October 21, 2010

Technical Director – File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Comment to Exposure Draft on proposed Accounting Standards Update of Revenue Recognition (Topic 605)

Dear Sir or Madam:

We appreciate the opportunity to comment on the Financial Accounting Standards Board and International Accounting Standards Board (“Boards”) Exposure Draft on proposed Accounting Standards Update of Topic 605 – Revenue Recognition. We realize that bridging the gap between the myriad of U.S. prescriptive accounting standards and the conceptually-based IFRS guidance is a difficult undertaking and appreciate the Boards’ effort in this area. We believe the Boards have made significant progress in achieving a single model for revenue recognition. However, as discussed below, there are certain aspects of the proposed model which need to be reconsidered.

Exposure Draft Question 2

The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct.

Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

Our Response

We believe that the proposed guidance is difficult to apply as it relates to consideration paid to customers. Paragraph 48 indicates that the determination of whether consideration paid to a customer is a reduction of the transaction price or payment for a good or service is based on the concept of whether the good or service acquired from the customer is “distinct” as outlined in Paragraph 23. To apply this guidance, an entity must determine whether the customer or another entity does or could sell the good or service separately to others. It requires that an entity gather information or make judgments as to the customer’s resources and risks to ascertain whether the good/service has a distinct function and profit margin. The difficulty in obtaining the information to make these assessments may lead to inconsistency in application of the proposed guidance. We believe this is counter to the Boards’ objective of eliminating inconsistency and weaknesses in existing guidance (Paragraph IN2).
Secondly, the Boards’ basis for conclusion (BC 109) is contradictory to the example presented in the guidance in paragraph IG 85. The basis for conclusion states that the concept of “distinct” is similar to “identifiable benefit” in existing U.S. GAAP. Yet, in applying this guidance to slotting fees in IG 85 example 23, the conclusion reached differs from existing U.S. GAAP. The Boards deemed slotting fees to be “distinct” on the basis that the customer sells the service to others resulting in classification as expense. We disagree with this conclusion as we believe one would not purchase a slotting service independent of the sale of goods to that customer. Under existing U.S. GAAP, product placement fees and slotting fees are deemed to be inseparable from the sale of the product and consequently classified as reduction of revenue (ASC 605-50-55-24 and 25) and ASC 60-50-55-30 and 31). If the Boards’ intent is to retain the current presentation of these types of activities, we recommend the guidance be amended to include the concept of identifiable benefit under US GAAP. This concept is relatively simple, understandable, and practical to execute.

**Exposure Draft Question 4**

The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

*Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?*

**Our Response**

We agree that an entity should recognize revenue on the basis of estimated transaction price. However, we disagree with the proposal that, in all cases, an entity must use a probability-weighted methodology to determine the amount of consideration that an entity expects to receive (paragraphs 34 and 35). We agree that probability-weighted estimation is an appropriate methodology in certain situations, such as where uncertainty is high or there is an insufficient quality or quantity of information available. For entities in mature industries with long-standing customer practices and proven estimation methods based on high quality historical data and strong market intelligence, we do not believe probability weighting will provide better estimates. Requiring probability weighting in the circumstances described above will not improve the usefulness of information in the financial statements but may increase the cost of preparing this information if companies will be required to change their current processes for determining transaction price. We recommend the proposed guidance be amended to allow entities to exercise judgment in determining the best estimation method to apply. Probability weighting could then be provided in the application guidance as one example of a technique which best estimates transaction price.

**Disclosure**

**Exposure Draft Question 10**

The objective of the Boards’ proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. *Do you think the proposed disclosure requirements will meet the objective? If not, why?*
Our Response

We agree with the concept of an overarching disclosure objective of principle-based disclosures versus detailed and prescriptive disclosure requirements. The exposure draft requires reconciliation of contract balances; however, it is unclear as to what constitutes a contract asset or liability for purposes of this disclosure. Is it the Boards’ intent that this requirement be limited to the primary contract assets and liabilities related to revenues (typically accounts receivable and deferred revenue)? Or, is the intent to include all revenue-related accrued liabilities such as sales incentives or returned goods? We recommend the Boards provide further clarification as it relates to the scope of this disclosure and provide implementation examples.

We agree that a roll-forward of accounts receivable and deferred revenue would provide useful information to users of the financial statements. However, we believe presenting an aggregated reconciliation of all revenue-related assets and liabilities will be onerous and costly to execute while providing limited benefit to the users of the financial statements. We recommend that the Boards limit the scope of this disclosure to the primary contract assets and contract liabilities.

Sincerely Yours,

Linda M. Warren
Vice President and Controller
Altria Group, Inc.