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Technical Director
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March 12, 2012

Re: Exposure Draft – *Revenue from Contracts with Customers (Updated)*

Adobe is pleased to respond to the invitation to comment on your Proposed Accounting Standards Update (Revised) – *Revenue from Contracts with Customers*.

We strongly support the FASB and IASB's ("the Boards") objective for the development of a single converged model for revenue recognition under both IFRS and US GAAP and encourage the Boards to continue to give careful consideration to thoughtful input from respondents.

With that in mind, we have utilized the remainder of this letter to provide high-level views on certain key areas of the updated Exposure Draft. The Appendix to this letter includes our detailed responses to the "Questions for Respondents" in the Exposure Draft.

Transition

Consistent with our first comment letter to the Boards, we believe that the transition plan put forth by the Boards remains one of the most significant barriers to efficient adoption of the proposed standard.

While we recognize the Boards' desire that financial statements presented under the proposed guidance be consistent and comparable, the current proposed requirement for full retrospective adoption would likely place a very significant burden on entities upon adoption.

We acknowledge that the Boards address some of these concerns in the discussion portion of the updated proposed standard and provide some practical expedients which may provide limited relief to a narrow set of companies; we note the practical expedients in the most recent version of the proposed

standard will not significantly alleviate the burden placed on many public company registrants. The expected changes necessary to internal policies, control environment, modifications to systems, as well as review and audit of retrospective financial statements will place a significant time and expense burden on adopters.

As indicated in our previous comment letter to the Boards, we propose that the Boards reconsider providing alternative options for adoption, similar to the recently issued Accounting Standards Updates (2009-13 and 2009-14). Specifically, we believe the Board should consider the following transition options in addition to the option to apply the proposed standard retrospectively upon the effective date:

- Preparers may apply the proposed standard prospectively to revenue arrangements entered into or materially modified in fiscal years beginning on or after the effective date;
- Preparers may early adopt the proposed standard in advance of the effective date on a fully prospective or retrospective basis; and
- Preparers may retrospectively apply the proposed standard to revenue arrangements entered into or materially modified in fiscal years beginning on a transition date prior to the effective date.

Providing such transition options would allow preparers the flexibility to work with internal and external financial statement users to select the transition method that achieves the best balance of cost and benefit for the business.

We believe that when analysts are presented with the option either of full retrospective adoption of an accounting standard or prospective adoption without consideration of costs, many analysts would select full retrospective adoption as their preference. However, we assert that when analysts are given these same options in the context of expected cost of implementation, the preference for full retrospective adoption becomes less strong. By way of example, we did not receive any specific comments or questions from analysts with respect to our prospective adoption of ASU 2009-13. This experience mirrors the experiences of many other technology companies. As such, we believe the options proposed above provide the most effective and efficient methodology for adoption, allowing companies to tailor their adoption to the users of their financial statements and provide the most appropriate level of disclosure.

Presentation and Disclosure

We believe that the Boards' addition of practical expedients for disclosures around the expected timing of satisfaction for performance obligations moves toward alleviating much of the concern expressed by respondents to the initial proposal. We will not reiterate our prior arguments, but rather reference our first comment letter, as we believe the arguments presented therein regarding presentation and disclosure continue to merit discussion and evaluation by the Boards.

We do not agree with the Boards' proposal that interim financial statements be subject to similar

disclosure requirements as annual financial statements. This requirement appears to be at odds with the increasing focus on the timeliness of quarterly financial reporting present in most industries and specifically, the technology industry. Consistent with current practice, we suggest significant changes in accounting policy, judgments, and methodology be specifically addressed within interim financial statements, but that the full disclosure requirements proposed in the standard be reserved for annual financial statements. We believe this is consistent with existing guidance provided by SEC regulation S-X (10-01(a)(5)) as well as IAS 34, par 15. The volume of disclosure associated with quarterly financial statements should be carefully weighed against the objective of receiving timely information. This is not to imply that timeliness is an attribute which should be placed above all others, however we believe that subjecting interim financial statements to many of the same disclosure requirements as annual financial statements places an unnecessary burden on registrants.

Finally, we encourage the adoption of principle-based financial guidance which we believe will result in financial statement presentation and disclosure which are tailored to the needs of the financial statement users and appropriately reflect the underlying economics of a company's transactions. In order for this goal to be fully realized, we urge the Boards to continue to consider the role that regulatory agencies play in the financial reporting process and work with these agencies to ensure that all stakeholders in the proposed standard are aligned with the stated objectives. We believe that the lack of significant cooperation may result in conflicting agenda, confusion among registrants, and ultimately result in reporting that is no longer in line with the objectives of the Boards, particularly as a result of the financial statement comment letter process.

We have expanded on the above and responded to the specific questions raised in your Exposure Draft in the appendix to this letter. If you have any questions or would like to discuss our responses further, please contact me at (408) 536-2087.

Sincerely,

Marc Seymer

Senior Director for Revenue Assurance

Adobe Systems, Inc.

Appendix: Response to Detailed Questions

Recognition of revenue (paragraphs 8–33)

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?

Response:

We agree with the Boards' proposals concerning satisfaction of a performance obligation over time and believe that the guidance appropriately reflects the economic substance of such transactions.

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?

Response:

We agree that impairment of receivables due to credit risk should be reflected in revenue. However, we believe that the proposed presentation of impairment losses on a separate line adjacent to revenue provides greater prominence than the item deserves. Presentation of the changes in impairment of receivables adjacent to revenue will also tend to imply that such changes are related to receivables recognized as a result of current period revenue, which often may not be the case.

We believe a more appropriate presentation would include the effect of impairments for credit risk along with total contract consideration within a single net revenue amount on the face of the income statement. The footnotes should disclose the effects of credit risk assessments on each income statement presented within a numerical roll forward of the allowance for doubtful accounts. The form of such disclosure is consistent with SEC Reg S-X Rule 12-09 on presentation of Schedule II Valuation and Qualifying Accounts and is consistent with the requirement under IFRS 7 par 16 to disclose a roll forward of allowances for credit losses on financial assets (including trade receivables).

We believe such presentation and disclosure provides the necessary information to financial statement users to make informed decisions without the addition of a financial statement caption item on the income statement next to revenue.

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?

Response:

We agree with the proposed constraint on the amount of revenue that an entity would recognize for performance obligations associated with variable consideration.

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?

Response:

We agree that limiting the recognition of onerous obligations to those that are fulfilled over more than a year provides a practical expedient which balances the importance of complete financial information with the cost of tracking and reporting onerous obligations.

However, we disagree with the Board's redeliberations whereby it rejected changing the unit of account from the performance obligation to the contract level as a whole. The Boards noted in the revised basis for conclusions that evaluating onerous obligations at the contract level may be "arbitrary" since goods or services may be spread across multiple contracts, resulting in complexity and inconsistency. We would argue, however, that this concern is alleviated by the fact that under the proposed standard, par 17 requires contracts to be combined in circumstances such as when they are negotiated as a package with a single commercial objective or when a single performance obligation is spread across contracts. As such, concerns about the recognition of losses being driven by the arbitrary structuring of contracts has been addressed by the proposed standard.

Our support for evaluating the onerous obligation at the contract level is twofold. First, the recognition of onerous obligations at the contract level is more consistent with how management views and

negotiates its contracts and provides better information for decision-making. Contracts in the technology industry are not typically structured to achieve profitability at the performance obligation level. Contracts may be structured and initially priced with list prices and discounts for specific goods and services in mind. However the ultimate discount agreed upon is determined through negotiation with customers and is typically not negotiated at the performance obligation level, but at the contract level as a whole.

As such, while the relative standalone selling price methodology may result in revenue allocated to a specific performance obligation that is less than the cost of fulfilling that obligation, the decision whether or not to execute a customer contract is not affected by the profitability of individual performance obligations but is generally based on whether the contract as a whole is accretive to earnings. Second, although the practical expedient provided in the most recent version of the standard exempts most software companies from the provision around onerous performance obligations, the incremental cost of tracking losses at a performance obligation level for many industries would create a new layer of tracking and financial reporting solely for the purpose of a disclosure that does not appropriately reflect the economics of transactions or the manner in which management makes decisions.

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.

Response:

Please see response in the main body of the letter, above.

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?

Response:

Yes, we agree with the Boards' proposal 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.