June 8, 2018

Mr. Russell G. Golden,
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear Chairman Goldman,

Johnson & Johnson welcomes the opportunity to comment on the FASB’s exposure draft on Proposed Accounting Standards Update (“ASU”), Collaborative Arrangements: Targeted Improvements.

Johnson & Johnson, with over 125,000 employees worldwide, conducts business in virtually all countries of the world with the primary focus to help people everywhere live longer, healthier, happier lives. Johnson & Johnson is the largest diversified life science company in the world and our business is conducted across three industry segments: Consumer Products, Medical Devices and Pharmaceuticals.

General

Johnson & Johnson is pleased to comment on the proposed statement of financial accounting standards related to the topic. We understand and agree with the objective of the FASB on this topic to reduce diversity in practice. Likewise, we also agree that the income statement classification of transactions in collaborative arrangements should be based on the nature of an entity’s business operations and the contractual terms of the arrangement.

Matters of Consideration

Non-Revenue Transactions (and Related Examples)

In following the above, we believe if a company’s core operation is manufacturing and selling product to customers, a payment received from a collaborator to reimburse R&D expense in the arrangement would not be classified as revenue; rather, it should be classified as a reduction of R&D expense (as a policy election).

Additionally, although the non-revenue phase of the Collaborative Arrangements is scoped out of this proposal, companies in practice will continue to analogize to some or all of the revenue guidance by applying a reasonable, rational and consistently applied policy election in order to account for payments received from a non-customer. Understanding there is diversity in practice, we believe in the life sciences industry that regulatory approval is the “bright line” of when value is
created. Payments received prior to regulatory approval from a non-customer are typically recognized over the collaboration development period. Further, any activities that are contractually agreed between collaborators after regulatory approval, that results from sales to third parties, are contingent. Since regulatory approval is outside of the control of the collaboration, we don’t believe any value should be assigned to an activity performed after regulatory approval from payments received during the non-revenue phase of the collaboration. We believe activities that are agreed between the collaborators only become legally enforceable when regulatory approval is achieved (e.g., co-marketing or manufacturing rights). In addition, based on historical trends in R&D development, 80% or higher of IP development fail and, therefore, never achieve regulatory success. Therefore, we believe a policy election to recognize these payments over the development period is appropriate.

Lastly, we believe Examples 1 and 2 (Pharm/Biotech) could be bolstered to link the target improvements to the accounting described in the different scenarios described in each example. In these exposure draft examples, payments received by Pharma from Biotech (non-customer) are deemed not in scope of Topic 606, but the example does not provide sufficient information on how Pharm concluded its accounting (i.e., assumption that the payments are unrelated to their core operations/normal outputs). Therefore, we suggest including guidance presently reflected in the Basis of Conclusion (BC 19 – BC 21) with respect to measurement and classification in the Codification itself and in these examples.

**Certain Transactions Between Collaborators**

We believe further clarification with respect to the measurement and presentation of transactions between collaborators that are generated from third party sales would be helpful. Specifically, additional clarity on the application of Topic 606 for its entirety or certain relevant elements is warranted. Based on our interpretation and recommendation, a profit split payment from a collaborator, even though it is based on sales generated from third parties, would still be reported as part of total revenue and analogized to certain relevant elements of Topic 606 to measure and present this payment.

In summary, we support the positive changes the Board is proposing and thank you very much for taking our comments into consideration.

Sincerely,

Ronald A. Kapusta  
Vice President  
Corporate Controller

Stephen Rivera  
Vice President  
Global Technical Accounting Advisory Services & Policy
Responses to Questions:

**Question 1:** Would the amendments in the proposed Update clarify when a transaction between collaborative partners is within the scope of the revenue guidance in Topic 606? Would the proposed amendments reduce diversity in practice in this area? If no, please explain why.

Yes, we believe that the amendment would clarify when collaborative partners would be in scope of Topic 606. The clarifications would help reduce diversity in practice since Companies would be required to support whether or not any part of the transaction meets the definition of a customer (even though collaborative partners are generally not viewed as customers). However, we would like further clarification from the Board on payments received from a collaborative partner, even though it was generated from transactions that relate to sales to third parties. Based on our historical policy, we always deferred the profit split payment from our collaborator until the collaborator sold through to the end customer (third party). In our view, we did not have a right to this profit split payment until the collaborator was able to calculate the final terms based on the contract. We are asking for clarity from the Board in that would allow a company to continue to maintain its historical policy with respect to measurement, recognition and presentation by analogizing to certain relevant elements of Topic 606. Based on our interpretation and recommendation, a profit split payment from a collaborator, even though it is based on sales generated from third parties, would still be reported as part of total revenue and would allow companies to make a policy election to recognize the profit split payment once products were sold through to third parties.

**Question 2:** Is additional guidance necessary to determine whether a collaborative participant is a customer? If so, please provide suggestions.

No, we believe the current language is clear.

**Question 3:** Are the proposed amendments on presentation in paragraph 808-10-45-3 operable? Would the proposed amendments reduce diversity in practice in this area?

Yes, we believe that is operable since we believe most companies are already presenting these transactions as such today.

**Question 4:** Would the proposed amendments on the unit of account clarify that the unit-of-account guidance in Topic 606 should be applied for determining if a transaction is within scope of Topic 606?

Yes. If companies use the unit of accounting to determine the recognition and measurement of an upfront payment as part of their accounting policy election, we believe the allocation over the development period would be appropriate. During the development phase of the collaboration, partners plan to work together to develop the intellectual property to achieve commercial success. We believe there is an implicit obligation between the partners to work
together during this phase of the arrangement so both partners can share in the success once commercial approval is received. Therefore, the unit of accounting guidance provides guidance for allocation of payments received over time versus point in time recognition.

**Question 5:** Should a reporting entity be required to provide additional recurring disclosures (that is, incremental disclosures to those required in Topic 808 and Topic 606) because of the proposed amendments? If so, what additional recurring disclosures should be required?

**No.** We believe the current disclosure requirements under both Topic 606 and 808 are sufficient to provide financial statement users the relevant information around the accounting and reporting for collaborative arrangements.

**Question 6:** Do you agree with the proposed transition requirements, including the retrospective application to the adoption date of Topic 606? If not, what transition method would be more appropriate and why?

**Yes.** We understand that the principles of Topic 606 should be applied to Topic 808 so that there is consistency in application of the principles of “customer relationships.”

**Question 7:** How much time is needed to implement the proposed amendments? Should early adoption be permitted?

The time needed to implement would depend on how many collaborations a company currently has upon adoption. In general, we do not believe this should take a lot of time to implement, and that early adoption should be allowed.

**Question 8:** Should entities other than public business entities be provided with more time to implement the proposed amendments? If so, how much more time?

We do not believe the effort to implement would take significant amount of time.