October 21, 2010

Leslie Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Submitted via email to: director@fasb.org

File Reference Number 1820-100

Dear Madam and Sir:

eBay Inc. ("eBay" or "we") appreciates the opportunity to comment on the Exposure Draft entitled "Proposed Accounting Standards Update, Revenue Recognition (Topic 605), Revenue from Contracts with Customers " (the "ED"), jointly developed by the Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards").

eBay is a global organization that encompasses multiple industries across the technology sector. We therefore appreciate the complexities of applying numerous accounting concepts to contracts with customers, and thus support a transition to a more unified, principles based approach to revenue recognition.

We respectfully emphasize that although we are generally supportive of the principles outlined in the proposed guidance, there are several areas in which the Boards should consider revising the proposed guidance. We believe the most critical issues are:

- The proposed guidance should include more principles applicable to the sale of services to be consistent with the level of guidance provided for the sale of goods. Additional guidance should help promote consistency in the recognition of revenue for service industries.
• Certain concepts as proposed will create significant operational burdens that do not outweigh benefits to the users of financial information. Examples include the lack of a specific exception for perfunctory and inconsequential obligations (including warranties) and the required use of (1) a probability weighted outcome model to account for credit risk, and (2) reasonable estimates of contingent consideration to estimate and account for the transaction price.

• Many of the proposed disclosure requirements appear fairly prescriptive and overly burdensome and do not sufficiently promote a more principles-based approach whereby entities are directed to disclose information they deem useful and relevant. A more principles-based approach will increase the usefulness of financial statements by reducing the amount of immaterial disclosures.

• The proposed guidance only provides for full retrospective adoption, which will result in unnecessary investments as issuers review and analyze historical contracts. These burdens can be lessened by offering alternative transition methodologies that will achieve the same objective of comparability. We also suggest that the Boards include a sufficient transition period to allow entities to efficiently and effectively plan the implementation of the significant changes brought about by this new guidance.

In addition to the general comments addressed above, we have provided our comments to certain of the Boards’ questions below:

Question 1: Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether to:

(a) combine two or more contracts and account for them as a single contract;
(b) segment a single contract and account for it as two or more contracts; and
(c) account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We agree with the proposed principle, and believe that it is aligned with ensuring the accounting for the contract(s) reflects the economics of the transaction.

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?
We generally agree with the proposed basis for defining a distinct performance obligation as it is conceptually consistent with current standards to determine whether a delivered item has stand-alone value to the customer. We are also supportive of the Boards’ efforts to lessen the conditions needed to conclude that a performance obligation is distinct, as compared with the conditions needed to determine stand-alone value under the current standards.

However, as the proposed guidance is currently written, we believe a significant, and unnecessary, number of perfunctory and inconsequential performance obligations would need to be separately identified. Having to separately identify perfunctory and inconsequential performance obligations would be cost prohibitive for many types of entities, and would also fail to align revenue recognition with the overall economics of the transaction. While perhaps inherent within the proposed guidance, we believe that the principle of a “distinct” performance obligation should specifically include an exception for perfunctory and inconsequential performance obligations.

There are numerous examples throughout various services industries of multiple services (including perfunctory and inconsequential services) that are to be delivered over time for one unique fee. Some of these services might, based on the proposed guidance, qualify as “distinct” even though they do not provide any value to the customer. To illustrate our views, consider a real estate agent who only earns a fixed commission based on the sale of a property, but who also performs various services related to the home selling process prior to the sale of the property. Services could include hosting open houses, advertising the house utilizing both on and offline marketing services and performing contract closing services. Given the proposed definition of distinct performance obligations, it could be concluded that each (or most) of the separate services is a distinct performance obligation, as each service has a distinct function and profit margin; however the core value provided to the customer is the sale of the property. Recognizing revenue for these perfunctory performance obligations would create a disparity between the economics of the transaction and revenue recognition, and would require further disclosure to explain the disparity, thereby reducing the user’s reliance on the financial statements and reducing overall comparability. Furthermore, as discussed below, the burdens involved in separately identifying each perfunctory or inconsequential performance obligation would be exacerbated when the issuer would be required to separately allocate revenue, and make transfer of control, valuation and other judgments, for each performance obligation.

**Question 3: Do you think that the proposed guidance in paragraphs 25–31 and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?**

We do not believe there are sufficient indicators noted in the ED for service industries to determine when control of a service passes to a customer. It appears that only two indicators within paragraph 30 are applicable to the service industry. Given that services
are intangible items, it may be difficult for service companies to objectively determine when control is transferred to a customer, thereby leading to inconsistent application of the proposed guidance within the service industry. Therefore we encourage the Boards to provide further guidance and indicators to define when a customer receives the benefit from the services.

Additionally, the proposed guidance requires entities to assess the transfer of control of goods or services for each separate performance obligation. Similar to the practical issue faced with the requirement to determine distinct goods or services as discussed above, we believe the burden of assessing when control transfers for each distinct good or service will be exacerbated without an exception for perfunctory and inconsequential goods and services.

**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?

We respectfully disagree with the proposed “reasonable estimate” definition, as it dictates when an entity must estimate variable consideration based on specific conditions as noted in paragraph 38, without consideration of the economic substance of the transaction.

First, we believe the proposed criteria in paragraph 38 place too much emphasis on the entity’s ability to gather and interpret the relevant experience necessary in order to make a “reasonable estimate”. Applying this guidance will therefore cause comparability issues amongst entities when applied to transactions of a similar nature. For example, one entity may possess the requisite resources to reasonably estimate the transaction price and thus recognize revenue, while another entity without the necessary resources would not recognize revenue for the same transaction. Furthermore, inclusion of an estimate for variable consideration will create undue volatility and reduce comparability, potentially requiring the entity to continuously support and defend its capability to make reasonable estimates (for both current and prior periods) to a reviewer with the benefit of hindsight, while ultimately not promoting more accurate and reliable financial information.

Second, we believe the recognition of variable consideration based on reasonable estimates ignores the fact that contracts with different monetization strategies (e.g. fixed fee versus contingent fee) may offer different value to a customer. Therefore, such contract monetization strategies should be taken into consideration when determining the amount and timing of revenue recognition.
Consider a simple scenario where an entity enters into two contracts with two different customers for the sale of the same product or service, but monetizes one contract with a fixed subscription fee and monetizes the other with a contingent fee that meets the criteria outlined in paragraph 38 to be reasonably estimated. The different negotiated fee structures reflect the difference in viewpoints as to when the benefit from the good or service will be received. The customer only willing to accept the payment of a contingent fee believes the benefit from the good or service is not received at the time he obtains control of the good or service (i.e. when no further performance obligation from the vendor remains), but instead at the time the contingent event is resolved. On the other hand, the customer willing to accept the fixed fee arrangement believes that the benefit of the good or service will be received upfront, regardless of how or when the contingent event is resolved. The accounting consequence of the proposed guidance would result in revenue being recognized consistently between the two contracts despite the difference in economic substance from the customer point of view. To the contrary, we believe that recognizing contingent consideration as revenue only at the time the contingency is resolved appears more appropriately linked to the benefit received by the entity’s customer (as defined in paragraph 26). Additionally, this concept is a well-defined principle that has served preparers and users of financial statements well in the past, avoiding troublesome situations where significant revenue can be recognized well in advance of the uncertain payment for those products or services.

Therefore, we suggest the Boards provide only indicators (rather than conditions as stated in paragraph 38) to allow an entity to make an accounting policy election to reasonably estimate variable consideration in the transaction price if the entity believes it will provide a better reflection of the economic substance of the transaction. Disclosure requirements of the key aspects of revenue recognition should be relied upon to give users the information needed to understand potential inconsistencies this creates between peer companies.

Question 5: Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

We agree that the customer’s credit risk should affect the amount of revenue to be recognized. However, the probability weighted model proposed should be included as one of the options available to management in making their best estimate of collectability instead of being the only option available. Therefore, we propose inclusion of a more principle-based concept, allowing management to determine the estimation methodology best suited to their particular facts and circumstances, while not deviating from the nature and intent of the proposed principle.
Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree with the proposed approach. Payment terms outside of the entity’s normal business practice include inherent financing due to the time value of money. Accordingly, a vendor is accepting less in value if it allows customers to pay over longer periods of time.

Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We agree with the proposed approach, as this more accurately reflects the economic substance of the transaction through the alignment of revenue recognition with the relative fair values of significant performance obligations. However, as discussed above, the final standard should provide an exception for perfunctory and inconsequential performance obligations.

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 that objective? If not, why?

We support disclosures that provide relevant and reliable information to the users of financial statements. However, the Boards should put further emphasis on the concepts included in paragraph 70 of the ED to stress a more principles-based disclosure requirement throughout paragraphs 73 to 83. Entities shall disclose information they deem useful and relevant, as opposed to what seems to be very prescriptive disclosure requirements in the proposed guidance. This will allow for the presentation of key information to the users of the financial statements, without being diluted by unnecessary “required” information.

For example, we do not agree that the reconciliations proposed in paragraph 75 of the proposed guidance would provide relevant or reliable information for all entities. In particular, the reconciliations would not be particularly useful with respect to entities with short duration contracts or immaterial long term contracts, and the burdens associated with preparing those types of reconciliations would outweigh the benefits to users of financial statements of such entities. On the other hand, there may be certain types of entities where the reconciliations described in paragraph 75 would provide
significant value to the underlying financial statements. Further examples are provided in our response to the questions below relating to disclosures.

We are supportive of the Boards’ current Disclosure Framework Project with the stated objective of establishing an improved disclosure framework focused on providing meaningful and relevant information to the users of financial statements, presented in a logical way, without creating unduly burdensome disclosure requirements. We encourage the Boards to apply the project’s principles to this ED, as well as other current and future exposure drafts.

**Question 11:** The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We agree with the disclosure requirement as it allows the users to better predict when material and long term performance obligations will transfer from the balance sheet, as a contract asset or liability, to the statement of income as revenue. However, we propose that the reconciliation requirement be only for material contracts with a “remaining” duration of over 12 months, instead of all contracts with an “original” duration over 12 months. Focusing on material contracts with a remaining duration of more than 12 months would provide more useful information and also would reduce operational burden, as this approach is more aligned with most financial reporting and planning systems.

**Question 12:** Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We respectfully disagree with the proposed disclosure requirement. Information already required within segment reporting, as well as the financial and trend information required to be discussed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in annual and quarterly reports (in the case of SEC-reporting companies) provides sufficiently detailed information to users of financial statements regarding significant revenue streams and the factors that can impact those revenue streams in the future. We believe that the additional required disclosure would be unduly burdensome, without adding significant value for financial statement users. Consistent with principles-based disclosure requirements, issuers should be required to follow the general principles within paragraph 70 in determining whether disaggregation is appropriate based on their particular facts and circumstances.
Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We believe that a prudent and thoughtful implementation takes time and proper planning. Regardless of which transition guidance is determined, entities should have sufficient time to appropriately plan and assess the impact of the new guidance on their accounting policies, internal processes, reporting and technology infrastructure, and organizational and communication strategy.

Companies will want to have the appropriate processes and systems in place by the date of required adoption, and ideally at the beginning of the earliest period required to be presented in the company’s financial statements upon adoption (i.e., dual reporting system for recognizing revenue under both current GAAP and the proposed new standard). Therefore, we believe the Boards should allow 12 to 24 months between the date a final standard is issued and the earliest period presented in the company’s financial statements upon adoption. This approach will help entities avoid overly burdensome recasting procedures, such as “recreating” various estimates at inception of each contract. A compressed transition period also may result in higher implementation costs and place undue strain on the ability to thoughtfully implement such significant changes.

We suggest that entities should also be allowed to adopt the guidance prospectively for new or materially modified contracts if companies deem that this approach does not materially compromise comparability. For example, we suggest that issuers be given the option of applying the guidance to new or materially modified contracts from either (1) the required adoption date, (2) one year prior to the required adoption date which will provide year-over-year and sequential quarter comparisons which are the highest focus for the users of our financial information, or (3) from the first transition period presented in the company’s financial statements upon adoption. Such an approach would remove some operational burden associated with having to recast financial information back multiple years over a high volume of contracts.

We suggest that the Boards allow for multiple implementation methodologies, given that the circumstances facing each company will vary significantly in this fast changing "convergence" accounting environment, requiring companies to make significant investments to adopt numerous new accounting standards in the upcoming years.

Question 14: The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think that the implementation guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?
Please refer to our comments throughout this letter regarding enhancement of the proposed guidance. We believe the Boards should strive for a balance between the core guidance and the implementation guidance, with the core guidance setting forth the key principles and the implementation guidance providing examples of how the principles may be applied in practice. Indeed, the comment letter process should provide the Boards with the key issues raised by registrants where expansion or elaboration of the implementation guidance may be needed to better understand the principles set forth in the core guidance, without being too rules-based. For example, the proposed implementation guidance on the different type of product warranties appears too rules-based, which is further discussed below.

**Question 15:** The Boards propose that an entity should distinguish between the following types of product warranties:

(a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.

(b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

The proposed distinction between the types of warranties and associated accounting are overly subjective, and would be unduly difficult to define and apply consistently across entities with similar warranty products. This distinction will also create operational complexity and comparability issues that do not outweigh any potential benefits to users of an entity’s financial statements.

We support, as previously noted, a refined definition of “distinct performance obligations” to exclude perfunctory and inconsequential products and services. Under this refined definition, only post sale warranty services that provide added value to customers (which generally would be those warranty services that are separately monetized, and not warranties purely viewed as a cost to the vendor) would qualify as distinct performance obligations. Any other warranties would continue to be accrued as a cost to the entity (i.e. with no impact to revenue) when the customer obtains control of the good or service subject to the warranty, at an amount that reflects management’s best estimate of the related cost.
Conclusion
In summary, we strongly support the Boards’ objective of establishing a unified set of principle based standards for Revenue Recognition and appreciate the opportunity to provide our feedback on the areas we believe can be improved.

We would be happy to speak with you to elaborate on or clarify any of our views expressed in this comment letter. Please do not hesitate to contact me at (408) 376-6636 (or pdepaul@ebay.com) or Glen Ceremony, Corporate Controller, at (408) 376-5263 (or gcereony@ebay.com).

Very truly yours,

[Signature]

Phillip P. DePaul
Vice President, Chief Accounting Officer
eBay Inc.