice President, Chief Accounting Officer

eBay Inc.