January 31, 2011

Ms. Leslie Seidman, Chair  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

VIA Email: director@fasb.org

Re: File Reference No. 1890-100, Discussion Paper: Effective Dates and Transition Methods

Dear Ms. Seidman:

Cisco Systems, Inc. ("Cisco") appreciates the opportunity to comment on the Discussion Paper, Effective Dates and Transition Methods ("Discussion Paper"), recently issued by the Financial Accounting Standards Board ("FASB" or "Board"). We are supportive of the convergence efforts of the FASB and International Accounting Standards Board ("IASB") (collectively "the Boards"). Given the magnitude of the changes proposed, we believe appropriate transition methodologies and timelines will be critical to the success of the convergence efforts.

Overall Comments

The level of change proposed by the Boards through the convergence efforts is unprecedented. The costs of implementation and the change management aspect of these efforts must be carefully considered as the Boards determine effective dates and transition methodologies. We support a logical sequential approach over an appropriate period of time to adoption in order for preparers of financial statements to adequately manage these changes.

In addition, we believe the Boards need to balance the costs and burdens of implementation against the needs of users of financial statements and investors. We view the transition process, including the system and process changes that will be required, as well as the significant level of management judgment introduced by the proposals as the most difficult and costly aspects of the proposals. We recommend that the Boards provide more flexibility in transition, including reducing the number of periods requiring retrospective application, and simplify the use of management judgment in its proposals. This would ease the transition and lower the overall costs of implementation. We have outlined our recommendations below and in our response to the questions on the Discussion Paper.
Specific Comments

Our specific comments related to our concerns with the Exposure Draft are expressed below.

Implementation Approach

Cisco supports a logical sequential approach for implementing the converged standards. We recommend that Financial Instruments and related standards be adopted first with sufficient implementation time, followed by the concurrent adoption of the Revenue Recognition and Leases proposals. We believe the Financial Statement Presentation standard should be last and only after all converged projects have been implemented. While we understand the benefits of a single date approach to investors and users of financial statements, the systems and change management aspect of the overall convergence efforts is considerable and cannot be underestimated. One of the implementation challenges we face is that many of the same finance and IT resources that will be utilized during the implementation of each of the converged standards are also responsible for maintaining the current accounting and reporting systems and processes. These same resources will be stretched with the added responsibility of overseeing the evaluation of the accounting and tax impacts of convergence, and managing and designing systems and process changes. Allowing a logical sequential adoption of the proposed standards would provide companies with the additional time to make the necessary modifications to systems and processes in a systematic manner.

Retrospective Application

The costs to implement the changes proposed by the Boards as part of the convergence efforts will be significant and should be carefully considered. The retrospective/limited retrospective application of the Revenue Recognition and Leases proposals are particularly costly aspects of these proposed changes.

While we agree that retrospective application of the proposed Revenue Recognition standard and limited retrospective application of the proposed Lease standard would provide users of financial statements with some useful information. However, we believe this would be extremely burdensome for many entities. For many financial statement preparers, particularly those with numerous, large and complex arrangements, the retrospective or limited retrospective application of the proposed guidance would require preparers to track such contracts under dual accounting guidance for all retrospective periods. The resources and costs to track and report under dual principles for extended periods of time would be extremely cost prohibitive. Many companies, especially large multinationals, have complex accounting solutions which may span multiple ERP systems, and these proposed changes would require significant modifications to those systems. The implementation times required to make the system changes and provide three years (and potentially five years including financial highlights) of comparative financial data would be prohibitive. The application of the proposals requires specific transaction level analysis and accounting. Consequently, any retrospective application requirement will require dual record keeping for each individual transaction for each period to be reported. For Cisco, this would require dual record keeping for tens of thousands of transactions annually. This level of effort is clearly not cost beneficial and a barrier to success.

We believe the Boards should provide companies with the flexibility of determining which transition method to use. We recommend that the retrospective/limited retrospective application for the Revenue Recognition and Leases proposals be an option as well as allowing the prospective application of the standards on all new contracts as of an effective date. Allowing prospective application would shorten the implementation time necessary for preparers to adopt the new standards. Additional quantitative and qualitative disclosures can be provided to help financial statement users assess current and expected future trends. This is a similar approach
that has been used for the adoption and transition to Accounting Standard Updates: Standards Updates: No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, and No. 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements which, in our view, was widely successful and should be used as a model for the transition process.

Management Judgment

Many of the Boards’ proposals introduce new areas of significant management judgment. While we are supportive of a principles based approach, we are concerned that these new areas of judgment could result in significant complexity, and the costs of applying judgment to tens of thousands of transactions on a retrospective basis and ongoing for each reporting period does not provide a lot of value to investors and negates its benefits. The areas of particular concern are as follows:

Term and Contingent Rent (Leases proposal) – We understand the financial statement user community believes that the expected cash flows to be paid (rather than the minimum lease payments) would provide decision-useful information. However, we are concerned that in an effort to forecast future behavior, the amounts recorded at inception will be highly subjective and subject to significant adjustment, particularly towards the end of certain milestones in the lease contract (e.g. renewal period). This would have a significant impact on our current process of assessing leases. In addition, the effort to apply this on a limited retrospective basis would be significant as we would have to review thousands of existing contacts individually to reassess contingent rent, expected term, and other factors that are not considered under current lease guidance. If further practical guidance were to be provided in the final standards or if some of the use of estimates were to be simplified, this could reduce the effort required to implement the new guidance and account for leases on an ongoing basis.

Probability Weighted Approach (Revenue Recognition and Leases proposals) – We understand that a probability weighted assessment is fundamental to any estimation process. There are many models and techniques that are available that contemplate probability. From a practicality and operability perspective, we are concerned that this change will require entities to significantly change current processes and will incur significant costs to track and account for contracts at inception and in subsequent reporting periods. Our recommendation is to not be prescriptive on the use of a probability weighted approach, but to allow companies to use management judgment in the determination of the most appropriate methodology. We believe this would simplify the proposed Revenue Recognition and Leases standards without compromising the overall objective of the convergence projects.
Selected Questions

Please refer to the Appendix for our detailed responses to selected questions raised by the Board.

We thank the Board for the opportunity to provide our comments on this Discussion Paper. If you have any questions regarding our letter or would like to discuss our views in further detail, please feel free to contact me directly at (408) 526-7815.

Sincerely,

Prat Bhatt
Vice President, Principal Accounting Officer and Corporate Controller
Cisco Systems, Inc.
Appendix: Detailed Responses to Questions on the Discussion Paper

Question 1:

Please describe the entity (or the individual) responding to this Discussion Paper. For example:

a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.

c. If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.

d. If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.

e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).

Response:

Cisco is a large, multinational preparer of financial statements. Our consolidated financial statements are prepared in accordance with U.S. GAAP. We design, manufacture, and sell Internet Protocol (IP)-based networking and other products related to the communications and information technology (IT) industry and provide services associated with these products and their use. Our fiscal 2010 annual revenue was $40 billion, and we currently have over 72,000 employees worldwide.

The level of change proposed by the Boards through the convergence efforts is unprecedented. The proposed standards would have a significant impact on our processes and systems. The change management in our organization would not be limited to finance, but also other organizations such as information technology, sales, legal, investor relations and operations. The Revenue Recognition and Lease proposals would have the most pervasive impacts on our systems, processes and people. We also expect the impacts of the Financial Statement Presentation proposals to be significant, but we cannot comment on the specific impacts until the Boards issue a proposal.

In addition, we expect the proposed changes to greatly impact our business. The most significant impact we expect is in the area of leases and revenue. We expect a shift in the types of arrangements our customers are willing to enter into in an effort to ensure transactions are treated as service arrangements rather than leases.
Question 2:

Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

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

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?

Response:

If the convergence projects are adopted in their proposed forms, we estimate that we would require a minimum of 2 – 3 years to implement changes for each particular standard. If all standards are effective at same time, the lead time to implement the changes would be longer.

The unprecedented level of change proposed by the Boards will have a significant impact on our accounting, reporting and close processes. Considerable time and resources will be required to evaluate the impacts on our current processes, implement new processes and train personnel. Many of these resources will be stretched as they have ongoing accounting and reporting responsibilities.

We view the transition process, including retroactive application, as the most difficult and costly aspect of the proposals as preparers would be required to track numerous transactions under dual accounting guidance for the periods to be applied retrospectively. For Cisco, this would require dual record keeping for tens of thousands of transactions annually. Although we have not fully analyzed the impact of retrospective application, we believe the labor costs alone to support retrospective application of these proposal would be between $80 - 100 million over the implementation period.

In addition, many of the Boards’ proposals will introduce new areas of significant management judgment which could result in increased complexity. The costs of applying additional judgment to thousands of transactions on a retrospective basis and ongoing for each reporting period will be significant. As noted above, if the final Leases standard includes further practical guidance in the area of lease terms and rent contingencies, or if some of the use of estimates are simplified, the effort and cost required to implement new guidance and account for leases on an ongoing basis would be reduced. In addition, if the Boards were not so prescriptive on the use of a probability weighted approach, but allowed companies to use management judgment in the determination of the most appropriate methodology, we believe the proposed Revenue Recognition and Leases standards would be simplified thus reducing the effort and burden of implementing the new standards without compromising the overall objective of the convergence projects.
Question 3:

Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Response:

The effects on the broader financial reporting system could potentially be significant. Some of the areas we believe could be impacted are as follows:

Tax Reporting

Each of these proposed standards will require a detailed analysis to understand the impact to our tax reporting, tax processes and related IT systems, as well as internal controls.

We file tax returns in numerous tax jurisdictions worldwide which rely on U.S. GAAP financial statements. The tax rules of these jurisdictions often leverage the existing standards and make modifications thereto. We may be required to maintain dual accounting in order to comply with existing tax rules. If we are required to maintain dual accounting, we expect to incur significant people and system costs.

We also have many tax processes and related IT systems that will be impacted by adopting new standards. A sequential approach in the adoption of these standards would lessen our implementation challenges.

Statutory Reporting

As a multinational company, we have nearly 400 legal entities many of which are subject to statutory reporting requirements. The processes these entities have in place to convert from U.S. GAAP to local GAAP (in some cases IFRS) will be impacted by significant changes to U.S. GAAP. We emphasize the criticality of the Boards ensuring differences between the FASB and IASB proposed convergence standards are resolved, and in addition that effective dates and transition methods are consistent. Any differences in requirements and timing will further complicate implementation of the proposed changes for multinational entities.

Internal Controls

The necessary modifications to our existing processes and systems will have a significant impact on the current controls we have in place. Our internal control environment will need to be reevaluated and modified as a result of adopting new standards. We expect to incur significant costs in order to ensure internal controls remain effective and in order to meet Sarbanes-Oxley requirements.
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? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Response:

As noted above, we view the proposed transition methods as the most difficult and costly aspects of the proposals especially with respect to the retrospective/limited retrospective application of the Revenue Recognition and Leases proposals. While we agree that retrospective application of the proposed Revenue Recognition standard and limited retrospective application of the proposed Leases standard would provide users of financial statements with some useful information, we believe this would be extremely burdensome for many entities. For many financial statement preparers, particularly those with numerous, large and complex arrangements, the retrospective or limited retrospective application of the proposed guidance would require preparers to track such contracts under dual accounting guidance for the period to be applied retrospectively. The resources and costs to track and report under dual accounting principles for extended periods of time would be cost prohibitive. Many companies have built custom accounting solutions which may span multiple ERP systems, and these proposed changes would require modifications to those systems. The implementation times required to make the system changes and provide three years (and potentially five years including financial highlights) of comparative financial data would be significant. The application of the proposals requires specific transaction level analysis and accounting. Consequently, any retrospective application requirement will require the dual record keeping for each individual transaction for each period to be reported. For Cisco, this would require dual record keeping for tens of thousands of transactions annually. This level of effort is clearly not cost beneficial.

In light of the costs and burdens of adopting the significant proposed changes, we believe the Boards should provide companies with the flexibility of determining which transition methods are most appropriate. We encourage the Boards to consider that retrospective/limited retrospective application for the Revenue Recognition and Leases proposals should be an option as well as the prospective application of the standards on all new contracts as of an effective date. We believe this would ease the administrative burden of applying the new principles and permit companies to respond appropriately to the needs of the users of their financial statements. Allowing prospective application would shorten the implementation time necessary for preparers to adopt the new standards. Additional quantitative and qualitative disclosures can be provided to help financial statement users assess current and expected future trends. This is a similar approach that has been used for the adoption and transition to Accounting Standard Updates: Standards Updates: No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, and No.2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements.
Question 5:

In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

b. Under a single date approach, what should the mandatory effective date be and why?

c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.

d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Response:

a. We would prefer a logical sequential approach. The proposed changes are significant and we do not have the resources to assess, design, and implement all the changes at once. While we understand the benefits of a single date approach to investors and users of financial statements, the change management aspect of the overall convergence efforts is considerable and cannot be underestimated. One of the implementation challenges we will face is that many of the same finance and IT resources that will be utilized during the implementation of each of the converged standards are also responsible for maintaining the current accounting and reporting systems and processes. These same resources will be stretched with the added responsibility of overseeing the evaluation of the accounting and tax impacts of convergence, and managing and designing systems and process changes. This situation will be exacerbated if a single date approach is taken.

b. Under a single date approach, we believe the mandatory effective date should be no sooner than 2016 or 2017. We would require a minimum of 3 to 5 years to implement the changes if standards are effective at the same time.

c. We believe grouping of interdependent standards and sequential implementation will allow companies the time to better manage the significant changes and impacts on people and systems. Under a sequential approach the standards should be grouped as follows:

Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedge Activities, Comprehensive Income, Financial Instruments with Characteristics of Equity, and Insurance Contracts should be grouped together and implemented first. There are many interdependencies within these standards thus it would be beneficial to implement these standards at the same time. If final standards are issued in 2011, the mandatory effective dates for these standards should be around 2013 or 2014.

The next set of standards which have interdependencies, and which we believe should be implemented together are Revenue Recognition and Leases. The mandatory effective date for these proposals should be at least 2 years after Financial Instruments and related proposals (around 2015 or 2016). This is assuming the final standards do not require full retrospective application. If
retrospective application is required, the mandatory effective date should not be before 2017, as we would need additional time to provide three years (and potentially five years including financial highlights) of comparative financial data.

Lastly, we believe Financial Statement Presentation should be implemented once all other converged standards have been implemented (around 2016 or 2017). This project will have a significant impact on not only the structure of financial statements, but on the financial statement close process and systems. To add this change in the midst of all of the other changes would add another layer of complexity and will add to the required time to adopt these standards.

**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? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

**Response:**

We believe companies should be allowed flexibility when adopting the new standards and are supportive of allowing companies to adopt some or all of the new standards before their mandatory effective dates. Under particular circumstances, it may make sense for a company to early adopt certain standards, as such we believe the Board should provide companies with flexibility in adoption dates.

**Question 8:**

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

**Response:**

We are supportive of the Boards’ convergence efforts and believe the Boards should require the same effective dates and transition methods in order to continue on the path of convergence. In addition, many companies have numerous international subsidiaries, some of which are required to report under IFRS for statutory reporting purposes. It would be most efficient for multinational companies to adopt the FASB and IASB converged standards at the same time so companies would not need to manage multiple implementations. As mentioned above, being a multinational company, we have nearly 400 legal entities many of which are subject to statutory reporting requirements. Changes to U.S. GAAP would have a significant impact on the processes these entities have in place to convert from U.S. GAAP to local GAAP (in some cases IFRS). It would be extremely difficult and impractical to manage the changes proposed by the Boards if effective dates and transition methods were inconsistent for comparable standards.