March 8, 2017

Ms. Susan Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: ASC 606, Revenue from Contracts with Customers

Dear Ms. Cosper:

I write to share Veeva Systems Inc.'s perspective on the impact and efficacy of ASC 606. While FASB's intent to harmonize revenue recognition guidance across industries is understandable, we believe the principles-based application of ASC 606 is likely to frustrate the goal of making financial statements transparent, easy to understand, comparable across industry peers, and reflective of the underlying business. We believe any modest improvements in the comparability of financial statements across industries could come at the expense of comparability across companies within each industry, which we believe is crucial to maintain given the existing industry-based approach that investors and analysts apply to reviewing and analyzing their investments.

In general, we believe that several recent pronouncements (with ASC 606 as a major example) have unnecessarily increased the amount of subjectivity that must accompany the preparation of financial statements. We believe the increased subjectivity and associated opportunity to accelerate revenue and decelerate expense will have a deleterious effect on the overall quality and consistency of financial information presented to investors. Indeed, some such pronouncements have increased the use of non-GAAP presentations out of the perceived need to provide investors with more relevant and useful information.

Furthermore, the increased subjectivity, and the associated disclosures surrounding subjective accounting processes and judgments, unnecessarily increases the complexity involved in evaluating financial statements, which we believe is a direct disservice to the investor community. Finally, we believe that any changes to accounting standards should be made thoughtfully and with an eye toward reducing complexity and speculation.

Our specific concerns with ASC 606 are highlighted below.

Treatment of Revenue

We believe the allocation objective coupled with the guidance on constraining estimates of variable consideration may require companies to begin recognizing revenue well in advance of associated payment streams from customers and could cause a potential write-off of revenue (and even a restatement) in the scenario where a customer is able to cancel its contract during the term of a multi-year arrangement. More broadly, we believe the likely acceleration of revenue recognition impairs investors' ability to understand the underlying business.
Treatment of Sales Commissions

The discretionary elements inherent in the treatment of sales commissions under the new standard are likely to result in a wide range of presentations of expense—even between industry peers—which will make it difficult for investors to make like-to-like comparisons. For example, companies will have to make a subjective determination with respect to existing and future customer relationships in order to properly determine the period of economic benefit. Across the various industries and even within the same industry, a company may calculate vastly different periods of economic benefit than its peers. We believe this will cause issues in comparability of financial statements among companies and hinder investors’ ability to assess financial statements across peer companies.

Furthermore, the required treatment of sales commissions also seems, inappropriately in our view, to ignore the reality of the commission structures and policies of companies, specifically for companies who do not claw back commissions. For example, if a customer were to cancel all or part of its contract during the amortization period of the capitalized commission expense, the potential reduction of the amortized commissions would not be commensurate with the reduction in revenue over that period, and the company would have to impair that asset at the time of cancellation, further hindering investors’ ability to understand the underlying business.

Burden of Compliance

In addition, we believe compliance with the new standard will be unnecessarily burdensome to many companies, like Veeva, that have previously taken the most conservative approach with respect to both revenue recognition and commission expense timing. Investors will not receive a benefit commensurate with the work and incremental expense involved in performing the subjective analyses mentioned above, which include analyzing and substantiating customer relationships, analyzing impairment of the asset for those contracts that terminate before the end of the initial term, and capitalizing and amortizing of commission expenses. In addition, the work involved in creating comparisons to periods before adoption will be time and resource consuming.

Finally, ASC 606 requires Veeva to apply a far more complicated and speculative approach than it has historically applied, which is counter to what we believe should be the intent of any changes to accounting standards—namely, to reduce complexity and speculation while thoughtfully increasing transparency, understanding, and comparability.

Please feel free to contact me at (925) 271-4556 if you wish to discuss the contents of this letter or any related matter.

Sincerely,

Tim Cabral
Chief Financial Officer
Veeva Systems Inc.