October 22, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft – Revenue from Contracts with Customers (File Reference No. 1820-100)

Dear Technical Director:

The Walt Disney Company is pleased to have the opportunity to comment on the exposure draft, Revenue from Contracts with Customers (ED). We recommend the boards reconsider certain of the conclusions reached in the ED which we believe may increase complexity, decrease comparability, and drive additional administrative activities and costs.

Licensing and Rights to Use (Question 16)

The boards have proposed a revenue recognition model for licenses of intellectual property which is dependent on whether the license is exclusive or nonexclusive (i.e., generally, revenue from licenses with exclusivity is recognized over time while a nonexclusive arrangement results in immediate recognition). Our interpretation of the ED is that the exclusivity test is predicated on the notion that the constraint from re-licensing creates an obligation that is not fully satisfied until the end of the license term. We believe exclusive and nonexclusive licenses may both give rise to a similar obligation that is satisfied over the term of the agreement (i.e., as the licensor permits the licensee to use the property over time). We believe a better model for determining whether to recognize license revenue over time or immediately would be one based on whether an entity continues to be exposed to significant risks or benefits of the underlying property to which it granted a right. For example, if the licensed property reverts to the licensor with remaining economic value or if there is a variable revenue stream, the licensor has a vested interest in the success of the license arrangement over the term (whether exclusive or not). In these instances, the success or failure of the licensee will drive the amount of variable revenue, the value of the underlying property for use in other licenses and the value of the reversionary interest.

Further, if a licensor has exposure to risks or benefits of the underlying property during or after the license term, the licensor has retained an interest in and/or control over the property, merely granting the customer a right to use the property. In such an instance it does not seem appropriate to record revenue
at inception of the agreement as if a full transfer of the underlying property has occurred. Thus, revenue should be recognized over the term of the license. However, if an entity does not retain significant exposure to the risks or benefits of the underlying property, and the licensor has no further performance obligations to satisfy, revenue recognition at inception of the agreement would be appropriate. We note that this model would also align the accounting for licenses of intangible assets with leases of tangible assets as set out in the current exposure draft on leases.

In addition, we believe the bright line exclusivity test may prove difficult to apply in practice and thus lead to diversity across companies. As an example in our industry, we are unclear how to apply the exclusivity test in the case of a license of a film to a theatrical exhibitor that doesn’t provide exclusivity against other exhibitors but does provide for a period of time before the film will be made available in other distribution windows such as pay per view. As another example, an entity may grant a nonexclusive right to a customer that impacts the licensor’s ability to further license the same property (e.g., to maintain relations with the initial licensee or to avoid dilution of the licensor’s property in the marketplace). In this case, although the license is nonexclusive in form it may be exclusive in substance.

**Variable Consideration (Determining the Transaction Price) (Question 4)**

We are not supportive of the general requirement in the ED to record variable revenue on a probability-weighted basis as we believe it will lead to a lack of comparability across companies and over time within the same company as different conclusions are reached on whether future revenue for any particular contract is “reasonably estimable.” We believe better comparability would be achieved by recording variable revenue when it is known or by requiring a higher probability threshold than reasonably estimable. Additionally, we believe the reasonably estimable threshold will lead to significant estimate true-ups on an ongoing basis. This will create administrative cost and we are unsure how this will benefit users of the financial statements. In fact, given the potential subjectivity, complexity and administrative cost of estimating variable consideration, we would not object to maintaining the fixed and determinable provisions in current U.S. GAAP.

If the boards decide to retain the ED approach to recognition of variable consideration, we do not believe companies should be required to use a probability-weighted amount (unless they prepare such an analysis in connection with entering into the arrangement). Otherwise, companies will be required to create probability-weighted analyses on a contract by contract basis solely for the purpose of recording accounting entries. We believe the costs of those efforts will exceed any potential benefit to users of the financial statements. In addition, for arrangements where there are limited potential outcomes (e.g., binary), we don’t believe a probability-weighted estimate provides better information to users of the financial statements. We believe companies should be able to use their best estimate in recording variable revenue.
Contract Modifications (Question 1)

We do not believe the proposed guidance for contract modifications is clear, particularly with respect to situations where the ED indicates it is appropriate to recognize a retroactive adjustment. We would generally expect that modifications should be accounted for prospectively.

For instance Example 2 – Scenario 2 in the ED appears to show a situation where a seller is modifying a contract with existing terms that are favorable to the seller at the date of modification. Our understanding from the example is that some of the revenue already recorded prior to the modification is deemed to in effect have been given back to the customer. It is unclear to us why a vendor would make this type of modification unless it is for a future benefit and thus should be accounted for on a prospective basis. We ask that the boards provide real world examples of situations when an entity should account for a retroactive effect of a contract modification.

Customer Credit Risk (Question 5)

The ED requires estimated credit risk at inception of a contract to be treated as a reduction of the revenue to be recorded under the contract, with true-ups to the estimate being charged to expense over the life of the contract. Further, the ED appears to require that credit risk be assessed at the individual contract level. We are unaware of significant practice issues with the current accounting model for credit risk and don’t believe this change will result in a significant improvement for users of the financial statements. Thus, we would retain the existing model. In the event the boards decide to adopt the new model, we believe the ED should allow for credit risk to be assessed based on a portfolio of similar transactions or contracts.

Time Value of Money (Question 6)

We agree with the ED that the amount of revenue should generally be adjusted to reflect the time value of money for contracts that contain a material financing component. Although the materiality scope may lead to some diversity in practice, we believe it strikes an appropriate balance with the administrative costs of bifurcating the financing components. As an additional way to minimize administrative efforts, we recommend that the boards also consider a scope exclusion for contracts with less than a one year term.

**********
We understand the boards have reached out to constituents in a number of industries to gain an understanding of the effects of the principles included in the ED. Due to the significant implications this guidance will have across all industries, we recommend the boards perform extensive field testing of the model during the re-deliberations to ensure the principles are operational and will provide meaningfully better information to users of the financial statements. The field testing efforts should also include a detailed comparison with existing industry specific guidance to minimize diversity in the implementation by companies in the same industry. Finally, given the significant potential changes to reported financial statements and the supporting financial systems, we urge the boards to set an effective date that provides sufficient time for companies to adopt the new rules in an organized and systematic way.

We would be pleased to respond to questions regarding our response as well as other aspects of the ED.

Sincerely,

[Signature]

Brent A. Woodford
Senior Vice President, Planning & Control
The Walt Disney Company
818-560-5054