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Via email: [director@fasb.org](mailto:director@fasb.org)  
Technical Director  
**File Reference No. 1820-100,**  
Financial Accounting Standards Board  
401, Merritt 7 PO Box 5116  
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Re: Comments for **File Reference No. 2011-230** for the Public Due Process to the Exposure Draft (ED) of a proposed Accounting Standards Update of **Revenue Recognition (Topic 605)** issued June 24, 2010, due 13 March, 2012 regarding Revenue from Contracts with Customers (including proposed amendments to the *FASB Accounting Standards Codification*)  
Revision of Exposure Draft Issued June 24, 2010

Dear Board Members of the Financial Accounting Standards Board (FASB):

Thank you for accepting my comments as a part of the public due process to the ED of a proposed Accounting Standards Update of Topic 605 for Revenue from Contracts with Customers (including proposed amendments to the *FASB Accounting Standards Codification*) and in effect improving defining Revenue Recognition.

Thank you also for choosing this as a project object to remove inconsistencies in the definition for revenue recognition and improve or upgrade this definition and its public financial reporting that would serve to improve earnings quality and to thwart that erosion away from accrual basis accounting in which revenues must realize to cash in the earnings cycle (1)

Moreover, public financial reporting of and for US commerce generally is set up under the FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* (December 1984), where goods and services are sold, at point or time of sale, revenues are recognized and what an entity incurs in meeting those is expensed unless there is reason to capitalize where permissible. As it were, to change to tracking and recognizing revenues and expensing costs incurred are going to shake Reporting, cost accounting, and the Information Technology that facilitate those.

The Entity itself needs means-cash in order to pay its own vendors and will pay in what will realize to money of account in vendors' reporting cycle, correct? Additionally given costs will be expensed reflective of the old methods of reporting and the underlying economics of the commercial activities of the entity, Matching Principle also is something that we responsibly must respect and maintain the reporting model accordingly. Going to Concept 6 themes put Matching Principle at risk. Making certain customer pays in that which will realize to money of account in the reporting cycle matches costs which perhaps were incurred in the reporting cycle, but at least entity is making a more optimal effort to maintain its own Going Concern responsibilities with better conduct towards its own obligations.

Respectfully,

Andrea Psoras  
New York, NY

(1)Woelfel, Charles J. —The Handbook of Bank Accounting|| . 1993 - The Bank Administration Institute Foundation and Probus Publishing Company. —Woelfel|| , p20, *Revenue realization principal*) although any accounting text book older than the past 10 years probably also will give a conservative definition of accrual basis accounting and the need for revenue to realize to cash.

## **Preface**

Problems which although have existed in the post WW2 US economy have gotten worse over the last 20 or so years. Among those reasons for economic problems are flawed multilateral agreements whereby US GAAP also may be on the chopping block, similar to what has happened since 1979 (through 2008) to more than 15% of US GDP tied up in industrial activity.

Additionally, and for the record, I have opposed harmonization with IFRS, which has arisen because of US signatory status to the G20 (Transatlantic) Agreements which the Germans have enjoyed ability to dominate after its 1989 reunification and its Maastricht Agreement EU 'free' trade zone, and Euro. This 'free' trade zone, in addition to other triggering matters gave rise to the G20 Agreements, in which the US in effect would 'align' its ways to suit these other bodies' such as the British and German influences on the G20 (Transatlantic) Agreements.

Understanding this, in that the "1%" in the Old World has enjoyed and enjoys a great deal of influence there, while here too the 1% of the 1% has power to influence beyond that which FASB in some ways has been able to thwart in terms of erosion or flawed quality in the US financial reporting model (US GAAP).

Given that, the US eventually may adopt IFRS, (International Financial Reporting Standards) unless we fully reject it; in the current case FASB is 'harmonizing' US GAAP with the IASB's (International Accounting Standards Board) efforts to produce and make more robust, IFRS. Regardless, International Financial Reporting, or what I label as European reporting has given me an impression somewhat of financial reporting for chummy, school boy deals in their own back yards or controlled by their 'national champions' where the cozy closeness of the counter-parties compromise necessary arm's length qualities in public financial reporting important for all stakeholders, not only the principals or controlling agents in the transaction. Not like US GAAP is perfect, but commerce was different and a little better here until the G20 Transatlantic Agreements.

IFRS generally serves the interests of the Europeans (its 1% and its 'national champions'), its laws and ways by which it engages in its commerce over there. Not interested in European reporting here, meanwhile the US economy has suffered in part with US compliance with the de-industrialization of the US economy under G20 Agreements (The G20 Transatlantic [multilateral] Agreements. These have spurred the US to use 'free' trade as a mechanism to achieve some of the de-industrializing. The US became signatory to NAFTA "North American 'Free' Trade Agreement and other 'free' trade agreements).

Commercial/economic erosion in the US by way of 'free' trade has produced where management has been 'trashing' its 'top line' ie, the revenue line; management lobbying for and using 'free' trade is harming 'top' line power ie, rather than keeping the Constitution's' Article 1 Section 8 framework of tariffs on imports. In many cases, management no longer has pricing power domestically while other industries and competitors too are off-shoring production to cheap labor regions because they can import from those cheap labor regions the off-shored production now without also complying with Article 1 Section 8.

As it's been, management has been laying off American employees while chiseling balance sheets (although in the case of the ISDA cartel members – inflating their balance sheets with OTC derivatives contracts) and income statements in order to give appearance that is doing its job better and/or worthy of its Senior Exec-Suite inflated compensation packages. G20's IFRS in part also has encouraged an interest to use a public financial reporting model that would/will inflate earnings and obscure the economic and commercial erosion of the US economy while complying with the G20 Agreements. This has given rise to more pressure on US GAAP to accommodate standards that favor management and its self interests, which I characterize this as agency self dealing and agency abuse, and are just short of fraud tactics to game the Income Statement for goosed earnings.

Although FASB asserts that it is promulgating US GAAP to suit investors, agency has its ability to not only influence promulgation of US GAAP and IFRS, as well as enjoy 'investor' status by the compensation schemes, but also to erode the culture and commercial environment in which enterprise operates and the erosion of that takes earnings quality and reporting quality with it.

## **Introduction**

For all companies generally, earnings quality would be improved to adhere to the recognition of revenue from contracts with customers (the word is to infer a counterparty 'buying' and presumably at transaction or point of 'sale' paying for entity's products or services) only if certain the customer in reality did pay and that those revenues the entity 'recognized' in the Income Statement would realize to money of account, ie, "cash" in the reporting or "earnings" cycle. The *Conservatism* test satisfied for revenue recognition is at time-point of sale (or milestone date) when product or service entity transferred to customer which paid the agreed upon 'price', in that which realizes to money of account in the reporting cycle (Intermediate Accounting, 11<sup>th</sup> Ed-2004, Kieso et al, p46, p39).

In this ED and eventually for Topic 605 and others affected by this due process, it also would help to improve by strengthening the definition of customer, and strengthening associated compliance-quality criteria for customer is key. It is important to avoid disconnect between what and when the entity recognized revenue, and whether or not if, or when in reality the customer paid.

Even though an entity using aggressive reporting can recognize revenue if the customer account is doubtful to pay, FASB I assume is interested to avoid legitimizing moral hazard behavior and practices facilitated by or because of loose language or loose definitions. For example the ED also states that the customer is assumed to pay, as revenue is recognized, however management's role isn't also described to confirm that customer is to have paid in that which will realize to cash in reporting cycle. Meanwhile, pluming of Accounts Receivable will occur because customer(s) didn't pay and ALSO where management accepted marginal customers, ie those unable to pay or those under the terms in the contract were unable to meet those terms of the entity, but the entity recognized revenue in spite of lack of ability of 'customer' to pay (ED Par10, Par 14; 15d; Top 310-10-35-11 ref 605-10-25-8b **AND** c).

Additionally and not fond of it in this ED, I generally oppose and have opposed companies pirating-expropriating the time value of money. Also in that the 'time value of money' arises when using fair value of/on the balance sheet items for the unrealized non cash gains run through the income statement whereby using the Income Statement in effect to print money, I oppose that and also this - without there having been a real good or service rendered. In that this ED and this concept adds at least a performance obligation that has to be satisfied in the contract, however, that may arrest some abuse that the Fair Value affects are having/have had on the US reporting model.

When managements at non bank entities want what depositors at banks are paid for the banks using depositor money to lend and thus are rewarding depositors for not having spending power or active use of those means, that management at nonbank entity is looking for that same sort of *vig* as in like a further incentive to allow customer a delayed or stepped payment schedule with an interest 'tax' component, that somewhat resembles lease and real estate accounting as if entity has sold real property or has a financial asset on which it is expecting payment from customer. In reality management at entity has contracting power to alter price without complexity demonstrated in this ED by FASB. I also do not think it disingenuous or obscuring if entity uses premium or discounted components in its pricing in its contracts again without complexity.

Moreover, for financial sector companies, especially however, which when management recognizes revenue in the Income Statements, reporting only those contracts by which those revenues in their recognition are not by way of barter\* (aka "noncash" consideration or "Fair Valuing" of hedging) however ARE of contracts that of certainty to realize to cash in the reporting cycle also would improve operating cash flows at the ISDA (International Swaps and Derivatives Association formerly the Interest and Swap Dealers Association) cartel members. No barter in Revenue also will strengthen this ED's proposal for Recognition of Revenue from Contracts from Customers.

Are taxes different as in less on time value of money entity under this ED may recognize and in the case of barter as a noncash consideration, is tax treatment different ie, less on that? It's not FASB's role to aid and abet tax minimization through US GAAP and our public reporting model, even if IASB and IFRS and Europe and the UK attempt or have achieved that.

Recognizing Revenue from Contracts with Customers originally triggered my concern when understanding the differences in principle between Financial Accounting Concepts' Conceptual Framework's former Concept 5 definition for Revenue Recognition versus Concept 6 definition for the Revenue element such as "**Capital Maintenance Approach**" (Kieso, p127) which could be argued to be included under the Concept in IAS 18 – "gross inflow of economic benefits" and any associated respective 'gains' whereby Revenues may be goosed by recognized those because they're increases to equity from peripheral

or incidental transactions (Kieso, p127) even though they are NOT those that result from ordinary operating 'transactions' contracts with customers which pay entity for goods/services rendered. What may be construed as revenue from peripheral activities I think are not included in this ED although if from contracts, this Topic would apply to how those revenues were treated for financial statement purposes.

This controversy is described in 4Jan12 Update p95-BC30. Concept Statement No 6 pg79 Footnote 1 states "FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* (December 1984), has now described earnings for a period as excluding certain cumulative accounting adjustments and other non owner changes in equity that are included in comprehensive income for a period.

Where it is stated in Concept 6 p20, Par 44 "...As a result, some items that with hindsight actually qualified as assets or liabilities of the entity under the definitions may, as a practical matter, have been recognized as expenses, losses, revenues, or gains or remained unrecognized in its financial statements because of uncertainty about whether they qualified as assets or liabilities of the entity, or because of recognition and measurement considerations stemming from uncertainty at the time of assessment".... and Par 45 states "... An effect of uncertainty is to increase the costs of financial reporting in general and the costs of recognition and measurement in particular. Some items that qualify as assets or liabilities under the definitions may therefore be recognized as expenses, losses, revenues, or gains or remain unrecognized as a result of cost and benefit analyses indicating that their formal incorporation in financial statements is not useful enough to justify the time and effort needed to do it."

With the financial reporting model eschewing accrual basis accounting and of late embracing agency's discretionary friend, "Fair Value" now it is not seemingly costly to incorporate concept 6's 'recognizing gains that were left in the balance sheet in times past. Moreover, where one sees above the accommodation of the "Capital Maintenance Approach and risk of abuse of that in Revenue Recognition, I am most interested to avoid the fair valuing of balance sheet items and those associated unrealized non cash gains that agency would recognize as revenue to game the Income Statement-inflating revenues and in turn earnings. That problem is not specifically dealt with in this ED nor will this ED stop that abuse.

In effect Concept 6 allows "Revenues: (are) Inflows or other enhancements of assets in an entity or settlement of its liabilities (or combination of both) during a period from delivering or producing goods, rendering services, or other activities that comprise the entity's ongoing major or central operations" (Intermediate Accounting, 11<sup>th</sup> Ed-2004, Kieso et al, p35). It also risks where because of the fair value characteristic now influencing US GAAP, Assets more easily can be fair valued and those unrealized noncash gains run through the Income Statement because of the recent **enhanced** ability to value the probable future economic benefits obtained or controlled by the entity as a result of past transactions or events (Kieso, p34+) such as fair valuing hedging contracts deemed to be considered 'transactions' as well as insurance.

Insurance contracts/instruments are not included under this ED but are party to abuse by ISDA cartel to game earnings/Income Statement because the contracts loosely fit under the definitions in this and management was able under fair value to recognize in the Income Statement revenue or unrealized noncash gains. Although too, if the definitions are kept tight enough bank management especially ISDA cartel members may not be able to recognize their unrealized non cash gains in their Income statements and NOT include these as Revenue or Interest income in their regulatory filings such as their "Call" Reports (to the FDIC) or their Y9-C's (to the Fed). At least these forms of income should be given separate line item treatment and not obscured in Interest Income and other ways ISDA cartel have obscured these gains combined into revenues from lending and other true operating activities.

The 4 Jan 12 ED does not cite where in Concept 6 it is carrying forward its definition of revenue on Concept 6's *basis* however again, even with the performance obligation in the 4Jan12 ED and as in the 24Jun10 ED, loose language of entity's power to recognize revenue from a contract that enjoys Balance Sheet treatment, without other stronger language in the 24Jn 10 and 4Jan12 ED's: 1)that requires management to be certain of customer suitability to have contracted with entity and 2) that customer paid in that which will realize to money of account in the reporting period will inflate the balance sheet (Accounts Receivable) and probably also cause operating cash flow deficiencies where customer failed to pay or paid more slowly than the 3 month reporting cycle, - AND NOT AS LONG AS ONE YEAR which the 4Jan12 ED states.

The reporting cycle in the US is every 3 months. In effect, the reporting risks are or will spur deviations from economic reality of the true economic and commercial status of the entity. To minimize this, the final language must be tight and strong in this Topic that entities will use to recognize revenue and to a customer transfer control of its goods or services.

In watching the progression of the character of financial reporting after US financial reporting somewhat stumbled with accounting for, but the promulgation of, and as a result legitimizing Over the Counter Derivatives Contracting (“OTCDC”) in part brings us to the problems of the European character of financial reporting under the fair value (“FV”) regime influencing US GAAP. Also harmonization of IASB with FASB I also consider a problem which also arose after the US became signatory to the G20 (Transatlantic) Agreements, and the agency self dealing of it facilitated by the attraction and abuse of FV by bigFinancials ie ISDA cartel members which are legitimized to write OTCD but are also legitimized to use OTCDC because now a valuations framework exists more robustly than had had with the commodities exchanges standard commodities and futures contracts.

FASB and the harmonization process with IASB and their inclusion of the entity having to satisfy a performance obligation under the ‘contract’ with the customer before the customer pays, as I’d mentioned somewhat arrests the problems of recognizing fair valued gains of a balance sheet item which would increase in value with inflation or ‘market’ surge, or decrease in value with ‘deflation’ or a ‘market’ correction against which the assets (and liabilities) on the Balance Sheet are fair valued, however, the test of application and requiring entity to recognize revenue when customer paid in that which will realize to money of account in the reporting period, tighter language to ensure this would better offset some of the abuse that fair valuing other balance sheet items has produced, especially for financial institutions.

Although financial instruments are not including in this ED, the whole is a sum of the parts; little abuses here and little abuses there for example add/added to some (and most all ISDA cartel members) banks going bankrupt during necessary market corrections such as in 2007 and especially in 2008-2009.

Where in p95 BC29.c “Scope” excludes changes in ‘regulatory’ assets and liabilities, I am not certain what that means or to what that is referring. But yes these should be recognized separately in a different line item, given these are different than revenue arising from contracts with customers,

#### **SUMMARY AND QUESTIONS FOR RESPONDENTS- MY COMMENTS**

In this revised ED, the FASB and IASB were interested to remove inconsistencies and weaknesses in existing revenue requirements – however what seems this ED somewhat failed to address the IASB theme that risks producing unintended consequences that performance is ample when the seller no longer has control or that control is complete before buyer, ie customer paid the seller ie, the entity for its goods or services the customer purchased.

In efforts to ensure that entity’s Income Statement isn’t inflated and prospering disconnects and moral hazards, the role of management at the entity must include securing the buyer’s consideration because management’s role at entity is to meet going concern responsibilities with regard to the realization if and of what the buyer pays, such that it realizes to money of account in the reporting cycle. This is so as to satisfy necessary operating cash flows the entity needs to meet its own obligations many of which arose to produce goods or services for which qualified customer(s) transacted to purchase and presumably for which they paid the price entity contracted.

Going concern issues arise if management at entity failed to maintain commercial relations with qualified rather than less than or unqualified customers, although entity’s management in this new theme of recognized revenue from contracts with customers allows a great deal of discretion. This power of management discretion is similarly enjoyed by managements at the ISDA cartel members to plume their OTC derivatives contracts and with sufficient stable or upward moving markets have a positive fair value environment to mark to market their balance sheet items many of which are those contracts.

The risk of abuse of management discretion however, concerns me. Except the customer be not only qualified to pay, but under the contracting power, management performance at entity is also defined and constrained to be certain customer paid the price contracted in that which realizes to money of account in the reporting cycle. This ED poorly defines Management’s role and conceptually then with FASB’s harmonization efforts with the IASB and that/those ‘constituents’ which IASB represents could breed greater risk for agency self-dealing and abuse through its discretionary power under what could occur with harmonization, but probably does exist in IFRS and to which IASB is ‘national champions’ friendly.

With regard to the Time Value of Money (“TVM”), this concept gives rise to an eroded perception of management at entity that it is *on-the-come*, not in that the belief is a bona fide characteristic of agency but that this is a form of a “fleece” in the transaction with customer. TVM presumes the customer owes entity’s management a premium for the ‘privilege’ of doing business with it. Given that, the entity will extract that, by public reporting legitimization (of the reporting to obtain the TVM) of this in the reporting model and to be able to claim it and in running it through the Income Statement, be able to print money.

This gets us to a sort of feudalism ‘baked into’ or a form of moral hazarded into the reporting model and perhaps US GAAP had the problem however this seems to be a new twist that perhaps is coming by way of harmonization with the financial reporting model heralded by the Old World as being that for which we need to relinquish US GAAP or harmonize US GAAP with it (IFRS).

Additionally, perhaps in Europe and the UK the disconnect between what buyer and seller recognize suits that/those commercial cultures, however in the US if we are able? we attempt to minimize or avoid disconnects and the reporting model shouldn’t facilitate these conflicts and inside/agency self dealings and abuses at the expense of stakeholders. Perhaps what happened during the credit bubble and 2007-2009 market correction revealing the progress of the financial problems/crisis in the first decade speaks to my concern about the consequences of where regulatory bodies promulgate a marginal framework in which in the reporting principals are what gets us the ‘unintended consequences’ which over time constituents ‘lobbied’ for and know how to, and will hijack and abuse to their own self interests.

Perhaps FASB consider also strengthening definitions for control as well as performance. Above I suggest how or what to add conceptually to improve defining performance, however control is when customer pays and has taken possession of goods/services or buyer pays milestone price targets in the control and entity has to have met those subject if necessary to un-conflicted 3<sup>rd</sup> party, unless buyer agrees to wave that ‘appraisal’ and pays contractual milestone target prices/payments in the contract.

At point of sale, customer has control when it has paid for the product or service. Control in multi step/phase contracts however is still in the hands of the entity until the project is complete and/or customer can physically ‘control’ the asset such as a bridge, although entity such as contractor/ construction company itself typically is not the party of responsibility. For example, a bridge project and law works to secure control by the municipal body or whatever public/private partner ship such as the Port Authority of New York/New Jersey over the tunnels, bridges and airports in the NY Metro area.

Perhaps in part to address revenue recognition issues that the construction industry had had which presumably is solved by determining where for contract purposes and revenue recognized under the contract by the entity - in the project’s process or progress that the entity had reached, certain success stages to which to allocate ‘revenue’ that is a percent of the entire price of the product/project/service provided by the entity. The contract would include expressed associated pricing milestones that customer will pay and entity may recognize that revenue.

The language expressed also would be clauses for the customer to address control issues. These terms would be known as “Power of Control” or “Power of Decision” clauses whereby both entity and customer meet financial points in the stage/time in the contract (such as revenue recognition for entity with matching pricing milestones for customer to pay), connected to and with administrative-control issues such as quality review and decisions on future obligation under the contract. What was agreed to by contract parties however at the outset ie the beginning of the contract would set the framework and foundation, although the parties could agree of the degree of change open at the “Power of Decision” or “Power of Control” points at calendar or % of completion of project times in the contract.

#### **WHO WOULD BE AFFECTED BY THE AMENDMENTS and SCOPE...**

I firmly believe ‘insurance’ contracts such as OTCDC and financial assets should be included in the scope of this ED.

#### **WHAT ARE THE MAIN PROVISIONS...**

Language all throughout here should reflect definitions improvements I suggested, ie entity satisfies performance obligation when customer paid price or milestones in contract in that which realizes to cash in the reporting cycle.

Notwithstanding, unless recognition is when customer pays, entity can in effect have the power to recognize virtually anything it wants; if customer doesn’t even have to have paid and the account is nonperforming, this ED says that for the purpose of recognizing revenue, entity would still be able to do that and seems to leave latitude for abuse by management to recognize whatever it can rig the system to obtain.

### **Step 3 Determining Transaction Price**

Most US publicly traded companies report quarterly; I am not certain why this ED and FASB is using 1 year in # 2 referring to the "Time value of money". The contract's pricing anyway should reflect performance milestones and thus also associated pricing milestones and if this is a contract specific between entity and customer, that pricing on which the counterparties agreed are the terms to which they agreed. Even if the FASB is attempting to improved comparability and establish a standardization by which Concept 6 definition of Revenue Recognition has an accountability metric however, the other Fair Value gains on the Balance Sheet items by way of Concept 6 definition gets a pass, that is another matter and revisits the problems of harmonization between IFRS and US GAAP, and whether or not IFRS and fair value reporting should be that to which US financial reporting is to harmonize rather than restoring accrual basis accounting with some mixed attribute aspects.

No. 3 under the same "Step" addresses noncash consideration. Perhaps this is not barter and if that is the case, it needs to specify and better define with examples what it means by noncash consideration.

If it is barter, then please hearken. Since 2004 I have publicly condemned and excoriated Barter in revenue recognition. My comments are not only above, but also posted at <http://www.bankinnovation.net/forum/topics/no-barter-in-revenue> and <http://www.sec.gov/comments/s7-41-11/s74111-332.pdf>, related to public due process for the Volcker Rule, [http://www.federalreserve.gov/SECRS/2012/February/20120215/R-1432/R-1432\\_021312\\_104969\\_451639007701\\_1.pdf](http://www.federalreserve.gov/SECRS/2012/February/20120215/R-1432/R-1432_021312_104969_451639007701_1.pdf) in which I urge prohibiting barter transactions which are a part of and facilitate agency self dealing and abuse and obscure the marginal business in which the ISDA cartel members are engaging. Please see my comments above, however where FASB mentions in this section of the ED which I urge the entity to reject noncash consideration. I discuss why agency at a publicly traded company, especially at a bank or financial institution has no business engaging in barter.

Without having accepted that which meets the price (production or service cost plus 'profit') of the product or service in means that will realize to money of account in the reporting cycle, under the contract, entity failed to perform given its role. Management at the going concern is to engage in business practices in a bona fide and good faith way for stakeholder purposes rather than in a self interested and self dealing way. Stakeholders are the shareholders, the customers, vendors and other counter parties and creditors and now the PENSION FUNDS and the municipalities and the state(s) where it operates and the US GOVERNMENT to which the entity has obligations.

Moreover, when the entity accepted barter from a customer, entity's factors of production ie inputs have not been properly compensated by buyer when entity accepted noncash consideration, again while stakeholders of entity are 'harmed'. Agency at entity is compensated in the short run however no differently in spite of its marginal performance by accepting inferior remuneration and thus is self dealing again by accepting inferior consideration.

Additionally under this step if entity failed to properly discern customer quality, entity faces bad debts and if in a great enough amount, possible restatement if customer(s) in great numbers fail to pay after entity recognized revenue. Granted that could mean this economic state had arisen from a systemic crisis, however all the large ISDA cartel members expanded their counterparty exposures to each other while engaging in lending and other contracting with customers whereby large numbers of those customers failed to pay their obligations to the ISDA entities. Meanwhile under fair value, when the financial markets were correcting and ISDA cartel had to 'mark-to-market' their Balance Sheets, through their Income Statements they had to run the unrealized noncash losses which reflected both bad business on their Balance Sheets and also that entities with financial instrument are more vulnerable when the quality of that contracting is questionable and fair value is a more influencing factor in the function of the US reporting model.

Indeed, appropriate language is necessary that customer has to pay according to terms of contract, control passes when customer pays and agency at the entity is responsible for writing bona fide, good faith contracts while performing fully with regard to its role at the entity.

### **Step 5: Recognize Revenue when (or as) the entity satisfies a performance obligation.**

Different than what FASB proposes in this ED, if seller does not release control of good or service to buyer until that customer pays which is realizes to money of account in the reporting cycle, this protects entity from legal problems. If customer avoids contracting to buy entity's goods or services if there are product or service flaws, this also minimizes risk of problems. Entity will not have recognized revenue when customer was a marginal 'credit' while avoiding the associated costs of legal problems. Buyer too, when avoiding an entity of questionable integrity, avoids legal problems. Thus the proper adjustment in the language in this Step needs to include where Control passes with and revenue from sale are recognized when customer pays in means and which realizes to money of account in the current reporting cycle.

The List of indicators of control need to include: (6) when customer has paid cash, credit or instrument(s) which will realize to cash/money of account in the reporting period. Again if entity fails to ascertain this and FASB language fails to include this in definition, then there is risk higher credit problems and delinquency by buyer(s) while management at seller has failed in its role as agent at entity conducting itself in a bona fide way at the enterprise of which stakeholders believe it is healthy as a going concern. FASB will have facilitated unintended consequences by legitimizing language that is a component of inflated earnings and poor credit quality obscured in inflated balance sheets.

### **Constraint on cumulative amount of revenue recognized**

What happened to cost accounting? And Cost of Goods Sold? Are these going by the wayside?

### **Onerous performance obligations**

Why would management at entity contract for what economically or at break-even what would fail to meet the necessary selling price? If entity had to discount or write down its 'exposure to customer, unless this happens on a one-off basis or on a grand scale as in the 2008 financial markets correction, what happened that agency at entity operated in flawed judgment or was beguiled by customer? Did agency fail to analyze customer quality properly? Did agency fail to price properly? Did agency and buyer collude and as a result are we looking at agency self dealing? Should entity exit the business because customers do not exist to pay to cover entity's costs? Or at least should entity drop customer as a 'customer' in part because customer failed to remit agreed price?

### **Disclosures**

Although what is proposed here for 'transparency' is somewhat good, this appears to be influenced by the Europeans. What meets court enforceability tests? With the need to include enforceable language about customer obligations to pay etc, Key for analysts as well as stakeholders is predictability or at least disclosure about what are the cash flows and what will be quality or realized cash flows. If customer can take control without having paid, and entity can recognize revenues without certainty customer paid or accepted barter/noncash consideration in lieu of payment for goods/services, then operating cash flow will be affected and quality eroded by agency's inferior contracting and/or incomplete performance unless the Board specifies improvements for it in this Topic's language.

### **Questions for Respondents**

FASB should clarify agency accountability under *Going Concern Principle* and perhaps identify what is insufficient performance while improving the definition of control to include customer performance.

It is key to avoid language that produces unintended consequences and gets us, over time to circumstances like the financial crisis. For example, an eroding US economy, hedge accounting, permitting barter in revenue recognition, shifting away from accrual basis accounting, and moving to fair value accounting was a way that facilitated ISDA management obtaining TARP and huge amounts of liquidity by way of government liquidity mechanisms and bailout directly of entities such as AIG that were protected 100 cents on the dollar and which the other ISDA entities were counter-parties to feed off that protection by the US government. Granted FASB wasn't directly responsible for a great deal of that.

Moreover the Fed has been providing quantitative easing which is helping prop up the balance sheets of the ISDA cartel which have balance sheets inflated with OTCDC and the fair valuing of these in the reporting cycle in correcting financial markets a correcting market on the ISDA cartel balance sheets would give us 2008 rather than the current status where these are 'managed' and liquid by quantitative easing. FASB isn't entirely guilty for the problem however fair value by way of FASB influenced by IASB has facilitated this problem. Where caution by me and/or others who have insight on potential problems of language or the lack of language that would cause 'unintended' consequences unimagined by the many but understood by the few, again FASB needs to appreciate and accordingly revert to high ground away when influences like IASB and harmonizing are not helpful to the quality of US reporting. The FASB would be benefitted to avoid loose language regarding customer and entity performance under the contract specifically and their respective roles.

### **Question 1.**

Covering costs incurred by entity, the contract language has to factor this and in turn for that covering include payment milestones for the seller to satisfy when entity has performed obligations defined in 'milestone' achievements. Customer has to be confirmed to be servicing its part of the obligations under the contract(s). Language has to be expressed and has to be apropos to the nature of the entity's business that the customer is engaging in commerce with. In the contract the entity has to ask the customer for the money and the contract has to specify those charges to the customer and dates the customer has to pay those charges.

### **Question 2.**

I am not certain why it should make a difference if the contract does not have a significant financing component. If FASB strengthens the language to minimize entity from recognizing revenue while customers may avoid paying or paying in a timely way, FASB minimizes the potential for credit problems and having facilitated moral hazard. The Statement's language should not impede the quality or enable inferior quality of management practices at either entity or customer. There are rewards by way of the financial markets and social gains that society awards which in some cases some managements deserve, while others appear to deserve because the reporting model is weak and elevated inferior quality managements when they should have been punished for poor management decisions.

This isn't always reflected in or by operating performance. Rather than permissive language to facilitate agency abuse, let's ensure that the reporting model and the language for the Topic exist to require management to report the most true economic status of the enterprise. Indeed the appropriate and robust language in what will be this FAS will improve the quality of the definition of revenue and what the entity will be permitted to recognize.

With the expressed and appropriate language in the contract, control should pass to customer when customer has paid and entity is permitted to recognize revenue when customer paid. **And** Accounts receivable at least should report what is the aging of the open aggregate contractual amounts over their time frame from which they were incurred then also by product or service type, and geography as applicable to **Question 5.**

### **Question 3.**

Problem here arises where management under fair value and market value, that concept and practice of using those for valuing now largely controls the US financial reporting model and enables management at the entity to recognize whatever it thinks it wants with little constraint. It will figure out some way to put a factor in there that looks at market ie and fair values shadowing the financial markets which the ISDA cartel and the Fed can control to a fair degree. Although also not perfect, accrual basis accounting would better measure management performance, and when customer pays in what will realize to money of account in the reporting cycle, is when entity recognizes revenue.

Perhaps I'm not understanding this question, however what about management improvements and new geography from which to add sales, new operating strategies if management isn't using accrual basis accounting. Meanwhile updated FAS for Topic 605 does not have language that Revenue is recognized when customer pays according to what I've suggested for the language for the terms in the reporting cycle.

Referring to par 81(b) and IG 69-71, the risk is using entity's experience to serve as a predictive metric to estimate and in turn recognize revenue will inflate-game the Income Statement, presumably an unintended consequence. I generally would oppose this in practice and only a healthy economy and language constraints in this Topic will facilitate responsible reporting by entity.

With regard to par 83,84, does the Board mean the overall sales number , ie the dollar amount of sales some companies and industries like retail or food use in place of revenue or "Turnover" and given this, is a look back . Or in accrual accounting for example at banks, the Income Statement assumes borrowers paid/serviced their loans, however if some of those failed to do that, only after 3 months will conservative management back out the interest, ie, deduct or take a charge for the interest when removing loans from performing to non accrual status and begin charging off that loan against reserves into which it had been making provisions. Moreover if prohibiting barter and prohibiting recognizing revenue if customer has not paid, these prohibitions will at least improve revenue quality as well as more closely facilitating operating cash flow to more closely track earnings.

### **Question 4.**

What this question says about performance obligation and onerous test referring to par 87-92, is saying that the language in the contract between entity and customer was weak, that the role of management at entity is insufficiently specified and that the insufficient language in this ED and the practice and ways of IASB under their concepts that serve to frame this Topic or that they're proposing to frame this topic is weak and insufficient in this language.

If the obligation becomes onerous, management at entity failed to understand the product or service and associated cost or timing of deliverable. If customer has failed to pay or there arises a legitimate legal action by customer, again management at both entity and customer improperly specified the terms of the contract whether ignorantly or on purpose.

For another example and this may not be a perfect example, but when bank management engages in a swap, it is operating under game theory and has accepted an inferior selection or result in the transaction in order in its perception to have a transaction, albeit a marginal transaction. The stakeholders endure the onerous obligation incurred by compromising agency; agency doesn't feel the marginal performance and/or doesn't suffer for it and bad decisions from which the marginal performance has arisen.

Perhaps the transfer should not occur until seller receives from buyer the contract price in what will realize to cash in the reporting cycle.

Par 92 needs to include: (b) and all other materials involved in production of products or services and (f) all other indirect costs such as G&A, indirect overhead such as electricity appropriately allocate-able and all economic/commercial expenses that the enterprise experienced which may seem amorphous, but that which the enterprise became obligated and itself has to pay when producing these goods/services under contract.

#### **Question 5.**

Yes, all disclosures should exist in/for all reporting periods and be required to be reported in order to see how management at the entity has performed in its operating efforts as well as the quality of the contracting with customers for those goods/services.

Referring to **Disaggregation of Revenue** par 114-116 – if the language in this topic and associated financial statements fail to have strong enough language and include proper controls on true status of quality of revenue recognition and payment performance of associated accounts receivable, discussions about economic conditions become a ruse for hiding agency self dealing and abuse which have arisen because of either inferior quality contracting by entity and/or poor customer selection whereby customer(s) have enjoyed control without entity receiving payment(s) or perhaps an inability to properly identify a poor operating environment-economy. There however is presumably to be footnotes that would disaggregate this information.

Par 116 “A nonpublic entity need not apply the proposals in paras 114 and 115 . Rather, a nonpublic entity shall disclose qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows. A nonpublic entity shall disaggregate revenue in accordance with the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)”. **Public or non public**, all companies should comply with this. With regard to goods/services the entity provides, it should not be contracting with a counterparty that is not a true buyer and will not extinguish its contractual obligation in the reporting cycle. There also should be a (financial) schedule of nonperforming contracts similar to those of financial companies that are publicly traded and are financial intermediaries or principals which have credit exposures to customers.

#### **Question 6.**

I oppose barter and expect it to be prohibited from/in revenue recognition or at all in the Income Statement as a form of income or gain/loss. Perhaps as a separate account in the Shareholders' Equity section if on a one-off basis there was some rare noncash non financial instrument asset exchange that the line item in the section I suggest would reflect a gain or loss.

Additionally, public as well as private, ie, non public entities need to comply with all terms of this topic.

### **PROPOSED GUIDANCE (p11) (My comments in blue)**

#### **Introduction**

As I'd mentioned previously, where I think under Concept 6 themes trigger Going Concern risks given the current language in this ED unless modified to include my suggested language because entity has its own bills it has to pay. Customer can be assumed to follow through to remit payment given the contract's terms and to have been identified as a 'customer' by entity. At least with the performance obligation, this ED's language infers action rather than what can be achieved by inflation as the ED states: “Concepts Statement No. 6, *Elements of Financial Statements*, revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations. The assets increased by revenues may be of various kinds, for example, cash, claims against customers, inventory, or other assets.” **Inflation is reported as gain.**

#### **Revenue Recognition**

Par 13- “A contract is an agreement between two or more parties that creates enforceable rights and obligations....” Topic needs to add, buyer is obligated to pay price or milestone payment amount in that which will realize to money of account in the reporting cycle and seller’s job is to make certain buyer paid according to contract terms.

Par 14 (b) “The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations. “ This language is too amorphous, vague and in-substantive because it’s key that management at entity also uphold its other obligations as the follow through to confirm that customer complied with its obligations under the contract. The Board has to strengthen the language for the final Statement on this topic.

The ED added p97 BC(b) last paragraph: “The Boards also clarified that this attribute is not intended to represent a threshold for recognizing revenue if there are concerns about a customer’s ability and willingness to pay the promised consideration. The Boards decided that those concerns typically relate to the collectability of the receivable, which is a measurement issue (discussed further in paragraphs BC163 – BC175 ). However, if there is significant doubt at contract inception about the collectability of consideration from the customer, that doubt may indicate that the parties are not committed to perform their respective obligations under the contract and thus the criterion in paragraph 14(b) may not be met” Given what this says, management here failed in its role as a responsible agents to stakeholders, it if recognizes revenue when counterparty deemed to be a customer failed to pay or wasn’t able to pay. Determining credit wherewithal of buyer is part of management’s role.

Par15 by reasoning how if either (a) or (b) isn’t met, can entity be permitted to recognize revenue, when if either one is open, legal risks increase and terms in contract haven’t been met by one of the counterparties or the terms and/or contracting were flawed, unless it is a matter of time for the sequence of the parties under obligation in the contract fulfill their roles accordingly.

Par 17(c) add payment milestones to contract for customer to meet and pay.

Par 18 If customer paid and a subsequent adjustment to terms of contract occurred, the difference between what customer paid and if there is to be refund to if a multi phase contract and customer wants difference in the case of overpayment returned, a separate contra account is established against the receivable from the customer and derecognized when funds are returned to customer, unless customer wants to apply the refund to obligation under the same or subsequent contract(s). In the case the customer owes upon adjustment, an asset is set up until customer pays or customer can request it be added to subsequent obligation or to next payment milestone in the contract.

Par 21 (b) My takeaway on this language if at a public company and it is material, in substance it is agency self dealing.

Par 22 (b) there would have to be footnote explanation for public companies because this back and forth and is questionable from perspective of risk of agency self dealing.

Par 22(c) also would have footnote disclosure? This language also is convoluted they defer assets and liabilities with temporary timing differences. For this reasoning revenue recognition is when buyer pays, and alleviates unnecessary complexity contrived here by FASB and IASB in order to suit the ‘national champions’ and the global corporates which want this standard suitable to their own self interests.

Par 23/24 Like a multi stage contract or master contract with multiple phases or subsections, however customer has to pay and this sort of contract would have price milestones with and/or part of Power or Control or Power of Decision clauses.

Par 25 – “Performance obligations do not include activities that an entity must undertake to fulfill a contract unless the entity transfers a good or service to the customer as those activities occur. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Hence, those promised setup activities are not a performance obligation. “ I am not certain what they mean here. If these costs would not have been incurred unless entity was contracted to provide goods and services to customer in contract, then these costs are allocate-able to the contract and a component cost into the price the customer has to pay. In an expressed contract, which I consider ‘sophisticated’ entity and customer have included and agreement on terms,

amounts to be paid and dates/schedule for customer to pay. No language related to all counterparties' obligations is to be omitted or left uncertain. Customer is fully informed on full terms of the contract with payment information such as terms, dates.

Where or if entity may recognize revenue prior to a true, complete sale, ie for example when buyer pays price in cash or credit card and leaves with purchases- as in the retail concept, in a multi-phase agreement, at least have pricing milestone language in the Topic to be certain such language is expressed to notify customer of triggering obligation to pay under the contract's terms.

Par 26(h) Guidance or final language of the Topic should offer examples of implied contracts like fast food sales or retail sales so as to clarify any uncertainty on this item for implied contracts.

Par 30 Only if good or service that is transferred is virtually indistinguishable for each other or subsequent goods or services to same customer.

Par 31 Language should include recognized when customer pays.

Par 33 These ie repos are different and are borrowings. I would not consider it an operating business of an entity which makes goods /services to sell to customers. Repos have an obligation related to the borrowing and isn't a clean sale, or without arms length or independent transaction because of the borrower/lender aspect in the repo transaction.

Referring here to IG 42: If the option lapses unexercised, an entity should derecognize the liability and recognize revenue. As if this is a borrowing ie, a repo because I do not recall a repo is a true sale. This does not belong in this paragraph if this is a different action than from a repo which is a financing and not a true sale.

Referring here to IG 43 even with margin, customer in options contract is paying before entity is recognizing revenue and associated expense.

Par 34 If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. Is this mutually exclusive?

Par 35(a) Contract language needs to state customer payment terms, amounts or risks having a non accrual or bad debt

Par 35 (b) contract language and for the sake of this section when Topic language is complete, must include expressed language regarding payment terms, prices, (milestone) dates for customer

(iii) The entity has a right to payment for performance completed to date, and it expects to fulfill the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity's failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity's costs plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract is terminated. Ah, this language is a little unprofessional and my takeaway is this describes unprofessional or cozy arrangements that fail to put expressed language in the contract and makes it difficult for the income statements to show the true commercial/economic state of affairs of the enterprise. If this is a common affectedness in Europe and given IASB and harmonization are/have been an influence on US GAAP and FASB's efforts and product, let's avoid the problems of hazy financial disclosure that facilitates loose or poor contracting terms that also is abusive and does occur in the US but if lancing it in this ED, then we'll have made certain the Topic's language attempts to prevent unintended consequences for compliance by entities in substance to represent the true commercial and economic condition of the entity.

The language in a multi-phase or multi-stage contract will have performance and associated price/payment milestones that entity determines/calculates for both entity and customer obliged to perform to comply with terms of the contract. And upon payment by customer, entity recognizes that as revenue.

Par 37 – This language is too loose in this paragraph and subsections. (a) contract has to have payment language in it; retail sales implied contracts, customer is required to pay for the item before they 'control' the asset, meaning before they are permitted or able to leave the enterprise. In expressed contracts, control of assets pass when customer paid price in compliance with terms of the contract. (b) language better serves the entity to use the language which obligates customer to pay and if multi-phase, pay milestone payments which then entity may recognize as revenue and control passes according to percent of completion again if multiphase. Non-cozy, professional representation of expressed contracts of commercial interactions between customers and entities has to be fairly, cleanly represented by the financial performance of the contracting.

Referring to IG58, unless the contract states that if the trial lapses then the customer is required to pay or return the product.

Par 37 (e) Did customer pay and entity cannot recognize revenue because customer both didn't have to pay and there is another performance obligation that the entity has to fulfill and if prepaid on the subsequent obligation then this is a liability to the entity? However there has to be payment milestones in this what seems to be multiphase agreement.

#### **Measuring progress toward complete satisfaction of a performance obligation**

Par 39, Contract would include language that control transfers of goods/services to customer upon payment to entity.

Par 40, Although better defined in this paragraph, this isn't well defined and must indicate and include indirect costs, overhead

#### **Output Methods**

Par 41, what would be the basis for this? Observing pricing against peer(s) in conjunction with input costs of producing goods/services?

Par 42, again customer has to pay and entity at that point can recognize revenue

#### **Input Methods**

Par 44 –what happened to Cost of Goods Sold and cost accounting? There is nothing wrong if within contract, entity itemizes its performance obligations with disclosure of costs.

Par 45 again isn't management using cost accounting and uses a cost-quality control measure for its goods/services where the risk is that the entity will not properly charge customers for products/services because it didn't have its arms around its own costs? Moreover, wouldn't entity's management understand the costs of the problems for which itself was responsible and not overcharge?

Par 46(b) customer would still have to pay. Cost as a factor for transactions isn't an issue, only that customer has to pay in order for entity to recognize revenue.

#### **Reasonable Measures of Progress**

Par 48 – however customer would have to have paid to have satisfied milestone pricing built into the contract

#### **Measurement of Revenue**

Par 49 include language that at least customer was to pay under agreement to meet milestones.

#### **Determining Transactions Price**

Par 51 Buyer –customer and entity agree on price customer pays in that which realizes to money of account in the reporting cycle for entity to recognize revenue. Seller may not recognize revenue until customer pays and receives control of their merchandize or recipient of services of entity and as a result minimizing misrepresentations of the economic condition of the enterprise.

#### **Variable Consideration**

Par 55 has appearances of fair value which I line out of the paragraph unless the customer pays transactions price in what will realize to cash in the reporting cycle upon which entity recognizes revenue, and no unrealized non cash gain in the Income Statement. Presumably entity and buyer, but entity has financial information technology systems that can track costs, value and price.

Par 56 With derivatives, there probably is but because there is no oversight on those instruments inefficient management especially at ISDA cartel here have had the power to write/contract and trade OTC derivatives abusively and skewed their revenues, and then there's barter aka, non cash consideration which has contributed to 2008 downdraft in bank balance sheets where without quantitative easing to keep them from Enron's eventual status.

Par 57 When entity receives consideration, however circumstances arise or have arisen where entity expects to refund some or all of the money....

### **Time Value of Money**

Par 58 "In determining the transaction price, an entity shall adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract **as in where customer buys on time and pays by installment?** The objective when adjusting the promised amount of consideration to reflect the time value of money is for an entity to recognize revenue at an amount that reflects what the cash selling price would have been if the customer had paid cash **or transaction consideration or full price in what realizes to cash in the reporting cycle however elects to buy on installment.** Thus customer pays less than full price at this milestone or has taken 'control' but is paying on installment per terms of contract which triggers the "Time Value of Money" for entity – due from customer. This financing component to compensate entity from having not received full price at initial sale point or time but customer has the good or service on which it still has obligation to pay more to extinguish its obligation. for the promised goods or services at the point that they are transferred to the customer. If the promised amount of consideration differs from the cash selling price of the promised goods or services, then the contract also has a financing component (that is, interest either to or from the customer) that may be significant to the contract. " **This language is clumsy.**

Par 60, is this reflective of inferior commercial and reporting practices in the UK and Europe? The US has 4 reporting periods. For a bank that is 3 periods that assets are/have gone nonperforming when loans go 90 days without borrower, ie customer having paid their interest and principal, ie, serviced the loan to entity under the contract between them. If entity has a conservative management or is under regulatory constraints by regulators to mark loans to non accrual and begin charging off and collection process – again in 90 days or just after that. So where or why is FASB talking up to a 1 year period? If that is for simplicity, the US reporting periods quarterly and aspects of installment should have FASB using logic rather than a time frame for time value of money that in theory entity may apply but the reporting practices are violated by what FASB suggests here and should say if contract goes more than 1 month or one quarter, entity may add an interest (installment pricing or financing) component to it and gets us to TVM however, not for the sake of another revenue stream but in that it is a financier of sorts to customer.

Par 62, Management in retail and/or which practice this has a standard agreement which customers on the front end agree to in order to pay by installment and becomes a separate line item if it is more than 1% of the net revenue for the item and if more than 1% of the entity's sales are installment like or including financing component.

### **Noncash Consideration**

Par 63 Barter if this is the term FASB uses to refer to noncash consideration - has to be prohibited. No barter for public companies or for private especially since they go public but no barter and especially NO Barter for banks, especially no barter for ISDA cartel. Customer has to pay in that which realizes to money of account in the reporting cycle or period. There isn't a form of noncash exchange that satisfies the entity's need for operating cash-flows to satisfy its obligations it incurs in producing its goods and services and remaining a healthy going concern.

Barter as a practice creates (usually operating) cash flow problems and reflects management self interests for expediency and marginal choices in operating and commercial decisions. Management using barter also speaks of economic problems in the sector if management has difficulty obtaining from customers payment for price in cash. Barter contributed to ISDA cartel bankruptcy in the 2008 market correction in the use of barter to serve as hedging instruments which too, in effect are Balance Sheet inflating items and when fair valued, Income Statement gaming when the unrealized non cash gains from the fair value are run through the income statement. And when you're Fair Valuing barter on your Balance Sheet, that's yet worse of operating cash flows.

ISDA Bank management when engaging in prolific hedging, and using (or on a stand-alone basis) OTC derivatives contracting and while in shrinking economies to suit the G20 Transatlantic (these generally use 'free' trade) Agreements which hurt the economy and in turn has for the ISDA cartel impaired the amount and quality of lending, thus this problem and the OTC

derivatives contracting hurt operating cash-flow. With that problem managements are using borrowings such as Repos, Commercial paper and similar borrowings which disappear when market are correcting, or are volatile downward, or when credit quality problems become public attention. These (borrowings) are inferior quality liquidity and barter contributes to the use of these which add more risk to the operation and enterprise.

We have money of account and a more sophisticated economy than barter. Even if non public companies want to use barter, those entities have stakeholders and cash flow needs to meet the necessary economic and commercial transaction requisites the stakeholders require to satisfy entity obligations with them. Barter impairs cash-flow if entity accepted non cash consideration which means that isn't the cash-flow needed from that customer that should be flowing into operating cash flow.

### **Consideration payable to a Customer**

Par 66 – This sort of sounds collusive. Not if this is a distinct good or service; independent of the customer buying goods or services of entity. This sounds like it risks agency self dealing or a quid pro quo that advantages agency at the entity or the customer. "... then the entity shall account for such excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, the entity shall account for all of the consideration payable to the customer as a reduction of the transaction price. " No. If this is going on, entity's and customers' managements have to disclose in footnotes what this is, why and materiality of impact because this sounds like risk of agency self dealing.

Par 67 – If this is a refund, FASB has to provide language to describe this and the IG has to give examples for entity and customer that help to avoid agency self dealing.

### **Allocating transaction price to separate performance**

Par 73- Although this makes sense for expressed contracts, for implied contracts, customer can't leave without paying transaction price. In the expressed contract, milestone and transaction price language for payment has to be in the contract. Examples of management estimating unobservable transactions price? Management could disclose in foot notes if its good or service uses % of completion and this is how it bills its milestones segment obligations to its customers. To implied contract revenue recognition, this description is also to be disclosed in the footnotes.

Par 76 – so when buyer sells product under license B will It remit payment to entity? Note recognition is contingent on sales by buyer which would remit payments to the seller. It seems inconsistent with most of what else that has been put forward here and speaks to my point that language also in this ED must include what I urge for recognition when buyer pays seller as I have stated before. In this paragraph, the buyer isn't obligated to pay the seller for the performance obligation to be complete and example and IG given the language in this loose chummy, school yard manner in this ED or perhaps is really how given the IASB, IFRS influence on FASB and with harmonization, this ED and Topic

### **Changes in Transactions Price**

Par 78 – where the paragraph mentions a reduction in revenue, how is this when it should have been recognized at price the buyer didn't pay? Experienced management of retail entities, point of sale and most publicly traded companies have sophisticated financial reporting Information Technology systems that can respond quickly to change in transaction prices and if buyer is paying the 'new' transaction price. Otherwise if it is less than Cost of Goods Sold, that is another matter.

### **Incremental Costs of Obtaining a Contract**

Par 94-97 Shouldn't incremental costs be expensed as incurred rather than capitalized whether or not the contract is 1 day or more than 1 year? These incremental costs are what and against what are they offset and if they're a part of obtaining the contract, their costs can be allocated against the contract, unless are reckless, negligent costs that entity wasted and again the issue of agency abuse and self dealing that its control unit and board of directors should punish. If the costs are related to obtaining the contract, then allocate them to the contract.

### **Amortization and Impairment**

Par 98 –Not if not incurred to obtain the contract. This should be expensed because it seems here it doesn't affect the quality of the contract or fulfillment. If it is an indirect cost, with unnecessary discretionary expenditures by management that in earlier times could be allocated to client, it should be expense when incurred. This seems similar.

Par 100 (a) and (b)- Problem here is because management was permitted to capitalize expenditures rather than required to expense when incurred. The Balance Sheets and Income Statement don't reflect accurately what entity actually did rather than accounting craft or agency self dealing or some other form of abuse at the expense of the stakeholders.

No, the contract terms have to be properly specified and properly priced, if costs that are indirectly related are capitalized and amortized, it then is an action to inflate the balance sheet and the fair valuing of that is playing into the Income Statement over life of the contract(s). Since other discretionary activities that management claims are in this case as assets, net, and are activities whose expenses should be expensed. Like M&A expenses of deals that banker fees incurred by management for an acquisition, these seem similar.

### **Presentation**

Par 106 No. Customer has to make payment in a form that will realize to cash in the reporting cycle or if it cannot be recognized as revenues because seller's responsibility also is not to permit control to buyer until buyer pays what and in the way I suggest especially for publicly traded companies. Control passed however and performance when customer obtained control?

(.a) A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right is conditioned on something other than the passage of time (for example, the entity's future performance). The other party in this, the buyer in the expressed or implied contract in spite of how lax or loose the seller wants to make the terms buyer in the contract has to pay and that language too has to be expressed in the contract with price milestones, dates of payment, consideration, etc, to better reflect the true economics of the control issue. I consider performance by management at entity when it is sure customer paid and if seller completed its direct efforts of the goods and services it provided to buyer under the contract up to that point.

If there is a billing cycle like it's % of completion, buyer still has to pay bill in the billing cycle, seller cannot recognize revenue when buyer hasn't paid in that billing cycle. For example seller built houses an eventually through other agents, seller and intermediaries could recognize revenue, but along the way buyers didn't make their payments. Sale was not a true sale, when buyer didn't or couldn't pay. Customer was poorly reviewed or determined, and thus less that suitable on a credit basis or in ways that interfered with the buyer paying or seller receiving the payment from the buyer or agent on behalf of buyer. This gets us part of the credit bubble, part of the financial crisis and part of the housing overhang.

(.b) A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if nothing other than the passage of time is required before payment of that consideration is due. An entity shall account for a receivable in accordance with Topic 310. No this is weak. Customer is required to pay before it has legal control. If seller went into contract where buyer didn't pay or couldn't pay, then a reserve or a reversal should have been required or it's a bad debt expense and management needs to get replaced.

Par 108 If seller contracted with buyer who failed quality standards as suitable counterparties, then seller has a bad debt and buyer has a good or service for which they have a debt obligation. Seller is the party that contracted with a counterparty which failed to pay while violating Standards for when revenue should be recognized by seller and management has to have quality standards for buyers if seller wants to recognize revenue by those buyers in order to succeed in commerce.

### **Disclosure**

Par 109 (b) My takeaway generally on this is this lowers the bar for management performance because management has no quality test for a true buyer in this ED and the language is loose in this ED about obligation of buyer-customer to pay its part of the obligation in the contract. Moreover, there is a great deal of what will be or is more management discretion rather than a strong framework that shows by way of contract customers qualified to pay. FASB isn't responsible for that role of management, but the reporting framework should be free of language that will produce serious unintended consequences. The current language in this ED doesn't assure me of that.

Par 112 Why did FASB add this paragraph? What contracts are at risk for also being disclosed under another topic? And a list of those and/or associated topics would help.

### **Contracts with Customers**

Par 113 (.c) Why before a seller faces this did seller engage in a commercial relationship, contract with buyer not a true buyer. In retail, buyer cant walk out of the store with the goods/services without having paid for those. Why should publicly traded

companies be allowed by reporting standards to misrepresent its revenues when customers didn't pay? This revisits my comment above about using best language to avoid unintended consequences

### **Reconciliation of Contract Balances**

Par 117 (d) Out of curiosity, what was FASB thinking here? What examples of non cash consideration is it conjecturing? If there is noncash consideration received or barter, it is required to be disclosed. And although the ED has language for entity to disclose this, an unintended consequence is that this allows risks that there isn't good faith or a discipline for good behavior for customer rather than to offer non-cash consideration, in order for entity to be permitted to recognize revenue, customer is to pay in consideration which will convert to money of account in the reporting cycle. Entity also will choose customers which can pay in the money of account within the reporting cycle rather than choosing marginal or less than worthy customers.

Par 118 (a) What defines where in this context the terms or defines "satisfied" or obligation satisfied. (d) obligation of both parties? Of buyer to pay and fully defining the terms of the consideration?

### **Determining the timing of satisfaction of performance obligations**

Par 126 again control passes when customer pays or under milestone price payments with associated clauses of "Power of Decision" or "Power of Ownership" in the terms in the contract, customer satisfies those and customer meets the payment milestones under those as long as entity has performed up to the contract terms up to that point in time given the contract's representation of the good/service/project.

### **NonPublic Entity Disclosure**

Par 130 NO they have to disclose everything. A public company does; private cos have to disclose like a public company. The notion that a non public company is without stakeholders is naïve on FASB's part. In the interest to avoid promulgating US GAAP and accounting principles that produce or enable entity or buyer to passive or active and abusive unintended consequences FASB applies this to all publicly traded companies and all large private companies that have publicly traded peers.

### **Effective Date and Transition**

Par 131 All public corporations and all large private corporations with publicly traded peers will report under the adopted manner. AND RECONCILIATION WITH REVENUE RECOGNIZED UNDER FORMER METHODS TOO ARE TO BE INCLUDED IN THE DISCLOSURE, IF THAT IS POSSIBLE.

Par 132 Unless I am misunderstanding Par 132, Page 237 seems to be missing these paragraphs and starts with 210 and skips to 270.

Par 133 (d) Why? What if customer hasn't paid and these are open items that need to be addressed by an aging report of the Accounts Receivable?

### **Proposed Implementation Guidance and Illustrations**

IG 34." ...For example, if a software license period begins before the customer obtains an access code that enables the customer to use the software, an entity should not recognize revenue before the entity provides the access code." Customer paid, however seller has to follow through with all the terms of the sale to the buyer because here buyer paid for something they can not yet use until receive access code where as this ED said, seller can recognize revenue if buyer hasn't followed through on the obligation by having not yet paid. As a result, language in the ED for the eventual Topic has to include where buyer is obligated to pay as part of the contract and revenue cannot be recognized until buyer pays its contractual obligation the transaction price that will realize to money of account, cash in the reporting cycle. This will improve accountability of management at entity as well as better connect revenue recognition with operating cash flow that the revenue was/is to generate.

### **Forward or a Call Option**

IG40 Repos were set up as a financing; I do not recall them as clean sales, unless that is in the terms of the agreement. As a financing, revenue recognized from this perhaps for some large financial intermediaries, this a significant, material business with material interest and fees generated from it and as a result, needs to be recognized separately on the face of the income statements or disaggregated from other interest and fees from other financial transactions by the counter parties. (b) I could be wrong? Is customer the lender here or is seller/entity the lender here? Customer, ie buyer buys the instrument and is paid for its service in this arrangement when seller repurchases the instrument at a higher price than when sold to counterparty.

### **Time Value of Money (par 58-62)**

IG 66 (p65) In example 9 (c) Recognize Revenue \$42,135, I do not get the impression, customer paid this and how is entity actually obtaining the difference between \$37,500 customer paid when paying the 150,000. The \$42, 135 expropriates or pirates the time value of money (TVM). It seems like there is a presumption here that the customer prepays, legitimizes the entity using customer money before seller transferred goods with expense of inputs etc to produce the goods, what is true price of good when example 37,500 a discount form 42,135? Customer didn't pay what entity charged, and received? Itself will have to repay what? Customer only paid \$37,500 and waited until it could take delivery and that 'wait' time is like a rent expense? Itself also while not billed for the additional amount faced a financing charge, seller can claim and print money in its Income Statement with this strategy. I consider this a legitimization of financing: the pricing the buyer doesn't actually incur but having encountered it indirectly by not having had use of the money or the product until seller had completed the product and delivered it to the customer

IG69 Example 12 – NO Buyer has to pay in order to obtain control.

### **Reconciliation of Contract Balances**

IG75 Example 19 – This is assuming accrual or assuming reporting that buyer paid? For example like the Call Report, in which and in bank accounting using accrual basis, interest is presumed to be received and until 3 months if the buyer ie the borrower fails to pay, only at that point would management attend to it as a potential or actually non accrual loan. Again, the milestone mentioned here appears to be for the entity, without associated milestone language for customer to pay.

The example is difficult to follow with the Reconciliation, because the table assumes without having mentioned in the disclosure what Net assets/liabilities contracts at 20X0 were. Additionally while looking at the Reconciliation where Accounts recognized as receivables is \$14,000, at year end 20X1 that's a large number tied up in an un-liquid asset of questionable credit quality. Moreover there is no aging of that item and that would be key under this Topic to see the success of entity's contracting. We're not certain if customers will follow through by remitting on their obligations. The table again is difficult to reconcile with the information given in the footnote and unless the disclosure in the note is foot-able with the table, users will be confused by flawed or insufficient reconciliation of contract assets and contract liabilities. And are the payments in advance like binder payments for contracts? That would have to be disclosed.

### **Background Information, Basis for Conclusions and Alternative Views**

BC 4 Contracts however are still discretionary, and allow for seller's management to establish value or transactions price under contracts constrained only by what they think they can sell. The discretionary character of this risks giving rise to more agency self dealing and agency abuse.

BC 12 Problems with doing this from investor perspective rather than reporting of true economic status of enterprise.

BC 24 (a) Revenue recognition would not be based on accounting for the contract—In an activities model, revenue arises from increases in the entity's assets such as inventory or work-in-process, rather than only from rights under a contract. Sales or revenues recognized under Concept 5 is contrary to what is stated here in (a). There had to be a transaction with customer paying in that which would realize to cash or money of account in the reporting cycle. This ED's statement in (a) would be construed that in case of that management had engaged in some sort of channel stuffing but that also what is in inventory is not sold, presumably or it would not be there and if there were sales where the items were still in inventory, it was unlikely to be a large amount. Therefore, conceptually, an activities model does not require a contract with a customer for revenue recognition, although revenue recognition could be precluded until a contract exists. However, that would result in revenue being recognized at contract inception for any activities completed to that point.

(b) It would be counterintuitive to many users of financial statements—An entity would recognize consideration as revenue when the customer has not received any promised goods or services in exchange.

(c) There would be potential for abuse—An entity could accelerate revenue recognition by increasing its activities (for example, production of inventory) at the end of a reporting period. Moreover, fair valuing of contract assets and/or accounts receivable without buyers paying milestone price payments would be running through the Income Statement unrealized non cash gains, assuming the mark to market quality of fair value.

(d) It would result in a significant change to existing standards and practices—In many of those standards, revenue is recognized only when goods or services are transferred to the customer. For example, in IAS 18, *Revenue*, revenue from the sale of a good is recognized when the entity has transferred ownership of the good to the customer. The Boards also

observed that the basis for percentage-of-completion accounting in existing standards is similar to the core principle of the proposed guidance. Management's role at entity has to include certifying that buyers paid. The role for going concern has to include other responsibilities management has and certifying that customer paid their obligation under the contract.

### **SCOPE**

BC30 "... In addition, the FASB decided to carry forward a definition of revenue that is based on the definition in FASB Concepts Statement No. 6, *Elements of Financial Statements*. I have opposed this because of the flaws of Balance sheet accounts that end up being fair valued and where the fair value impact of the Balance Sheet is run through the Income Statement rather than directly to Shareholders' Equity or accounts on the Balance Sheet under Assets and flux accounts in Shareholders' Equity.

### **Definition of a Contract (Appendix A)**

BC34 (b) "...The Boards also clarified that this attribute is not intended to represent a threshold for recognizing revenue if there are concerns about a customer's ability and willingness to pay the promised consideration. The Boards decided that those concerns typically relate to the collectability of the receivable, which is a measurement issue (discussed further in paragraphs BC163 – BC175 ). However, if there is significant doubt at contract inception about the collectability of consideration from the customer, that doubt may indicate that the parties are not committed to perform their respective obligations under the contract and thus the criterion in paragraph 14(b) may not be met. Then management at entity failed in its role as responsible agents and fiduciaries to stakeholders if it recognized revenue when counterparty seemed to be a customer that failed to pay or wasn't able to pay. Determining credit wherewithal of buyer is part of management's role

### **Exchanges of products to facilitate a sale to another part (paragraph 9(e))**

BC38 (a) It would gross up revenues and expenses and make it difficult for users of financial statements to assess the entity's performance and gross margins during the reporting period. Management of entity also needed to be certain customer paid or certainty of customer paying and that triggers revenue recognition. Indeed then Revenue is not inflated with presumed customer purchases nor is Balance Sheet inflated with accounts receivable that do not convert to cash.

### **Allocating the transaction price to separate performance obligations (paragraphs 70-80)**

BC180 (a through d) Is this to be disclosed in the footnotes?

### **Allocating discounts and contingent consideration (paragraphs 74-76)**

BC186 (a-c) Footnote disclosure in any event.

### **Relationship between Contract Assets and Receivables**

BC241 "...but does not yet have an unconditional right to consideration, for example, because it first needs to satisfy another performance obligation in the contract. " How is it then recognizing this revenue however, when contracts should have said pay up to point at ie, as in milestone payment terms that are with clauses such as Power of Control or Power of Decision, and include also milestones entity was/is supposed to achieve? Moreover if seller may assume that buyer paid and these assets over time are inflating the balance sheet in accounts receivable and other related contract assets that fail to convert to cash, is there footnote treatment to reconcile contract assets and what's realized to cash in the reporting cycle with the Aging of the Accounts Receivable?

BC242 Again there has to be some metric to score or grade entity's customer selection quality and language in the contract has to facilitate this so that both entity and customer perform and the contract's language leaves nothing to guesswork or chance.

### **Disclosure**

BC244 If firms have different operating strategies and are of functionally different characteristics like fee vrs interest and principle but revenue should be disaggregated by types, operating activities and businesses, or operating segments that users see that and product operating performance  
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\* Barter not only is a characteristic of an inferior economic/commercial model, at a public company especially a financial institution that is publicly traded, barter offered for the sales price in the 'transaction' as a 'revenue' or a practice where by management which accepts barter rather than that which realizes to cash in the reporting cycle, and expects to recognize a gain in the income statement or comprehensive income, noncash consideration is insufficient to meet the expense or costs of the obligations of the firm which gave rise to the goods or services to which 'customer' presented barter and which management at the entity accepted in lieu of that which realizes to cash in the reporting period or cycle. Because the customer would have not paid under the "Monetary Unity Assumption" aka money is the common denominator of economic activity, entity's management accepting barter erodes the "Going Concern" quality of the entity and I oppose FASB's facilitating this potential for moral hazard by entity legitimized to self deal by way of flaws in the US GAAP, harmonization efforts and the language in what is eventually promulgated as US GAAP for financial reporting purposes.

Agency if legitimized by public reporting may recognize a gain or revenue in the income statement of barter presented to it in lieu of that which realizes to cash in the reporting quarter, management has engaged in self dealing and abuse, in part because it has permitted payment for transaction that is insufficient and inferior to meet the obligations of the entity which in turn the entity has to satisfy with its vendors, etc.

Barter also binds the buyer to the seller. This obligation goes beyond the transaction and conflicts the buyer when if buyer-customer only paying in money of account, even consider when buyer pays late beyond the terms and risks run to enterprise as a debtor. For this risk even if paying late where enterprise becomes subject to punishment for defaulters.

Magnify the above issue in this way. Consider with the parties in the exchange when there is superior party that has set the terms and barter is the compensating means for the transaction. Whether the seller or buyer is the stronger party, the weaker party in accepting what the stronger party will offer itself isn't liberated to have the monetary resources to respond to other vendor-buyer transactions in its environment. It has to resort to other sub-optimal behaviors to exist while the superior party in the transaction has the power to alter terms and/or underpay for the goods/services it is receiving.

The expropriation of wealth by the buyer and the failure by the seller to price and accept only money of account for its products/services but again is expropriation of different sorts and is abusive to the parties and in turn to society.

\*\* Gerald R. Lodge, shadow co-author