



2011-230  
Comment Letter No. 140  
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March 13, 2012

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**File Reference No. 2011-230**

Re: Proposed Accounting Standards Update (Revised)—*Revenue Recognition (Topic 605) Revenue from Contracts with Customers*

Dear Ms. Cospers:

Reznick Group, P.C. appreciates the opportunity to comment on the Proposed Accounting Standards Update—*Revenue Recognition (Topic 605) Revenue from Contracts with Customers*, issued by the FASB.

We generally agree with the proposed guidance and support the overall revenue project by the Boards. However we believe additional implementation guidance and concepts around certain types of real estate transactions should be more clearly developed. In particular, we believe that additional guidance needs to be provided to address continuing involvement, transactions involving in-substance real estate entities, and sale-leaseback transactions. Consideration should also be given to excluding transfers of real estate which do not represent sales in the ordinary course of business from the scope of the proposed standard.

Our responses to specific questions on which the Board is seeking comment are included in the attachment to this letter. We have also provided additional comments related to adjustments to the transaction price made to reflect the time value of money in situations where multiple performance obligations exist and the customer pays the entire amount of the contract on the date of the transaction.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Michael Beck at (404) 847-7728.

Yours truly,

Reznick Group, P.C.

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**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 agree generally with the proposed criteria for determining when a performance obligation is satisfied over time. However, we are concerned with implementation of this guidance from a measurement perspective. Under paragraphs 47 and 48, an entity would only be able to recognize revenue over time if it could reasonably measure its progress toward complete satisfaction of the performance obligation. An entity would not be able to reasonably measure that progress if it did not have reliable information on which to base that measurement. Additional guidance is needed regarding how to determine if information is sufficiently reliable to allow the entity to determine whether it can reasonably measure its progress.

While "reliable information" will always provide a basis to "reasonably measure" progress or outcomes, the existence of multiple outcomes or the lack of verifiably reliable information may exist which should not preclude recognition of revenue over time so long as the other criteria is met. The Board has required other measurements to be made in situations where reliable information does not exist. An example would be situations where fair value measurements are required when market participant information is not readily available, such as in illiquid markets. We suggest the Board consider allowing reasonable estimates of progress to be made based on the best information available or using probability-weighted outcomes based on the best information available similar to the approach taken in measuring variable consideration.

**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 generally agree with separate consideration under Topic 310 of customer credit risk. However, we are concerned that changes in the accounting for revenue related to sales of real estate resulting from the proposed standard may affect the guidance set forth in paragraph 6A of Topic 310-40-40 regarding real estate foreclosures. The Board needs to further address how the guidance related to repossessed real estate which currently falls under paragraph 6A will be applied. The issue is whether the repossessed real estate should be recorded at the lower of its fair value or the carrying amount of the receivable, or whether it should be recorded at an amount that does not exceed the original carrying value of the real estate.

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We also believe entities should be given the option of presenting the impact of credit risk either on the face of the income statement or as a disclosure in the notes to the financial statements. Adding additional line items to the face of the income statement may create confusion to users of the financial statements without providing any additional benefit. For example, if an entity has multiple sources of revenue and therefore multiple lines of revenue in its income statement, should each revenue line item have a separate credit risk adjustment? We believe that for these situations and others, allowing an option to disclose the credit risk in the notes would be a more meaningful and concise presentation than adding additional line items to the income statement.

**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 with the proposed constraint on the amount of revenue that an entity would recognize when the amount of consideration the entity will be entitled to is variable.

**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?

We do not agree with the proposed scope of the onerous test because we believe it does not adequately address certain forms of continuing involvement, which can involve commitments which are different than performance obligations.

Continuing involvement can take many forms which are not fully addressed in the exposure draft. Sometimes continuing involvement can take the form of a performance obligation. One such example would be when the seller agrees to protect its customer from cost overruns related to development of a sold property where development is part of the sales transaction. Such a guaranty of cost overruns can be tied directly to satisfaction of the performance obligation to deliver a fully developed property at a specified price.

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However, continuing involvement which takes the form of a retained ownership interest in the property entity and which also might include a commitment to provide ongoing support of operations is not part of the performance obligation related to the sale of the real estate. Such ownership and support does not result in creation of an asset or delivery of a service. We are concerned that these types of situations will be classified either as onerous performance obligations or that they will be considered inseparable from the sale and could result in significant deferral of revenue recognition, perhaps indefinitely.

Additional guidance is needed to address continuing involvement which relates to commitments that are neither related to the sale nor qualify as a separate performance obligation. See also our comments on this subject in our response to Question 6.

**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 believe that the proposed interim disclosures should be consistent with the principals in Topic 270. One primary benefit of providing interim financial statements is to provide users of the financials with timely information as to the progress of the entity. In an effort to provide timely information we believe that only significant changes since the latest annual period should be addressed in the interim financial statements. An abundance of interim disclosures around revenue may be overwhelming to a user of the financials and also require additional time for preparers to generate the additional disclosures.

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**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 do not agree with the application of the proposed control and measurement guidance to account for transfers of non-financial assets, such as certain real estate transactions. We believe such transactions should be excluded from the scope of the proposed revenue standard. If no scope exception can be provided, then we recommend that modifications be made to the proposed standard to address certain issues which we have identified below.

General

We are concerned that the proposed standard will accelerate revenue recognition as a result of elimination of the requirement for the buyer to meet the initial and continuing investment criteria. As a result, entities may enter into seller financed real estate sales transactions at or near year-end with little, if any, exchange of cash consideration. Such transactions are commonly referred to as "dry closings." This transaction may meet all the performance obligation requirements outlined in paragraph 37. However, because the sold property would be the collateral for the seller's receivable, the lack of any initial investment on the part of the buyer effectively fails to transfer the risk of decreases in the market price of the underlying real estate to the buyer. Such decreases in the market price of the sold real estate, if they occurred, would motivate a buyer to default on payment of the contract price, which would leave the seller little recourse other than to take back the real estate. We believe some amount of initial investment on the part of a buyer is necessary in order to demonstrate that the risk of decreases in the market price of the sold real estate has been transferred to the buyer.

Continuing involvement resulting from retained ownership interests

The guidance does not address the concept of continuing involvement, especially as it relates to transfers of real estate where the seller retains an ownership interest in the property. Although the standard specifically excludes financial instruments from its scope, real estate transactions involving in-substance real estate entities have always been treated as real estate transactions as opposed to transactions involving financial instruments. Further, it is clear that transactions involving in-substance real estate entities are included in the scope of the proposed standard.

Continuing involvement in the form of a retained ownership interest as well as situations where the seller/owner may also have made a commitment to provide support for operations are continuing involvement concepts which are not addressed in the proposed standard. Retained ownership interests effectively represent partial sales. Agreements between owners which are contingent and result from future operation of the underlying real estate would be difficult if not

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impossible to measure as a separate performance obligation related to the original sale of the real estate. We are concerned that such retained ownership interests either will be considered onerous performance obligations or they will be considered inseparable from the sale which could result in significant deferral of revenue recognition, perhaps indefinitely.

Commitments to provide support for operations would not fall under the guidance for guarantees under Topic 460, since such guidance specifically excludes guarantees which result in the deferral of sales revenue or profit by the guarantor.

We believe a retained ownership interest does not represent a performance obligation related to the sale of the real estate since they do not transfer assets or services to the buyer. Rather, it represents an asset, which is separate from the sold interest in the real estate. Additionally, commitments to provide support for operations as an owner are not always directly related to the sale of the real estate. Such support usually results in increased seller/owner rights to future cash flows from the property.

Sale-leaseback transactions

Sale-leaseback transactions represent another form of continuing involvement related to the sale of real estate. Leasing transactions have been excluded from the scope of the proposed standard. However, sale-leaseback transactions would have to be included in the scope of the proposed standard if real estate transactions are to be included.

Transactions with in-substance real estate entities with repurchase agreements

In addition to the continuing involvement issues described above, transactions with in-substance real estate entities can raise issues with the proposed guidance related to the impact of repurchase agreements.

*Put options involving equity ownership interests in transactions with in-substance real estate entities*

In some situations involving transactions with in-substance real estate entities, an investor will be granted a put option whereby it is entitled to require the entity or an affiliate of the seller to repurchase its ownership interest in the entity at a significant discount. This type of situation is especially prevalent in certain types of tax credit investments, such as historic tax credit investments. The proposed guidance would require the difference between the original investment and the exercise price of the put option to be accounted for as a lease. We believe such treatment is inappropriate since the investment was made for purposes of obtaining tax credits and does not entitle the investor to use the underlying property. The purpose of the investment is to obtain tax credits. All of the tax credits are expected to be delivered to the buyer/investor before the date the put option becomes exercisable. Accordingly, existence of the put option will not prevent the investor from obtaining control over the portion of the asset it acquired.

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**Other comments on the exposure draft:**

We are providing the following additional comment on the exposure draft related to the time value of money, which is in addition to the questions which were asked.

Time value of Money

Paragraphs 58 through 62 of the exposure draft address how the time value of money should be treated in determining transaction price. In transactions where all cash consideration is received at inception and multiple performance obligations exist, the requirement to impute both interest income and interest expense will add unnecessary complexity to the accounting. Often times the delayed performance obligations relate to additional services, which are ancillary to the primary transaction. The resulting interest income and interest expense usually will be immaterial. Further, recognition of such interest income and expense seems to be mainly a theoretical consideration since such interest income and such interest expense are not actually received or paid. We are concerned that many users, especially less sophisticated users, will view the imputed interest income and expense activity as meaningless. We recommend that the Board remove the requirement to impute interest income and expense in such situations as a practical consideration.