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Technical Director  
Financial Accounting Standards Board  
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RE: Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605)  
Revenue from Contracts with Customers

Williams Companies, Inc. ("Williams") appreciates the opportunity to provide our comments to the Financial Accounting Standards Board ("FASB") on the Proposed Accounting Standards Update (Revised) for revenue recognition ("Revised Proposal"). Williams, through its subsidiaries, gathers, processes and transports natural gas.

Measurement of Revenue

Variable consideration  
We support the current accounting practice of considering contingent amounts in revenue recognition when the amounts are fixed and determinable as opposed to the approach for variable consideration included in the Revised Proposal. The proposed requirement to constrain the cumulative amount of revenue recognized to amounts that are reasonably assured effectively aligns with the current accounting practice of assessing whether an amount is considered fixed and determinable for purposes of recognizing revenue. In addition to retaining current accounting practice, which we believe is more verifiable and transparent, eliminating the requirement to include variable consideration in the transaction price determination until such amounts are fixed and determinable would avoid creating an overly complicated revenue recognition process that requires separate steps to estimate the variable consideration to include in the transaction price, allocate the variable consideration to the performance obligations and then subsequently require an assessment whether to recognize the revenue associated with the estimated variable consideration depending on the variable amount being reasonably assured.

Many long-term contracts to provide a service at a fixed fee per unit of volume include an adjustment whereby the fixed fee per unit of volume is indexed for inflation on a regular interval. The inflation adjustment component is designed to compensate for increases in the costs to provide services in future periods. We believe an approach of recognizing inflation adjustments based on a fixed and determinable criteria supports a pattern of revenue recognition consistent
with the intent of the inflation adjustment, which is to provide an increased rate in future periods to coincide with the periods when the increased costs are incurred to provide the service. However, absent a revision to the variable consideration provisions included in the Revised Proposal, please provide further guidance as to whether inflation or similar regular adjustments constitute variable consideration as contemplated in paragraph 53 of the Revised Proposal. If inflation adjustments are considered variable consideration, please provide further guidance as to the factors a company should look toward in determining whether or not inflation adjustments allocated to individual performance obligations would meet the criteria to be considered reasonably assured for recognition purposes pursuant to paragraphs 81 – 85 of the Revised Proposal.

Time Value of Money
We agree with the Revised Proposal to reflect the time value of money when a contract includes a significant financing component. We request the Boards provide further guidance for determining financing components that may be deemed significant, including how to determine what represents a substantial difference between the actual consideration and amount of customer consideration if the customer paid cash at the time of transfer. Absent further guidance, audit thresholds may serve to influence the determination of significance.

Non-Cash Consideration
The Revised Proposal does not clearly address whether the fair value measurement of non-cash consideration should be performed at inception of the contract or when performance occurs. We believe fair values should be measured when performance occurs and we encourage the Boards to clarify the timing of when fair value should be measured for non-cash consideration.

Collectability
Williams agrees with the Boards’ decision in the Revised Proposal to reflect estimates for expected credit losses in a separate line item within the income statement adjacent to the gross revenue line item.

Variable performance obligations
The Revised Proposal addresses how to measure progress when a performance obligation is satisfied continuously, but does not fully address contracts where the total units of output comprising the performance obligation are not a fixed amount over the performance period (a variable performance obligation). To highlight our comments, consider a service contract that includes a fixed amount of consideration that is received over a specified period of time to perform services for a customer where the performance obligation is variable. That is, the performance obligation is expressed as units of output, the total units of output to be provided over the life of the contract are not fixed and the units of output can vary period to period over an unspecified timeframe. In these situations where the transaction price is fixed and known at inception of the contract and a variable performance obligation exists, the variability in the performance obligation impacts the ability to allocate the transaction price between the portion of the performance obligation that has been satisfied and the portion that remains unsatisfied. As such, the performance obligation must be estimated in order to allocate the transaction price. The Revised Proposal provides little guidance for estimating a variable performance obligation.
The Boards should provide guidance for estimating variable performance obligations similarly as they have provided guidance for estimating the transaction price.

**Changes in transaction price**
While the Revised Proposal allows an entity to allocate a subsequent change in the transaction price entirely to one or more performance obligations when certain conditions are met, it appears any amounts that should be allocated to performance obligations already satisfied will continue to be recognized through revenue as a cumulative effect adjustment in the period in which the transaction price changes. Transaction price changes will primarily occur as a result of revisions to the assumptions used in estimating the transaction price and as such, we believe these adjustments represent a change in accounting estimate. Current accounting guidance requires changes in accounting estimates to be recognized prospectively, that is, changes are recognized in the current period if the change affects that period only or in the period of change and future periods if the change affects both. Therefore, we recommend recognizing changes in transaction price estimates prospectively over the remaining performance obligation(s).

The Revised Proposal should provide further clarification of the types of changes that may be considered a change in transaction price. Considering our previous example, in a situation where a performance obligation is satisfied continuously and revenue is recognized based on an estimated price per unit (fixed amount of consideration divided by estimate of total output), it is not clear whether a change in the estimate of total output from the entire performance obligation that alters the estimated price per unit would be considered a change in the transaction price requiring a current period cumulative effect adjustment. We recommend the Boards provide further clarification and additional guidance related to the scope of what may qualify as a change in the transaction price.

**Contract Modifications**

The Revised Proposal includes different treatment related to contract modifications by requiring some contract modifications to be allocated to all performance obligations in an arrangement, including those that are fully satisfied at the time of the modification (i.e., modifications that result in only a change in transaction price), while other modifications are only accounted for on a prospective basis in connection with performance obligations that have not yet been satisfied. Intuitively, a modification that occurs presently and impacts the transaction price or the services provided in a contract seems to relate to services that will be provided in future periods as opposed to being associated with performance obligations already satisfied. As such, we encourage the Boards to require all contract modifications to be accounted for on a prospective basis in connection with performance obligations that have not been satisfied. A prospective approach will also reduce the complexity of applying the proposed standard.

**Identifying Separate Performance Obligations**

We frequently enter into arrangements to provide gathering, processing and transportation services on a long-term basis. Under the Revised Proposal, it is unclear how to identify performance obligations in long-term service arrangements. For example, the entire term of a contract could be viewed as a single performance obligation or the contract could be divided into
multiple performance obligations (i.e. by year, by month, etc.). We encourage the Boards to provide further clarity around the identification of separate performance obligations in long-term service arrangements and how such identification should be determined.

**Disclosure**

**Reconciliation of Contract Balances**
We believe the Revised Proposal’s disclosure requirement to present a reconciliation of contract assets and contract liabilities is arduous and should be excluded from the final accounting standard. We generally believe reconciliations of account balances provide little additional value to financial statement users and the intent of this disclosure would be better served by a qualitative discussion of revenue recognized subject to a conditional receipt of the consideration. The information presented within a reconciliation can be better conveyed through other means of disclosure and a reconciliation would require significant effort and costs to prepare and would not advance the Boards objective to simplify the preparation of financial statements.

We also encourage the Boards to clarify whether the revenues disclosed within the proposed reconciliation only relate to revenues recognized from performance obligations that originally included a conditional right to receive the consideration (thus driving the recognition of a contract asset) or whether the reconciliation should also encompass revenues associated with unconditional rights to receive the consideration (i.e. revenue recognized as an account receivable).

**Disclosure of Remaining Performance Obligations**
We agree with the Boards decision in the Revised Proposal to only require disclosure of performance obligations with a duration of more than one year and the intent not to require an entity to provide the performance obligation disclosures if, in practice, the entity does not need to strictly apply each step of the revenue recognition model to be able to recognize revenue. However, we are concerned the articulation of the practical exception in paragraph 42 (i.e. “to which the entity has a right to invoice”) may cause contracts that would not require strict application of the revenue recognition steps to still be subject to providing this disclosure. For example, under a contract where a significant portion of the revenue is recognized on a fixed fee per unit of service basis, but certain minor provisions included in the contract may not meet the specific exception requirements, the practical expedient may not apply because the revenue from the entire contract is not recognized on an “as invoiced” basis. We encourage the Boards to allow application of the practical expedient when the significant basis for revenue recognition from the contract is on an “as invoiced” basis. Absent this expedient, the proposed requirement to quantitatively disclose the amount of the remaining long-term performance obligations and the expected timing of their satisfaction will be significantly more burdensome, especially in situations where the performance obligation is measured using outputs that may vary significantly from period to period depending on the customer’s level of demand for the goods or services. It is also not clear how a company would reliably determine the quantitative disclosures that would be required under the Revised Proposal for these circumstances.

We recommend the Boards eliminate the requirement to quantitatively disclose performance obligations and the expected timing of fulfilling the performance obligations as these disclosures
would provide nominal value to financial statement users while placing undue burden on financial statement preparers. Such a requirement basically results in the disclosure of forecasted revenues. Instead, the Boards could consider only requiring qualitative disclosures about the types of performance obligations and the expected timing to satisfy such performance obligations.

Effective Date and Transition

While we understand the rationale of trend preservation in the proposed transition guidance, Williams believes the proposed guidance should not require retrospective application. Retrospective application has numerous operational challenges and will be onerous to implement. The operational challenges include, but are not limited to, determining the accounting impact to the retrospective periods and maintaining dual reporting systems for the retrospective periods. The potential benefit of retrospective application does not sufficiently outweigh the significant time and costs that will be required to provide such information. For many industries the Revised Proposal will result in a minimal impact on operating margins and net income. Also, revisions to accounting guidance often prospectively drive changes in commercial behavior and a retrospective look is often not a proxy for future commercial behavior. During the Boards’ deliberations and outreach activities, specific industries or types of contracts to which this proposed revenue recognition model would result in significant differences from the current revenue recognition model were identified. We suggest the Boards focus on contracts and industries where significant changes are anticipated and consider only requiring a retrospective application in specific circumstances when the impact is significant. We believe the Boards could effectively utilize the information gained from their outreach efforts to provide guidance for identifying such situations.

We continue to recommend a prospective method of transition with the effective date aligned with that of the proposed changes for lease accounting. However, given a retrospective application, we recommend the Boards allow adequate time to make operational adjustments, develop appropriate systems and establish process controls and procedures required for transition and ongoing application. We believe a period of at least one year should exist between when a final standard is issued and the earliest period required to be presented in the restated financial statements.

We appreciate the opportunity to comment on this matter and voice our concerns. We would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

Ted Timmermans
Controller and Chief Accounting Officer
Williams