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Monday, March 12, 2012

Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Mr. 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 Madam and Sir:

Accounting Standards Update, *Revenue from Contracts with Customers* (the "Revised ED") and the respective proposed amendments to the FASB Accounting Standards Codification. We commend the Boards and staff for the performance of extensive outreach and their consideration of some of the concerns expressed in our previous comment letter. We believe the Boards have made significant progress on the proposed revenue recognition model and are generally supportive of that model. However, as further explained in the following paragraphs, we have several suggestions to improve the Revised ED, the most significant of which are with respect to disclosure requirements.

Disclosure Requirements

We believe many of the proposed disclosure requirements meet the Boards' objective to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. However, we do not believe that required disclosure of: 1) reconciliations of contract balances (including assets arising from the costs to acquire and fulfill a contract) and onerous performance obligations; and 2) the total amount of and expected timing of satisfaction of performance

obligations for contracts with an original duration expected to exceed one year; would provide enough benefit to the financial statement user to outweigh the onerous costs and administrative and systemic burden we would incur as a preparer.

Contract Reconciliations and Rollforwards

We believe reconciliations of contract balances, onerous performance obligations, and assets arising from the costs to acquire and fulfill contracts are not necessary to meet the Boards' disclosure objective to enable users to understand the magnitude, the potential timing, and uncertainty of revenues and cash flows arising from contracts with customers. We do not currently prepare or use reconciliations of unbilled receivables, deferred revenues, onerous contract liabilities, or deferred contract costs in the management of our business and question why that information would be useful to investors. Our current systems cannot produce reconciling items consisting of 'Performance obligations satisfied during a reporting period' or 'Amounts allocated to performance obligations satisfied in previous reporting periods', nor are our systems programmed to accumulate 'Amounts recognized as receivables' and 'Payments in advance' during a reporting period. Aggregation of this information would require significant administrative effort and off-line repositories and/or costly updates to our systems. In addition, we believe this creates redundant disclosure as principal line items to many of these reconciliations, such as revenue and cash flows, are already presented in the Statement of Earnings and the Statement of Cash Flows. The remaining line items required in these reconciliations would likely be either immaterial or are already required to be disclosed elsewhere in the footnotes (e.g., effects of a business combination). The Revised ED already requires substantive quantitative and qualitative disclosures that we believe meet the Boards' objectives. If the Boards decide to require these disclosures, we recommend that the Boards provide an exception for the preparer to omit or provide qualitative disclosure for reconciling items that cannot be practically produced.

Disclosure of Remaining Performance Obligations

We also believe that the proposed requirement to disclose the total amount of performance obligations and the expected timing of their satisfaction for only certain contracts (i.e., contracts with an original duration expected to exceed one year and which have an input based measurement of progress towards completion) would not provide meaningful information to the financial statement user or add to the user's understanding of the amount, timing, and uncertainty of revenues and cash flows. This disclosure would only represent a subset of our business as the input method is primarily used on our system integration contracts that generally have durations under 1 year to 2 years. Even if contacts using the output method were included in the disclosure, information regarding the

satisfaction of performance obligations and respective timing for our long-term service arrangements are impacted by many factors such as currency fluctuations, contract amendments/cancellations, variable fees etc. Future contracted revenues rely on forecasts of amounts and timing, which are difficult to estimate and even more difficult to audit. As such, this will likely not provide the information necessary to determine future revenue streams. Financial statement users may mistakenly believe that these disclosures provide them with predictive value given they are included in the audited financial statements. We recommend that the Boards remove these disclosures because the measure itself requires disclosure of forward looking information that we believe is speculative, not predictive, and difficult to prepare and audit.

Interim Disclosures

We have significant concerns over the requirement to provide the disclosures as required by the Revised ED on an interim basis. We believe requiring tabular reconciliations in interim periods that do not have material changes from the most recent 10-K annual disclosures would not provide significant incremental benefits, yet would significantly increase the volume of disclosure and complexity of application. In our view, information currently included in the interim financial statements, such as revenues and cash flows and supporting MD&A, allows a user to assess significant changes from the prior fiscal year. Due to the potential systemic issues that could arise in compiling this information and the condensed timing for quarterly reporting, compliance with interim requirements would be particularly burdensome and would provide little, if any, incremental benefit to our investors above existing interim disclosures. . Our practice is to have our quarterly earnings call and file our interim financial statements well in advance of SEC filing deadlines, which is favorably acknowledged by investors and analysts. We believe requiring these disclosures would result in less timely filings. Continued expansion of complex interim reporting requirements may ultimately make it very difficult for companies to report within accelerated timelines. If the Boards decide to keep these disclosures, we request that such information only be required annually.

As part of its disclosure framework, we believe that the Boards need to develop a set of characteristics for information that should be required in interim reports. The consideration of these characteristics needs to be reflected in disclosures required by the Revised ED. We recognize that interim financial statements are necessary to provide users with timely information. However, to enable timely filing of financial information, the FASB has historically acknowledged that there is a necessary balance to the level of disclosures required between the annual 10-K and interim/quarterly periods. We believe

that the annual financial statements provide a comprehensive analysis of a reporting entity. Beyond the basic financial statements and selected notes, interim reports should enable a user to assess material changes from the preceding full fiscal year. This objective is consistent with the manner in which the SEC rules and regulations apply and serves to better highlight information that has changes rather than forcing investors to review extensive disclosures to identify key areas where attention is needed.

Contract Modifications

The guidance provided to account for contract modifications is highly dependent on whether goods or services are 'distinct' as defined in paragraphs 27 through 30 of the Revised ED. We believe that the definition of a 'distinct' good or service provided works well for transactions delivering goods, but is not clear when applied to services. Specifically, Example 2 in paragraph IG61 of the Revised ED concludes that future services are distinct from services previously provided but does not explain how this conclusion was determined. We agree with the conclusions in Example 2, but believe it would be helpful for the Boards to provide guidance regarding the determination of how future services are distinct from previously provided services.

As an example, we provide outsourcing services through long-term contracts where we create efficiencies and improvements through the provision of ongoing, repeatable tasks or capability management of a client's business processes. These contracts can range from 3 to 10 years in duration, but are typically 5 to 7 years. Once initial set-up is complete, service delivery is highly repetitive. We have accounted for these contracts as having one performance obligation over the term of the contract. Billings for services on these contracts are typically on a monthly cycle. However, these services can be provided on a daily, hourly or even by the minute basis with each unit of service being 'distinct' from the unit before or after it. We believe that the practical expedient provided in paragraph 30 of the Revised ED would allow us to account for these 'distinct' services as one performance obligation because the services, whether viewed on a monthly or daily basis, have the same pattern of transfer to our client. We also believe it is the Boards' intent that we would not be precluded from viewing that single performance obligation as a series of distinct performance obligations when applying the contract modification guidance outlined in paragraphs 18 through 22 and 76 through 79 of the Revised ED. We recommend the Boards clarify this interpretation within the Revised ED as it is not readily evident in the current document.

Onerous Performance Obligations

As mentioned above, we provide our outsourcing services through long-term contracts that can span up to 10 years. When providing these services, we partner with our clients to ensure that services are provided effectively and efficiently. Because we are deeply integrated within our clients' business processes, we are often highly dependent on our clients to accurately estimate the cost structure of the business processes we assume and to provide support for our services. There are occasions where, if no changes are made to either the services being provided or to the contract terms, we are faced with the possibility of providing the services at a loss. However, it is often difficult to determine whether the root cause of these problematic contracts is our actions, the client's actions or a combination of both. We typically deal with problematic contracts in one of three ways:

- manage costs to minimize or eliminate losses;
- work with our clients to modify the contract terms; or
- terminate the contract.

Historically, we have generally managed to successfully work with our clients to either significantly reduce or eliminate our losses over time.

The guidance provided in paragraphs 86 through 89 of the Revised ED would require us to record a liability from an onerous performance obligation based on the amount by which the lowest cost of settling the performance obligation exceeds the amount of transaction price allocated to it. This guidance appears to require us to ignore our historical experience and whether the root cause for the problem results from a combination of the client's and our actions. This may result in the unintended consequences of recording initial losses only to have such losses later reversed. Therefore, we recommend that the Boards broaden the guidance for the computation of onerous performance obligations to be similar to the guidance provided in Accounting Standards Codification 605-35-25-49, which would allow other factors to be considered when projecting a loss on a contract such as change orders and potential price redeterminations.

We also believe the exemption to record liabilities for onerous performance obligations only for contracts with expected durations greater than 1 year at inception is arbitrary and would not provide investors with timely information on contract performance. We believe that a scenario where a company would not record a material loss on a contract in an interim period because that contract was short-term is not transparent financial reporting. We recommend that the exemption for performance obligations satisfied over a period of time less than one year be removed so the focus is on liabilities at the end of the reporting period.

Finally, we do not believe recording liabilities at the level of performance obligations for overall profitable contracts is appropriate. We understand the Boards feel it is preferable to apply the onerous test at a performance obligation level to ensure that adverse changes in circumstances are reported timely. However, we do not believe it is appropriate to recognize losses on one performance obligation if the expected losses are more than offset by profits on other performance obligations within the same overall profitable contract. Rather, losses should only be recognized when a contract, due to cost overruns or other unanticipated issues, has fallen into an overall contractual loss position. This would more accurately represent an adverse change in circumstances that should be disclosed and for which a liability should be recorded.

Effective Date and Transition

We believe the Boards should allow for flexibility in setting the effective date and transition method of the Revised ED. We are a large multi-national company with significant international presence and many of our subsidiaries are reporting locally with accounting methods similar to International Financial Reporting Standards. We would find it beneficial to have the flexibility to adopt the Revised ED early to align our financial reporting processes. We believe that many other large, multi-national entities would also benefit from the flexibility of an option to early adopt.

We agree that retrospective application may provide financial statement users with trend information. We also agree with the Boards' acknowledgement that retrospective application could be burdensome for some entities. In our business, we enter into many complex multi-element contracts each year. Many of these multi-element contracts are long-term in nature spanning multiple years. For these contracts retrospective application would require us to maintain dual reporting systems under both current GAAP and the proposed model for the retrospective period. This would require a significant investment in our systems.

We recommend that the Boards implement a transition alternative that allows the preparer flexibility to apply the new standard prospectively or retrospectively with expanded exemptions, specifically related to the reconciliation disclosures. If prospective application is not palatable to users, we recommend the Boards limit the retrospective application of the new standard to one year of comparative information. We believe that disclosing at least one period of comparative information about the change in accounting for revenue recognition provides sufficient information to investors.

As requested by the Staff during our outreach, we estimate the cost of transition planning, dual reporting and changes to our enterprise resource planning (ERP) system to implement the provisions outlined in the Revised ED would be approximately \$20 million. Our estimate is based on the fact that we have a single instance of ERP software which will lessen the cost for us to make changes. It is our belief that the majority of public companies (especially those that have achieved growth through acquisitions) could have multiple instances of ERP software within their organizations which will increase the complexity and the costs of making these changes for them. We do not anticipate significant ongoing costs once the proposed standard has been fully implemented. We also expect to incur a substantial amount of cost to train our senior executives (approximately 4,600 employees) and finance personnel (approximately 5,700 employees) on the new revenue standard. We estimate those training costs to be approximately \$7 million.

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We appreciate the Boards' consideration of these comments. We have participated in outreach activities by the staff in February and will also make ourselves available to discuss these matters at your convenience. Please contact Robert J. Kuehnau, Jr. at +1.312.693.5465 or robert.j.kuehnau.jr@accenture.com with any questions.

Yours sincerely,

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