October 22, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Technical Director, File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: Exposure Draft - Revenue from Contracts with Customers

Dear Sir / Madam,

Thomson Reuters appreciates the opportunity to comment on the Exposure Draft, Revenue from Contracts with Customers (the “ED”) issued by the International Accounting Standards Board and the Financial Accounting Standards Board. Thomson Reuters is a Canadian corporation which early adopted International Financial Reporting Standards in 2009. We provide intelligent information for businesses and professionals and had revenues of approximately US$13 billion in 2009. We support the Boards’ objectives to clarify the principles for recognizing revenue and to develop a common revenue standard. Our comments on the ED are included below.

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

(a) to combine two or more contracts and account for them as a single contract;
(b) to segment a single contract and account for it as two or more contracts; and
(c) to 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 price interdependence principle to help determine when to combine contracts. We also agree with the proposed price interdependence principle to help determine how to account for contract modification, subject to situations where the type of modification
suggests that prospective recognition would be warranted. We do not agree with the proposed concept when applied to contract segmentation.

We believe that once a contract is determined to be independent of other contracts, the contract should be considered holistically. We also believe there is a presumption that pricing independence does not exist within a single contract, as all of its elements were negotiated together. As an example, we believe that discounts offered in a contract should apply to the entire contract, rather than to specific components. In practice, discounts may vary from customer to customer and can be arbitrarily assigned to one component vs. another in different customer negotiations. We believe that segmenting contracts based on the outcome of differing negotiations does not reflect the economics of the overall agreement.

**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 no, what principle would you specify for identifying separate performance obligations and why?_

We do not agree with the Boards’ proposed principle for determining when a good or service is distinct.

We believe that the proposed principle is extremely broad and would result in the separation of many more obligations than current standards require. As written, we believe that most any good or service can be construed to have “utility either on its own or together with other goods or services...”. The proposed principle would require separate revenue recognition for goods or services that have no value to the customer on a stand-alone basis. We continue to support the current concept that requires stand-alone value to be delivered from the customer’s perspective in order to separate the deliverables, and that goods or services that only provide functionality with another good or service are combined as one unit of account. We believe the existing concept more closely reflects the underlying economic transaction.

**Question 3**

_Do you think that the proposed guidance in paragraphs 25-31 and related application 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 that the proposed guidance is sufficient.

We note that the majority of indicators relate to physical goods. We believe that more guidance is needed for service transactions and contracts that include licenses, in order to ensure the evolution of consistent practice. We do agree, however, with the proposed principle that control passes to the customer as work is completed for services provided with no alternative use or that are customer specific.
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 agree that an entity should recognize revenue on the basis of an estimated transaction price, but only on the basis of a best estimate, which by its nature incorporates a view of probability. We do not support the use of probability weighted estimates as such amounts will never materialize as actual outcomes, and are difficult to operationalize. In addition, we suggest the elimination of the proposal to allow the experience of other entities in the estimation of the transaction price, if an entity has no experience of its own. The experience of other entities can be difficult to replicate and may lead to unreliable financial statement information.

Question 5
Paragraph 43 proposes that the transaction price should reflect the customers' 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 strongly disagree 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.

In accordance with current standards, we believe that revenue should be recognized when the collection of the transaction price is probable. We understand that in theory the credit risk element can be separated from the transaction price, however, we do not believe that separation provides benefit to financial statement users. In fact, we believe that such a requirement would result in needless complexity for businesses in trying to isolate and explain operational performance. Therefore, we do not believe that the additional costs to comply with this proposal would be warranted.

However, in the event that this approach is adopted, we strongly suggest that differences between the original estimate and actual recoveries be reflected in revenue. We do not see a basis for a difference in treatment between estimated and actual consideration received. Further, we note that similar true-ups in the proposed standard would be treated as revenue.
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 do not agree that an entity should adjust the amount of promised consideration to reflect the time value of money.

We acknowledge that contractual consideration may include a financing element. However, we do not believe that the separation of the financing element will provide more useful information to financial statement users. For example, where customers pay in advance, the proposals would require that revenue is “grossed up” for the amount of interest income the entity is in theory earning on the advanced payment. Because the reported revenue will not convert to cash, we believe that financial statement users will haircut the reported revenue for the gross up and consider it an “accounting peculiarity”. Therefore, non-GAAP/IFRS measures may evolve to compensate for the difference between the reported amounts and the operational metrics that users understand. We believe that such a requirement would result in needless complexity for businesses in trying to isolate and explain operational performance. Therefore, we do not believe that the additional costs to comply with such a proposal would be warranted.

In the event that this approach is adopted, we recommend that contracts where the time between cash receipt and satisfaction of the performance obligation is less than one year be excluded from considering the time value of money.

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 stand-alone 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 proposals in paragraph 50 to allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price.

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 958 on software), an entity should recognize an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

We think the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient.
Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

We generally agree with the costs specified. However, we disagree with the proposed treatment of contract acquisition costs. We believe that contract acquisition costs qualify as an asset in certain cases, such as when sales commissions are subject to claw-back provisions.

We believe that provisions for onerous contracts are cost accruals and therefore should be excluded from this guidance. However, if the guidance is maintained, we do not support the measurement of onerous contracts at the performance obligation level. Rather, we strongly believe that the measurement should take place at the contract level which takes into account the economic substance of the overall arrangement.

Questions 10, 11 and 12 Relating to Disclosure

We do not believe that the proposed disclosure requirements will meet the objective of assisting financial statement users understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We are concerned that the amount of detail proposed may overwhelm both preparers and users of financial statements. We believe that qualitative descriptions of revenue models, as currently included in most MD&A requirements, provide users with the proper context. We do not believe that providing additional reconciliations of contract obligations and disaggregation of revenues will enhance a user’s understanding of revenue generating transactions. We believe the cost of the suggested disclosures will likely outweigh the benefits.

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

We agree that an entity should apply the proposed requirements retrospectively.
Question 14
The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

We believe the application guidance should include:

- more examples related to services and the licensing of intellectual property, so that preparers do not have to analogize to transactions that include the sale of physical goods; and
- the addition of examples which incorporate various recognition and measurement concepts to illustrate how they interact with one another, rather than in isolation.

Question 15
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?

We neither agree with the proposed distinction between types of product warranties nor with the proposed accounting distinctions.

We believe that the distinction between a latent or subsequent defect is meaningless both from a customer perspective and from a financial statement user perspective. An obligation exists for either type of warranty. Therefore, we believe that a distinction in accounting is not necessary and will not benefit financial statement users. We believe that all warranties should be accounted for as performance obligations.

Question 16
The boards propose the following if a license is not considered to be a sale of intellectual property:

(a) if an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and its satisfies that obligation over the term of the license; and

(b) if an entity grants a customer a non-exclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use the benefit from the license.

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

We do not agree that the pattern of revenue recognition should depend on whether the license is exclusive.

We believe that an exclusive or non-exclusive license should be accounted for according to its terms and conditions. Additionally, we do not support the distinction in the pattern of revenue recognition between various exclusive licenses. An entity has the same obligation to allow the exclusive use of its intellectual property for a contractual period whether the agreement covers
the entire life of the asset or a portion of the life. We believe that ratable revenue recognition should apply to all terms of exclusive licenses, regardless of whether the term is shorter or longer than the asset's useful life.

Additionally, we have the following comment which was not specifically covered by the questions in the exposure draft.

**Definition of a contract:**
The exposure draft states that contracts can be written, oral or implied by an entity's customary business practices taking into account that practices and processes for establishing contracts can vary across legal jurisdictions, industries, entities and within entities. However, the basis of conclusion states that a contract must be enforceable by law. The basis of conclusion further states that such determination is a question of law and that the factors that determine enforceability may differ between jurisdictions. We believe there is a conflict between the language in the exposure draft and the basis of conclusion.

We believe that focusing on legal enforceability too narrowly defines a contract. We believe that a constructive obligation for a performance obligation, even if not legally enforceable, should be a basis for revenue recognition. Therefore, we believe that consideration of customary business practices should be allowed in the determination of whether or not a contract exists. We are concerned that a narrow legal definition may unnecessarily exclude arrangements where long standing business practices are in place. Further, in certain rapidly developing nations, determination of the enforceability of a contract may be difficult. We strongly suggest that consideration of customary business practices is allowed in the definition of a contract and that there is an acknowledgment that a constructive obligation may not always be legally enforceable.

If you have any questions regarding our comments please feel free to contact me at linda.walker@thomsonreuters.com or at 1-203-539-8448.

Sincerely,

Linda J. Walker  
SVP, Controller & Chief Accounting Officer  
Thomson Reuters

cc: Robert Daleo, Executive Vice President & Chief Financial Officer  
    Jack Costeira, Vice President, Accounting Policy