January 31, 2011

Ms. Susan M. Cosper
Technical Director
File Reference No. 1890-100,
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

Re: Discussion Paper, “Effective Dates and Transition Methods”

McKesson Corporation (“McKesson” or the “Company”) is pleased to respond to the invitation to comment on the Discussion Paper, “Effective Dates and Transition Methods,” (the “Discussion Paper”), issued by the Financial Accounting Standards Board (“FASB” or the “Board”).

We appreciate the Board’s acknowledgement that consideration be given to the implementation timetable and sequence of adopting new proposed accounting standards so that stakeholders can manage changes in a cost-effective manner. As requested, our comments are prepared without regard to the possibility of International Financial Reporting Standards (“IFRS”) being incorporated into the U.S. reporting system.

McKesson is a healthcare service and information technology company that delivers medicine, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry. We prepare our financial statements in accordance with U.S. generally accepted accounting principles. Our revenues for our fiscal year ended March 31, 2010 were $108.7 billion and our total assets were $28.2 billion. As of March 31, 2010, we employed approximately 32,500 persons. McKesson common stock is listed on the New York Stock Exchange.

The adoption of the “revenue recognition”, “leases” and “financial statement presentation” standards will significantly change our existing reporting processes, information systems and certain aspects of our business operations. McKesson will be affected primarily because we have:

- Complex and varied business models
- A large number of contracts including long-term contracts with multiple elements
- A complex IT systems structure
- A large number of subsidiaries and business units including newly acquired entities

The “financial instruments”, “insurance contracts”, “comprehensive income” and “discontinued operations” standards are less likely to significantly affect us.
For standards where we expect significant change, we will generally require a three to four year transition period after the release of the final standards. This is primarily due to transition time needed to identify systems requirements, design and develop systems solutions and execute changes or implement new systems. If two years of historical comparative information is required, we may require a five to seven year transition period because we will need substantially longer time to install a dual general ledger system and develop proper processes, controls and policies. This is a high-level estimate based on a number of factors and assumptions that could materially affect the length of the transition time needed. However, we believe a minimum of a three year transition period is required prior to the earliest opening balance sheet date.

We expect to incur significant IT system costs to implement the proposed standards. We will also have to substantially increase headcount and incur additional consulting and audit fees. Additionally, implementation costs will be substantially higher if retrospective application is required.

We believe that it is impractical to apply the proposed “revenue recognition” standard retrospectively to a large number of complex long-term multiple-element contracts. We recommend “prospective” application of the new standard to new and materially modified contracts entered into on or after the effective date with appropriate qualitative and quantitative disclosures in the year of adoption, and until such time that the financial results are presented on a comparable basis.

The lessor accounting guidance deals with customer contracts; therefore, the proposed principles of lessor and revenue recognition accounting are interrelated. Accordingly, consistent with the "revenue recognition" standard, we recommend “prospective” application of the lessor accounting guidance. We agree with the proposed “simplified retrospective” application of the lessee accounting guidance as long as the “virtually certain” threshold, rather than “more likely than not” threshold, is applied. However, we believe that the Board should permit the full retrospective application of the lessee accounting guidance as an option. We support the Board’s proposed full retrospective application of the "financial statement presentation" standard.

We recommend a “sequential” approach, not a single date approach, to setting the effective dates for the proposed standards. A sequential approach will provide us flexibility to allocate resources in an orderly manner and allow us to incorporate necessary "convergence" changes into our ongoing system and business process improvement efforts, which will help minimize the implementation costs of all convergence projects. We believe early adoption should generally be prohibited for all new standards in order to ensure comparability of the financial information across companies and industries. We believe the FASB and International Accounting Standard Board (“IASB”) should, in theory, require the same effective dates and transition methods for their comparable standards. However, considering the inherent differences in regulatory, legal and economic environments and various constituents of the two standards, achieving the same effective dates and transition methods should not prevent each board from independently establishing the most appropriate approach.

Our responses to the specific questions in the Discussion Paper provide more detail on the views expressed above and are included in Appendix A to this letter. Our recommendations on the adoption sequence and transition methods are included in Appendix B to this letter.
We appreciate the Board's efforts in seeking comments from all stakeholders on effective dates and transition methods to facilitate cost-effective management of the proposed changes. We will be happy to discuss these matters further with you at any time.

Sincerely,

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

Nigel A. Rees
Vice President and Controller
Appendix A - Responses to questions

Question 1

Please describe the entity responding to this Discussion Paper

See our discussion in our cover letter.

Question 2.a

How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each of the new standards?

For standards where we expect significant change, we believe a minimum of a three year transition period is required prior to the earliest opening balance sheet date. This is primarily due to transition time needed to identify systems requirements, design and develop systems solutions and execute changes or implement new systems (See "Information Systems" below). Currently, none of the system changes resulting from these new standards are reflected on our IT roadmap because we are unable to provide specific system requirements until the final standards are issued. Therefore, execution of the system changes may take longer than we estimate because we might be unable to re-allocate resources from other system projects in a timely manner.

If two years of historical comparative information is required, we may need a five to seven year transition period because we will need substantially longer time to install a dual general ledger system and develop proper processes, controls and policies.

Information Systems

Revenue Recognition:

We will likely be required to modify our existing accounting systems to comply with the proposed “revenue recognition” standard. New functionality will need to be developed and implemented so that the transaction price can be allocated to each performance obligation and contract assets and liabilities for each performance obligation can be tracked in the systems for thousands of contracts. The systems also need to capture and report newly required disclosures. It will take at least twenty-four months to study the final requirements, and identify and implement systems changes, assuming prospective application of the standard. If retrospective application is required, we will need substantially longer time to establish a dual general ledger system to accumulate historical transaction data in the system under two different accounting methods.

Leases:

We have thousands of leases (both lessor and lessee arrangements) that are managed by various groups and business units domestically and internationally. Lease contract data is maintained in several stand-alone software applications. If the Board requires the "more likely than not to occur" threshold for estimation of the lease term, it is imperative that we implement a system solution to standardize and automate the process as much as possible. Greater flexibility will be required for the system to handle reassessment of estimates at each reporting period. Software vendors will need sufficient time to evaluate the requirements and develop system solutions after the release of
the final standards. We will need twenty-four to thirty months to evaluate, select and roll out a solution to our businesses.

**Contractual Arrangements**

We expect to spend considerable time to inventory and analyze thousands of contracts to determine whether and how they are affected by the proposed standards. Sufficient time may also be required to negotiate necessary amendments.

**Internal Controls and Processes**

In order to accommodate new requirements, new and modified processes and controls must be developed, implemented and maintained.

**Education and Communication**

We will need to develop training materials and provide necessary education to both finance and non-finance employees. We will also need to educate and communicate changes to the users of our financial statements in order to avoid misunderstandings. Such efforts will require additional transition time.

**Question 2.b**

*What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?*

IT systems cost is the most significant factor in implementing the proposed standards. We will also have to substantially increase headcount and incur additional consulting and audit fees.

**Information Systems**

IT system implementation costs will be substantial primarily because we have fifteen different main accounting systems interfacing with hundreds of subsystems that must be evaluated and modified, as needed, to comply with the new standards.

We may gain cost efficiencies if the system work for the “revenue recognition” and “lease” standards is conducted concurrently because we can leverage IT resources that would be common to both projects (e.g. project management, testing, training, etc.). However, such cost efficiencies will be partially offset by the cost to hire new employees and/or temporary contractors to absorb additional workload to design and build new or modified systems solutions (also see “Employee Costs” below). Additional costs will also be incurred to test the systems and provide necessary user-training.

**Employee Costs**

We expect to incur substantial contractor fees to manage one-time adoption efforts. For example, collecting historical information for thousands of long-term contracts will be a time-consuming and a complicated exercise, and would require dedicated and specialized resources. We will have to
hire and manage temporary workers to ease additional workload and ensure our normal book close and other activities are not interrupted.

Even after the initial implementation, our ongoing costs will be substantially higher because the new standards will require us to track and analyze new sets of data at a more granular level. For example, reassessing the “more likely than not” lease term estimate, assessing onerous performance obligations and/or variable considerations at each reporting date will add tremendous administrative burden to our organization. Accordingly, we will have to increase headcount in various functional areas such as accounting, reporting, IT systems, legal, real estate management and internal controls both at Corporate and business unit levels.

**Consulting and Audit Fees**

During the implementation process, we will need to make considerable efforts to resolve any accounting, process and systems issues with our auditors and/or other subject matter experts. We may also need to engage outside vendors to provide us consulting services or assist us with IT systems implementation. We will incur additional fees as auditors must perform work to evaluate the revised or new processes and systems that are installed to comply with the new standards.

**Retrospective Application and Implementation Cost**

Implementation costs will be substantially higher if the retrospective application is required because we will need to:

- Implement a dual general ledger system to capture and maintain two different sets of accounting records
- Increase headcount and/or hire contractors to create and manage two sets of accounting records, two different processes and internal controls for 3 to 5 years
- Gather historical information for thousands of contracts, many of which are long-term and have multiple elements
- Incur additional audit fees as work must be performed on the two sets of accounting records and related processes

**Question 3**

*Do you foresee other effects on the broader financial reporting system arising from these new standards?*

We currently do not expect any significant conflicts with other regulatory or tax reporting requirements that may arise from adopting the new standards.

**Question 4**

*In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why?*

**Revenue Recognition**

We believe that it is impractical to apply the proposed “revenue recognition” standard retrospectively to a large number of complex long-term multiple-element contracts. For example,
preparers may utilize hindsight in determining how the company might have developed certain estimates at the inception of each contract. It will be extremely difficult to retrospectively determine how subsequent events might have affected the probability assumptions for onerous performance obligations and/or variable considerations at each historical reporting date. Given the levels of uncertainty and significant judgment involved in recasting prior year revenues at each performance obligation level, it is doubtful that the retrospective application will actually assure consistent treatment by all affected companies, and consequently improve overall comparability of financial statements for the investors. In addition, as discussed above, cost of implementing the retrospective application will be substantial to the preparers without a corresponding benefit to the users of the financial statements.

We recommend "prospective" application of the new standard to new and materially modified contracts entered into on or after the effective date. Qualitative and quantitative disclosures similar to those required by Accounting Standards Update ("ASU") 2009-13, "Multiple-Deliverable Revenue Arrangements," and ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements," would provide users of the financial statements the ability to assess the effect of the new standard on the year of adoption.

**Leases**

**Lessee Accounting:**

We agree with the proposed "simplified retrospective" application of the lessee accounting guidance as long as the "virtually certain" threshold, rather than "more likely than not" threshold, is applied in determining the lease term that reflects the impact of options to extend or terminate leases.

We believe this method is cost-effective and provides an appropriate level of comparability to the users of the financial statements. However, the Board should also permit full retrospective application as an option. The simplified retrospective method could result in frontloading of expense because each lease is treated as a new lease as of the beginning of the retrospective application period, not as of the inception of each lease. Accordingly, for some companies, use of the full retrospective approach may be more appropriate.

**Lessor Accounting:**

The lessor accounting guidance deals with customer contracts; therefore, the proposed principles of lessor and revenue recognition accounting are interrelated. Accordingly, consistent with the "revenue recognition" standard, we recommend the "prospective" application of the lessor accounting guidance with appropriate qualitative and quantitative disclosures in the year of adoption.

**Financial Statement Presentation ("FSP")**

We support "full retrospective" application of the FSP standards, including "comprehensive income" and "discontinued operations," to ensure comparability between reporting periods and across companies and industries.
**Question 5**

Do you prefer the single date approach or the sequential approach? Why? Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be?

We recommend a “sequential” approach, not a single date approach, to setting the effective dates for the proposed standards. A sequential approach will provide us flexibility to allocate resources in an orderly manner and allow us to incorporate necessary “convergence” changes into our ongoing system and business process improvement efforts, which will help minimize the one-time implementation cost of all convergence projects. If the dates are staggered, we will be able to utilize more internal resources, rather than hiring and managing a large number of contractors.

Under a single date approach, we might gain certain system cost efficiencies by implementing system changes concurrently. However, we will incur substantially more employee costs because internal resources will be insufficient to absorb the substantial additional workload causing implementation to be at least partially outsourced. Due to the nature and magnitude of the proposed accounting changes, the single date approach, even given a number of years to implement, is impractical from the project and resource management perspective and will be detrimental and distracting to our core business operations. We are further concerned about our auditor’s ability and availability to perform the necessary work on adoption of several new major standards in a “single” year for many clients while maintaining the quality and the cost at a reasonable level. In addition, investors will find the financial statements issued in the year of adoption under the single date approach complex and confusing because it will be difficult to understand the individual adoption effects of each new standard.

We also recommend that the proposed FSP standard should be implemented in phases: i) comprehensive income, ii) discontinued operations, iii) changes in structure of financial statement presentation, and iv) related expanded disclosures. We do not believe the cost of requiring a direct method statement of cash flows, which we expect to be substantial, is justifiable as it does not enhance overall comparability and usefulness of financial statements for users. As the Board has decided to defer deliberation of this project until completion of other high-priority projects, it is probable that the final FSP standard will not be issued in time for the preparers to incorporate required system changes into system implementation plans of the high-priority projects. Therefore, if the Board decides to mandate the direct method of cash flows, we strongly believe the effective date for applying the direct method should be delayed several years in order to give preparers sufficient time to implement necessary system and process changes.

**Question 6**

Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not?

We believe early adoption should be prohibited for all new standards in order to ensure comparability of the financial information across companies and industries.
**Question 7**

*For which standards, if any, should the Board provide particular types of entities a delayed effective date?*

Non-public entities should generally be provided with additional transition time with an option of adopting the requirements as of an earlier date along with public entities. A deferral will provide a relief for many private entities from a cost perspective because generally accepted software solutions and accounting practices will emerge by the time they are required to adopt the new requirements.

**Question 8**

*Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?*

We believe the FASB and IASB should, in theory, require the same effective dates and transition methods for their comparable standards. However, considering the inherent differences in regulatory, legal and economic environments and various constituents of the two standards, achieving the same effective dates and transition methods should not prevent each board from independently establishing the most appropriate approach. The two boards should make appropriate accommodations to IFRS 1, "First-time Adoption of International Financial Reporting Standards" to mitigate any potential transition issues for the U.S. or other territories arising from differences in effective dates and transition methods.
### Appendix B - Recommended Effective Dates and Transition Methods

The table below summarizes our recommendations on effective dates and transition methods.

<table>
<thead>
<tr>
<th>Project</th>
<th>Transition Method Proposed by the FASB</th>
<th>Recommended Transition Method</th>
<th>Recommended Effective Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognition</td>
<td>Full retrospective</td>
<td>Prospective with qualitative and quantitative disclosures in period of adoption</td>
<td>Annual periods beginning on or after December 31, 2014</td>
</tr>
<tr>
<td>Lease - Lessee accounting</td>
<td>Simplified retrospective</td>
<td>Simplified retrospective, with an option for full retrospective</td>
<td>Annual periods beginning on or after December 31, 2015</td>
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<tr>
<td>Lease - Lessor accounting</td>
<td>Simplified retrospective</td>
<td>Prospective with qualitative and quantitative disclosures in period of adoption</td>
<td>Annual periods beginning on or after December 31, 2014</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>Full retrospective</td>
<td>Full retrospective</td>
<td>Annual and interim periods beginning on or after December 31, 2012</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>Full retrospective</td>
<td>Full retrospective</td>
<td>Annual and interim periods beginning on or after December 31, 2013</td>
</tr>
<tr>
<td>FSP - Presentation only</td>
<td>Full retrospective</td>
<td>Full retrospective</td>
<td>Annual and interim periods beginning on or after December 31, 2016</td>
</tr>
<tr>
<td>FSP - Direct method of cash flows</td>
<td>Full retrospective</td>
<td>Not applicable</td>
<td>Disagree with requiring the direct method</td>
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</tbody>
</table>