January 21, 2015

Mr. Russell G. Golden,
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Subject: Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for revenue recognition. The new revenue standard will require companies to exercise more judgment and will require more estimates than under today’s revenue accounting guidance. Key software companies in the San Francisco Bay Area consisting of Adobe Systems Incorporated, Advent Software, Inc., Cadence Design Systems, Inc., Symantec Corporation, Synopsys, Inc., and VMware, Inc. believe that the new standard is an improvement to the current revenue accounting guidance and will improve quality for financial reporting under US GAAP, provided that the Board develops interpretive guidance to appropriately reflect the economic substance of various license and hybrid-cloud transactions¹.

Each of the companies noted above individually and collectively as a group have been closely monitoring this standard and have been involved in the standard setting process by participating in various roundtable meetings or by providing inputs to the standard in various forums and through comment letters.

Detailed analysis and evaluation of the new revenue standard leads us to conclude that additional implementation guidance and time is required, especially specific to arrangements that include licenses.

We collectively believe and respectfully submit to the FASB that maintaining the ability to recognize revenue over the arrangement period for certain license and hybrid-cloud transactions appropriately aligns the underlying revenue recognition with the economic substance of the transactions. This group requests additional interpretation and guidance specific to the definitional concepts of “inter-related” and “distinct in the context of the contract” including licenses. Appendix A sets forth our recommendations, which, if adopted we believe would

¹ Gartner, Inc defines a hybrid cloud service as a cloud computing service that is composed of some combination of private, public and community cloud services, from different service providers. Varied use cases for hybrid cloud composition exist. For example, an organization may store sensitive client data in house on a private cloud application, but interconnect that application to a business intelligence application provided on a public cloud as a software service.
provide additional clarification, would better align the revenue treatment with the underlying economics of the transaction, and would assist in a more consistent application of the principles included in the new revenue standard among software companies.

Specifically, we strongly agree with the example provided in paragraph 606-10-25-21 (C) that “the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services” and the concept discussed in example 55 (paragraphs 606-10-55-364 to 606-10-55-366) and with the conclusion arrived that if the customer does not have the option to purchase the license without the updates and the benefit from the license would be limited because the updates are critical to the customer’s ability to continue to make use of the license, then the updates and the initial delivered license are not separable and the revenue would need to be recognized over the arrangement period. However, to further clarify the concepts such as “interrelated” and “distinct in the context of the contract” guidance for license transactions, we suggest the board to include additional discussion as deemed necessary. Appendix A to this comment letter provides the Board with our interpretation of the (ASU) No. 2014-09 to certain arrangements including licenses, and we request that the Board include such interpretation as part of the standard.

In addition, we also evaluated the level of effort required for an effective implementation and transition to the new revenue standard, and based on our assessment; we believe that additional time is required to fully adopt Topic 606. Specific areas where additional time is required includes, but is not limited to, the following factors:

a) Additional guidance and interpretation from the regulatory bodies is required, and the new guidance will then need to be assessed, analyzed and integrated into our implementation plans. Without this clear guidance we are unable to evaluate full impact to our business.

b) assessment, design and implementation of transformational changes to our entire quote to cash processes, including go to market strategies;

c) assessment and implementation of any changes to tax planning strategies;

d) communication and education of our entire base of constituents both within and outside the organization, including our customers and shareholders, as to the significant operational and accounting implications associated with the implementation of the new revenue standard;
e) implementation of changes to our internal operating and financial policies and procedures and internal controls over financial reporting process and monitoring controls; and

f) implementation of compliant ERP systems that enable the application and new complexities associated with the new revenue standard.

Given the need for additional guidance and interpretation, the magnitude of the changes required, and the time required to assess, design and execute a thorough and successful implementation of the new revenue standard, we respectfully request that the Board extends the effective date of Topic 606 by two years from the current proposed effective date.

If you have any additional questions or would like to discuss these topics in more detail, please do not hesitate to contact us.

Regards,

Signature pages

Adobe Systems Incorporated  Appendix B
Advent Software, Inc.  Appendix C
Cadence Design Systems, Inc.  Appendix D
Symantec Corporation  Appendix E
Synopsys, Inc.  Appendix F
VMware, Inc.  Appendix G
Appendix A

Clarification relating to the Distinct in the Context of the Contract concept for License Transactions

License arrangements are commonly offered with certain services to be provided by the vendor. The following implementation guidance addresses considerations for analyzing whether services provided by a vendor with a license (license includes granting of license as part of a hybrid-cloud transaction) would be considered a distinct performance obligation.

For clarification, this implementation guidance does not address arrangements where a license forms a component of a tangible good and is integral to the good's functionality, as described under BC 406(a).

In the analysis of whether the service is distinct in the context of a license contract, a vendor should consider the following indicators, which include, but not limited to, the following:

a. The software license is off-the-shelf software as opposed to core software – Off-the-shelf software is marketed as a stock item that can be used by customers with little or no customization. This is in contrast to core software that is not sold as is because the customer cannot use it unless it is customized to meet system objectives or system specifications or would require certain services to make the software provide optimum desired output depending on the customer requirements and the vendor is using it to create other software or products.

b. Vendor may provide frequent updates and upgrades to the licenses that are initially delivered, and without such updates and upgrades, the customer may derive limited benefit from the software. Such situations may suggest that the delivered license may not be distinct in the context of the contract as without these frequent updates, the customer may not have decided to purchase the initial software and the ability / inability to provide such updates would significantly affect the other promised goods including the initially delivered licenses. The longer duration of license term provides an indication that, updates and upgrades are more critical to the customer. Additionally, updates and upgrades would be more critical to the customer if the frequency of releases is high for a short duration contract.

c. If a portion of the fee that could be allocable to the software license is subject to forfeiture, refund, or other concessions if the service is not delivered, this would indicate that the parties are viewing the software license and related services as interrelated to each other, and are not distinct in the context of the contract. In other words, this would indicate that the customer could not choose to purchase one good or service without significantly impacting the other goods or services in the contract. This notion is also conceptually consistent with the conditions for contract combination pursuant to ASC 606-10-25-9(a) and (b), where two or more contracts entered into with the same customer at or around the same time should be combined if the contracts were negotiated as a package with a single
commercial objective, and the amount of consideration to be paid in one contract depends on the price or performance of the other contract.

d. If the contractual terms of the arrangement include initial delivery of licenses and also require the vendor to provide various services, software and other elements throughout the arrangement period that are considered by the customer to represent a combined solution this could indicate that control of the license is not distinct because the risk and rewards of the underlying contract substantively transfer over the contract term.

e. If the software license has limited functionality separate from the bundled service, this would indicate that the software license is an input for the vendor to deliver the combined output to the customer. This may be the case, for instance, when the software license was granted to enable all or a portion of a hybrid cloud solution or separately as a protective measure against intellectual property infringement. A key consideration is if the vendor is providing the same level of benefit to the customer in the arrangement with or without the grant of the software license, this may indicate that the software license is not distinct.

f. The customer’s rights to the software cease when the hosting or hybrid cloud arrangement ends or the license term expires. This would indicate that the software is not distinct.

g. If the predominant functionality of the software resides through the hosting arrangement, where, under ASC 606-10-55-56(b), the customer can benefit from the license primarily in conjunction with the related service provided, this would indicate that the software license should be viewed as an input for the vendor to deliver the combined output of the arrangement. The “predominance” analysis should be consistent with the entity’s marketing materials, pricing strategies, and in how the customer might view as the primary benefit of the arrangement.

h. If the economics of the transactions suggest that the software is not an independent component of the arrangement and that the value for delivery of such software cannot be determined easily, it might suggest that the arrangement is for providing a combined set of obligations that can be considered as a single performance obligation.
Appendix B – FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

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Jan 19, 2015
Mark Garrett
Executive Vice President and
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Adobe Systems Incorporated

Rich Rowley
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Richard T. Rowley
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Adobe Systems Incorporated
Appendix C – FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

James S. Cox
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Appendix D – FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Geoffrey G. Ribar  
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Sean Sobers  
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Appendix E – FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

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Symantec Corporation
Appendix F – FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

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Synopsys Inc.

Essie Naddaf  
VP, Corporate Controller and  
Chief Accounting Officer  
Synopsys Inc.
Appendix G - FASB Letter on Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

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