March 13, 2012

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

VIA EMAIL: director@fasb.org

Re: File Reference No. 2011-230, Exposure Draft: Revenue Recognition (Topic 605) - Revenue from Contracts with Customers

The National Football League, on behalf of NFL Ventures L.P., an affiliated entity, appreciates this opportunity to provide the Financial Accounting Standards Board (FASB) with our comments on the revised exposure draft Revenue Recognition Topic (605) Revenue from Contracts with Customers (the “Exposure Draft”) and would like to thank the board for their outreach efforts on this important project. As a private company with operations conducted principally in the areas of sports, media and entertainment, and licensing, almost all of our revenue is derived from contracts with customers. Accordingly, we have a mutual appreciation for the importance of this enormous effort and the importance of successfully achieving the board’s stated primary objectives of improved comparability in revenue recognition, simplification, usefulness of financial information within a single robust framework.

Our comments are organized to address the FASB’s three (3) main areas of interest noted in its final deliberations of the Exposure Draft. The board has stated that its main objective in issuing the revised Exposure Draft was to confirm whether the proposed requirements were (1) clear and capable of being applied in a way that effectively communicates to users the economic substance of contracts with customers. The FASB has also stated that it (2) wishes to confirm that the revised proposal does not produce unintended consequences. Lastly, the board has (3) asked for comment on six specific areas.

Confirmation of whether proposed requirements are clear and communicate to users the economic substance of contracts (#1):

We believe the proposed requirements of the Exposure Draft provided important clarification in many areas, but is still not clear in communicating the economic substance of contracts to users in the areas of: intangible licensing rights with possible implied performance obligations, time value of money (“TVM”) which has the potential to be easily triggered in certain instances, and the handling of fixed step ups in multi-year contract.
We begin with our concerns with the accounting for licensing arrangements which is covered in the Exposure Draft paragraphs 31-34, IG33 to IG37, IG81 and then further explained in the background and conclusions covered in BC310 to BC316. Our understanding is that effectively all licenses would have the related revenue recognized on the effective date of the transfer of the license. No examples were given to the contrary. However, the transfer of a technology license to a customer is economically very different than the transfer of a sponsorship sports license to a customer. The value of the technology license is based on whether the asset is technologically sound and how the customer uses it. It doesn’t really matter whether the seller stays in contact with the customer or even stays in business. However, a sports sponsorship or royalty license with minimum guarantees has no economic value to the customer unless the sports organization remains actively in business. In addition, the sports organizations also can spend significant sums of money over the life of the agreements working in tandem with customers to maximize brand value, ensure that there is adequate fan engagement around the marks and logos and these activities occur both in support of, and in additional to, specific contractual terms. In the sports and entertainment business, sponsorship categories can be rather limited in number but large in contract size. We do not believe that it makes economic sense to record revenue from a 10-year beer or soda sponsorship once every ten years. We would like the Exposure Draft to clarify under what circumstances revenue recognition over time would be appropriate. We strongly believe that communication to the users of the actual economic substance of such contracts has not been achieved if immediate recognition of revenue upon the transfer of such licenses is required in all instances.

In sales-based royalty arrangements (paragraph 85), we agree that revenue should not be recorded until the customer’s subsequent sales have occurred. The board properly notes that until this point, the entity is not reasonably assured to be entitled to the additional consideration (above the minimum guarantee). We believe, however, that there are other similar agreements such as subscription based revenue contracts that should receive similar treatment. In addition, the licensing of media content to a media distributor in exchange for advertising rights to be sold also does not represent revenue that is reasonably assured until the seller is able to sell the advertising. It is also not clear whether the advertising rights received in exchange for the media content are noncash consideration (valued at fair value upon receipt) or represent variable consideration (initially valued and then re-measured over time at its expected or most likely amount as described in paragraph 55). We believe that advertising that is received by the seller from its customer in amounts that are commercially feasible for its own advertising programs are different from advertising that is received for resale.

Advertising for the seller’s own use represents an asset to the extent it is received in an amount that is commercially feasible to be used (fair value) and would be amortized to expense as used. However, when the advertising is received for resale, its value is only reasonably established once the ultimate customer has been identified. We believe that it should be appropriate to record revenue once the revenue is, at a minimum, reasonable assured and performance obligations fulfilled, similar to the Exposure Draft’s position with sales-based royalties. We go back to the fact that the seller’s value of advertising received in a customer contract, if not used internally, can only come from having a sales contract with an advertiser which then will create additional performance obligations. Without that ultimate contract, what the seller has gotten in the initial exchange is just empty space on a media platform. It is also important to keep in mind that, while market pricing is well established within some media platforms, in other instances with limited competition in certain media platforms and with emerging technologies, there may be very limited information to substantiate any meaningful percentage of individual rate card prices as representing fair value. By
expanding the types of arrangements covered by paragraph 85 to include other subscription based arrangements and to include advertising that will be resold we believe that the economic impact from contracts with customers involving the exchange of advertising can be properly accounted for.

We also believe that the circumstances under which TVM could be required under the Exposure Draft are too broad and would not communicate to users the economic substance of many contracts. BC143 states that the financing component of a contract may be implied by its payment terms. BC144, states that "a contract has a financing component if the promised consideration differs from the cash selling price". While this is consistent with the provisions of paragraph 58, paragraphs 59 and 60 ultimately make TVM applicable as soon as there is more than one year between the transfer of goods or services and the consideration paid, assuming that this amount is material to the contract. While we continue to believe that materiality should always be based upon the aggregate impact of activities on the financial statements and not the individual contract level, we also believe that financing is an implicit component in EVERY operational activity of a company and should not be confused with more explicit borrowing and lending arrangements or with implicit circumstances that lack the normal operational cash flow business practices. For example, many licensing contracts (that we believe should be recognized as revenue over time) typically have collection terms over the period of the customer’s use. The FASB’s proposal to require immediate revenue recognition of such contracts creates a financing component to every contract of this type. Rates used would have to reflect the credit characteristics of lending to that customer, but we are not in the lending business. There are very valid operational reasons and necessities as to why consideration timing may not pace with the timing of performance obligations performed that have nothing to do with financing and should not be creating non-operating interest income or interest expense. TVM is so broadly written that it can even include imputing interest on noncash consideration where the timing of any actual conversion to cash may be unknown (such as from nonpublic equity interests received or advertising time). With regard to contracts with vendors for expenses and capital purchases, accounting standards do not and should not apply similar principals. We believe that the financing component of a contract may, and sometimes may not, be implied by its payment terms. TVM is also extraordinarily more complicated to account for and will therefore complicate any analysis of true cash flows and confuse users of financial statements unnecessarily.

Lastly, the actual cash flows of revenue contracts, and their amendments, are much more unpredictable than standard financing arrangements and often are not subject to corresponding interest adjustments when payments are received early or late. When those underlying receivables are delinquent, however, general reserves for delinquencies would have to be measured separately for the financing and revenue components. Even the best of the banks with their lending systems might have trouble bifurcating its bad debt allowance for receivables that have an operating component and a financing component and where the total can be based upon variable consideration estimates adjusted at each reporting period.

Lastly, in this area, we note that the standard does not cover fixed step ups in contract pricing. Allocating the transaction price is based upon the stand alone selling price or company estimate. However, in some industries, contracts can be entirely custom and priced at a uniquely negotiated amount with the customer. The pricing, especially with intangible rights, can vary significantly based on competition for the rights which makes stand alone selling price largely irrelevant and company estimates may not be reliable. We believe that under the Exposure Draft, fixed step ups in contracts can be used in allocating transaction price to performance obligations fulfilled in each applicable time period. We do not believe that the standard requires straight-line smoothing of fixed contractual increases. We believe that where rights are believed to have increasing value over the
multi-year term of the contract which is reflected in the annual contractual payment streams, annual revenues should reflect the contractual pricing for the applicable year. We believe that the Exposure Draft should provide an example of circumstances when contract price can be justified to represent stand alone selling price and when it cannot. Such an example would provide important additional interpretive guidance for unique sales transaction that are therefore without stand alone selling prices or company estimates beyond those that are stated in the contract.

**Confirmation of whether the revised proposal produces any unintended consequences (#2):**

Personal Seat Licenses ("PSL's") are an area of licensing that we believe has not been adequately considered in the Exposure Draft. While individual PSL arrangements will vary between the applicable teams and/or their stadium municipalities, if any, PSL's are sold to fund stadium construction. They create a right and obligation for the purchaser to buy season tickets as long as the stadium has games. The PSL's are usually transferable by the holder to third-parties. While some teams may offer explicit financing, there is no discounted cash price. We believe that this arrangement creates several challenges in the proposed revenue framework since it is tied to the capital development of a stadium and not an ongoing recurring revenue operation. Proceeds from the sale of PSL’s we have worked with require the funds to be used for stadium construction, which may be similar to tenant improvement allowances though the relationship of the counterparties is different. We do not see this fitting well into a franchise arrangement since the team has significant performance obligations to sell tickets to playing seasons that will be held in the future. However, the current TMV provisions of the Exposure Draft would create significant distortion in the accounting treatment if revenue is recognized over time. As a result, we do not believe the economic consequences of most PSL transactions can be adequately measured by the current Exposure Draft. We are available to discuss more specific terms of PSL arrangements to assist the FASB with any further deliberations on this issue.

Onerous performance obligations are another area where we believe the Exposure Draft will have unintended consequences that do not fully align with the economic aspects of a contract. This, however, is covered in more detail below in response to the FASB's fourth specific question.

With the Exposure Draft's requirements to record variable consideration at expected values, advertising time received in the exchange of media licenses could be recorded as revenue before the time is actually sold. This is just one example where we see that the FASB is moving away from enabling users to understand what the contractually committed amounts both payable and receivable are. We believe that many users of financial statements will read them looking to understand contractual rights, but this proposed standard may have the unintended consequence of not enabling the user to make this important distinction from the information provided in the financial statements.

Lastly, in trying to fully assess what unintended consequences there might be, one would have to understand what the intended consequences were. For that we go back to seeing what FASB's original objectives were and unintended consequences would be those provisions in the Exposure Draft that could result in the project failing to meet any of those original objectives. Our understanding is that FASB undertook this convergence project to a) improve comparability of revenue recognition practices across companies, industries and capital markets, b) simplify financial statement preparation by reducing the number of requirements companies must refer to, c) reduce the need for ongoing, case-by-case, need for interpretive guidance and d) provide users more useful
information through improved disclosures. We are deeply concerned that the licensing and TVM provisions we’ve mentioned above fail to improve comparability, fail to simplify the preparation of financial statements and go so far as to unnecessarily complicate the process and provide less useful information about important measures of financial performance. If this wasn’t complicated enough, the current provisions of the Exposure Draft to retrospectively adopt this standard, will also cause re-measurement of revenue-dependant costs such as taxes and pass-thru results for partnerships and subsidiaries. In this regard, we believe that FASB should give further consideration on how this proposal integrates with its other projects on improving and simplifying disclosures to make them more meaningful to users. We reiterate our strong disagreement with requiring retrospective adoption of the standard. Our original comment letter from October 2010 noted that a significant burden and complexity would result from a mandated retrospective adoption. System changes and then “re-accounting” for transactions retrospectively through those systems or by alternate means would be extremely difficult, prone to error and costly to execute with potentially only a limited benefit being served. Companies faced with significant costs and limited benefits from retrospective adoption need to be given the ability to adopt prospectively.

Comments on six specific questions (#3):

Question 1: Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We disagree with the proposed treatment of intangible rights and believe that there are circumstances under which intangible rights should be recognized over time. In such instances, we also believe that the rights can increase contractually in price annually and impact revenues of the applicable year(s) accordingly. PSL’s are also a type of contract that does not seem to fit well within the proposed framework. We have commented in more detail above with regard to our specific concerns in these areas.

Question 2: Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

Response: We would seek clarification from FASB on what is meant by a separate line adjacent to revenue is. Currently, financial statements typically report (1) Revenues, net (reduced by certain payments that are offsets to revenue such as certain consideration paid to a customer), and (2) Operating expenses which includes cost of sales and selling, general and administrative. We believe that the costs associated with collection, or inability to collect, is properly being considered by this proposed standard. However, we believe there is an inherent problem with the TVM provision which, if not adjusted, creates an unmanageable bifurcation of each reserves into the component that is associated with revenue and therefore operating results and the component that is considered implicit financing and therefore non-operating.

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not
exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Response: Recording expected consideration on a “top line” number is much more significant than recording other transactions at their expected values. Given the top-line nature of revenue, small variability in high margin businesses can yield more meaningful bottom line variability and distortion. Costs, however, are still measured based on their contractual obligation and not the amounts that management expects they can be settled at. We would have preferred a more stringent standard of assurance before measuring revenues and do not believe comparability among companies or across industries is improved with a lower assurance threshold of “reasonably assured” for revenue recognition. Also, guidance in the Exposure Draft should be given on the handling of recognized (type I) and non-recognized (type II) subsequent events. For example, when reasonably assured revenue is recorded for the end of a period and the amount changes prior to the issuance of the financial statements, under what circumstances could that result in last minute adjustments, or the avoidance thereof, when it relates to a performance obligation that has already been satisfied? We also believe that if retrospective adoption is retained in the final standard, guidance should be given on how to measure reasonably assured amounts retrospectively. It might be as easy as making no assumptions about assurances that existed at the applicable reporting period (or at the financial statement issuance date depending on how, as mentioned above, subsequent events are handled) and recording amounts at their subsequently determined amounts. That, however, does not necessarily demonstrate the entity’s predicable experience.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Response: No, we do not agree with the proposed scope of the onerous test because the test does not adequately take into account other revenue streams that will also be used to cover those costs. As an alternative, we believe that the onerous test could be expanded to a two-part test. If the performance obligation is initially determined to be onerous because the costs of fulfilling the obligation exceed the contract revenue, a second test should be performed before determining whether a liability and corresponding expense should be recorded. The second test would look to the underlying costs associated with the performance obligation to see if those costs are ultimately expected to be recoverable through other revenue contracts. The performance obligation of a single network carriage distribution agreement will never cover the costs associated with the providing the applicable programming. Even the entire pool of such contracts active in a given year may not cover the entire annual network production costs. And, with the run-off of contractual maturities in a pool of cable distribution contracts, the longest remaining maturities will result in contract tails in the out years making it likely that the contract costs to fulfill the remaining performance obligations in the tail would exceed the contracted revenue. The fact is that sometimes contracts have performance
obligations where the costs are covered by multiple revenue streams and in the case of network distribution programming costs it comes from subscription revenues from the distribution agreements and from advertising. Also, in recovering costs in years where there are contracts with longer maturity tails, there should be provisions in the test that would allow the consideration of contracts renewals.

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity’s remaining performance obligations (paragraphs 119–121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its Interim financial statements.

**Response:** As a private company, many of the paragraphs listed above do not apply to us. Of those that do, paragraph 116’s requirement regarding nonpublic entity disclosure of qualitative information on how economic factors affect the nature, timing and uncertainty of revenue and cash flows are generally appropriate. However, the requirement that nonpublic companies would disaggregate revenues between revenue recorded point in time versus over time would not be meaningful information and not readily available in our current systems. For example, season ticket sales would have over time recognition while tickets sold at the gate would be point in time though both are revenue of the same playing season. Under the Exposure Draft, however, public companies can provide disclosure regarding the primary categories of disaggregation of its revenues in the most appropriate way with seven examples provided including by the type of good or service. We believe that the users of private company financial statements would be better served by enabling preparers of nonpublic company financial statements to select from more than just the one category of disaggregation described in paragraph 115(f).

Paragaphs 117 and 119-121 are not applicable to private companies. However, with regard to paragraph 122 (123 is also not applicable), we believe that important issues surrounding the measurement of liabilities for onerous performance obligations must first be resolved before any disclosure can be meaningful. Because private companies are not required to disclose future performance obligations, we believe that a similar exemption from disclosure should also apply to paragraph 122(c). As written, the Exposure Draft would require losses recognized on a technicality of what is considered onerous to be culled out of otherwise profitable operations. As it relates to private companies the disclosure required by paragraph 122 would be made without an understanding of the other timing of profitable performance obligations. We continue to believe that any disclosure around the timing of future performance obligations (onerous and non-onerous)
belongs in forward looking information where the context of the information can be better presented. For public companies, the Exposure Draft presents this forward looking information on revenues without the context of associated costs.

Lastly, paragraph 128 which applies equally to private companies is, in our opinion, appropriate disclosure.

**Question 6:** For the transfer of a nonfinancial asset that is not an output of an entity’s ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity’s ordinary activities? If not, what alternative do you recommend and why?

**Response:** Since the above described activities are not in the normal course of business, we believe that the contractual provisions must carry greater weight in determining when to derecognize assets and at what amounts to measure transactions. When a transfer of control can be reached for accounting purposes without legal control transferring or vice versa, we would have concern. Also, we believe that recording variable consideration relating to activities outside an entity’s ordinary activities should not be based on expected amounts but on contractual commitments. Our experience with such transactions, however, is limited.

Again, we appreciate the opportunity to provide comment on this very important issue. If you have any questions regarding our letter or would like to discuss our views further, please feel free to contact me at 212-450-2720.

Sincerely,

Rosemary Roser
Vice President and Controller
National Football League

**cc:** Joseph Siclare, Executive Vice President and Chief Financial Officer
      Mike Smith, Senior Vice President, Finance