March 13, 2012

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Dear Chairmen:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") is writing to provide its views on key issues raised by the November 14, 2011 Exposure Draft - Revenue from Contracts with Customers (the "ED").

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts1. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

Overall, we are supportive of the project and the general approach outlined in the ED to have one source of literature for revenue recognition. We believe the Boards have made substantial progress in developing and improving the model since issuance of the June 2010 exposure draft. The Boards have addressed many of our prior concerns, particularly relating to understandability of the model and certain cost-benefit considerations.

We acknowledge that developing a single revenue recognition model is challenging given the broad array of transactions and markets that exist. However, ensuring the model is operational and provides economically relevant information across industries is critical given the importance of revenue to most companies and to users of their financial statements. We understand the Boards have made efforts to reach out to constituents in a variety of industries to better understand the effects of the ED. We believe it is critical that the Boards continue to robustly test the model across many industries to ensure that the proposed model is operational and provides decision-useful information across industries.

1 Additional information about the IMA's Financial Reporting Committee can be found at www.imafrc.org.
During the Boards' outreach, particular focus should be placed in the following areas:

- identification of distinct performance obligations;
- application to service transactions;
- the onerous test;
- reasonably assured threshold for recognition of variable consideration;
- time value of money;
- disclosures and
- transition.

We encourage the Boards to make public any major concerns raised during its outreach so that others can benefit and better understand the potential impact of the ED.

While progress has been made, we continue to believe that certain aspects of the proposal are not cost-beneficial, such as (1) the retrospective transition requirement, (2) the significant increase in disclosures, (3) time value of money and (4) the elimination of the guidance in ASC 605-45-50-3 and 4 relating to classification of sales taxes. We believe that in each of these areas the benefits achieved by users of the financial statements do not outweigh the costs to provide this information. We are also concerned that certain aspects of the model could lead to uneconomical results such as application of the onerous contract and time value of money provisions.

We have provided more detailed feedback on the matters noted above in the appendices to this letter. Our views on the specific questions raised in the ED are included within Appendix A to this letter. Appendix B contains our concerns and observations on other aspects of the proposal for which the Boards did not specifically seek feedback.

We also encourage the Boards to minimize including interpretative guidance in the Basis for Conclusions. Because the basis is not considered authoritative, it is important that such interpretative guidance be included in the standard itself or in the authoritative illustrative examples. We've highlighted several instances within Appendix B where we believe guidance included in the basis should be elevated into the authoritative guidance.

Members of the FRC would be pleased to answer in questions you may have regarding our response. Please feel free to contact me at (212) 664-1733 if you would like to discuss specific matters addressed herein.

Sincerely,

[Signature]

Allan Cohen
Chair, Financial Reporting Committee
Institute of Management Accountants
Appendix A - Response to Specific Questions

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 recognises 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 agree with the proposed guidance in paragraphs 35 and 36 that distinguishes between performance obligations satisfied at a point in time versus over time. While judgment will still be necessary, we believe the proposed guidance is operational and sufficiently principles based. However, as noted in our cover letter, the Boards should specifically test this aspect of the model when performing their industry outreach given the breadth of transactions that are affected by this guidance.

Question 2: Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 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?

We agree with applying IFRS 9 or ASC Topic 310 to account for consideration deemed to be uncollectible because of a customer’s credit risk. We also agree that the initial assessment and subsequent adjustments to the estimate of collectibility should be presented in a line item adjacent to revenue.

As the Boards continue their discussions on a new impairment approach for financial instruments, we encourage the Boards to conduct outreach specifically on trade receivable portfolios to assess the operationality of any proposed impairment approach. This outreach should include assessing the impact to entities of varying size such as small public companies and private companies.

We believe the guidance in paragraphs BC174 and BC175 that outlines the presentation of a customer’s credit risk in a contract that contains a significant financing component should be included in the authoritative guidance versus the Basis for Conclusions.

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 recognises 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 recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We generally support constraining the recognition of revenue for satisfied performance obligations to amounts that are reasonably assured. The inclusion of a constraint is consistent with our view that a high threshold should exist to recognize revenue.
We believe that consideration that varies on the basis of a customer’s future sales, whether associated with licensed intellectual property or otherwise, should not be considered reasonably assured until that sale occurs. This guidance should apply to all sales-based payments and should not be affected by the form of a transaction (i.e. a license versus a sale) should not affect the accounting. Any constraint should be consistently applied throughout the model, including instances such as those outlined in Example 14 (trailing commission) where variable revenue is recognized in advance of a customer’s subsequent sale. We also observe that the constraint is generally consistent with accounting for contingent rents in the lease proposal. The Boards should continue to monitor consistency between the two projects and reconcile any significant differences reached in the two projects.

While we generally support the reasonably assured constraint, we believe further guidance is needed to address instances where amounts become reasonably assured post-balance sheet date but prior to issuance of the financial statements. In instances where the transfer of control has occurred but amounts are constrained, it is not clear whether an entity should adjust revenue in the prior period if amounts become reasonably assured after the balance sheet date but prior to issuance of the financial statements (i.e., should the adjustment be viewed as a gain contingency or recognized as a subsequent event of a change in estimate). If the Boards’ intent is that the prior period should be adjusted, we encourage the Boards to evaluate potential operational difficulties that may arise in monitoring and tracking potential adjustments.

Lastly, we suggest clarifying when variable costs should be recognized. We believe the principle for variable consideration recognition should also be applied to the related variable costs. Within example 14, the Boards concluded that the company had predictive history of renewal experience to support that renewal commissions were reasonably assured and recognized at the time the initial policy was sold. The example does not, however, address how the entity should recognize any variable costs directly associated with the renewals, such as future employee bonuses or commissions for such renewals. It seems inappropriate to us to accelerate revenue without also accelerating recognition of related costs.

**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 recognise 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?

We are concerned that the guidance on onerous contracts will result in outcomes that are inconsistent with the economics of certain arrangements. We continue to identify examples where application of the onerous provisions could yield uneconomic results, such as the following:

- The proposed guidance appears to be internally inconsistent because future contract renewals are considered when assessing a contract asset for impairment but are not included in the onerous test. We believe the onerous provisions disregard the economic reality that entities may enter into “loss contracts” with a specific customer because the overall expected future cash flows to the entity are accretive due to inextricably linked revenue streams from other parties or expected future contract renewals. We do not understand why this inconsistency exists and believe that considering other relevant revenue streams is appropriate.

- An entity could recognize a loss on a specific performance obligation (due to an allocation of arrangement consideration) even though the overall contract may be profitable. This
disregards the fact that the two parties entered into a bundled transaction which was profitable in its entirety.

- There may be situations where variable consideration is not included in the transaction price (because the entity has estimated it will be entitled to none). This could occur when the rewards for achieving a variable condition are significant enough for the entity to take the risk of a loss on a particular contract. For example, this may occur in portfolio-based business models where an entity is willing to risk a loss on individual contracts because its experience is that the "winners" in the portfolio will exceed the "losers" (but it cannot predict the individual contract for which it will ultimately receive the variable consideration).

Projecting costs at a performance obligation level for purposes of performing the onerous assessment also will add complexity for financial statement preparers. The time involved with and operational challenges encountered through performing the assessment could prove to be overly burdensome, particularly when it is questionable whether a loss has truly been incurred. We believe a more comprehensive and holistic evaluation of onerous contract accounting is warranted. In the event such an evaluation cannot be finalized prior to completion of the proposed revenue standard, we believe the Boards should remove the onerous provisions from the proposed standard and address as a separate agenda topic.

Despite our overall concerns, we do recognize that an onerous test is currently required in some limited situations2 under U.S. GAAP that the FASB may be reluctant to reverse. While not preferable, those existing requirements could be carried forward (as cost guidance) for those specific transactions until a holistic evaluation of cost recognition is completed.

If the Boards retain the onerous test, clarity should be provided on whether an onerous liability is required (or allowed) to be discounted. It appears that the measurement of the onerous liability, outlined in paragraph 82, is to be performed on an undiscounted basis. However, this is inconsistent with IAS 37, Provisions, Contingent Liabilities and Contingent Assets which requires discounting. We understand that some have also interpreted that the provision should be discounted under U.S. GAAP. Without further clarity on this point, diversity in practice could develop.

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

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity’s remaining performance obligations (paragraphs 119–121)
- 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)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

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2 Principally ASC 605-35 Construction-type and Production-type Contracts,
Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? 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 reports.

We are concerned with the required level of disclosures in both interim and annual periods. We believe the costs of complying with the proposed disclosure requirements outweigh the benefits provided to users of the financial statements. The interim disclosure requirements are also inconsistent with the principles in ASC 270 that interim reporting should reflect significant changes from the prior annual period, which we believe is the appropriate disclosure threshold to apply to interim financial statements.

The proposed annual disclosure requirements do not strike the appropriate balance between a user’s ability to understand the amount, timing and uncertainty of revenue and related cash flows and the cost and effort required by preparers. We are particularly concerned with the rollforward disclosures and “future maturity” schedule described in paragraphs 117, 119, 120 and 123 of the ED. Systems are generally not configured to capture this information at the level of detail required and significant costs could be incurred to comply with the proposal. We are also concerned that forward-looking information is included within the financial statements. We believe that if forward-looking information is deemed necessary, then MD&A is a more appropriate location for such information as it would be subject to safe harbor protections.

We also note that the Boards are proposing similar rollforward requirements in the financial statement presentation project. We believe that any rollforward requirements should be addressed in one project rather than on a piecemeal basis. Further, the ongoing disclosure framework project should examine the objectives and extent of disclosures on a comprehensive basis before significantly expanding disclosures and requiring companies to incur the costs to comply with those requirements.

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

We agree with the proposal that the recognition and measurement guidance in the revenue standard should be applied to transfers of nonfinancial assets that are not part of the entity’s ordinary activities.
Appendix B - Other observations and comments

The following discusses our concerns and observations on other aspects of the proposal for which the Boards did not specifically seek feedback.

Retrospective application

We acknowledge that retrospective application of the proposed requirements will provide consistency and comparability for users. However, though certain practical expedients have been provided, we continue to have significant concerns that it will be cost prohibitive or impractical to apply the guidance retrospectively in many situations. The following examples highlight some of the difficulties we foresee in applying the standard retrospectively.

- Application of the guidance to long-term contracts that extend to multiple periods preceding adoption requiring entities to go back several years and assess judgments made, such as contracts within the construction, aerospace and defense, and outsourcing industries.

- Application of the time value of money concept, particularly when there are contracts with multiple performance obligations and multiple payment streams including up-front or advance payments, as time value has generally not been considered under current practice.

- Valuing options in contracts that had previously not been assigned a value.

- Time and effort associated with application of the guidance to license transactions for several reasons: (1) significant changes could occur in timing of revenue recognition based upon the allocation provisions (e.g., software licenses containing elements which could not be separated due to a lack of VSOE); (2) significant changes in timing as a result of applying the transfer of control provisions (e.g., term licenses where the intellectual property is delivered at inception); and (3) consideration of whether variable consideration is deemed to be reasonably assured.

- Assessing costs that may have been expensed previously for possible capitalization under the proposed guidance.

- Applying the guidance to contract modifications in prior periods.

We note that standard setters have historically steered away from requiring retrospective application for revenue related standards. For example:

- Statement of Position (SoP) 97-2, Software Revenue Recognition prohibited retrospective application, although the exposure draft initially required a cumulative effect adjustment. Within the basis of conclusions to SoP 97-2, the AcSEC acknowledged concerns regarding the effort required in measuring the cumulative effect and the level of judgment required in applying the provisions to prior periods.

- Within the basis of conclusions to SoP 00-2, Accounting by Producers or Distributors of Films, the AcSEC acknowledged that the advantages of retrospective application in prior periods of the provision of the SoP did not outweigh the disadvantages. The AcSEC concluded that the cumulative effect of changes caused by adopting the provisions should be included in the determination of net income.
• More recently, the issuance of Emerging Issues Task Force (EITF) Issue 08-1, *Multiple-Deliverable Revenue Arrangements*, and Issue 09-3, *Certain Revenue Arrangements that Include Software Elements*, allowed, although did not require, retrospective application, supplemented with disclosure allowing financial statement users to understand the effect of the change in accounting principle.

• *EITF Issue 00-21, Multiple Element Arrangements* required prospective application though provided entities with the option to record a cumulative effect adjustment if desired.

As an alternative to retrospective application, we recommend permitting prospective transition, supplemented with quantitative and qualitative disclosures indicating the impact of adoption to prior periods presented. To satisfy this objective, an entity should disclose at a minimum qualitative information similar to that outlined in ASU 2009-13 (ASC 605-25-65-1(c)). Where the effect of adoption is material, this qualitative information should be supplemented with quantitative disclosures following the framework outlined in paragraph 605-25-65-1(d). Retrospective application should remain an option but not a requirement. While we acknowledge that prospective application is not the most ideal for financial statement users, prospective application with supplemental disclosures would be less costly to implement, while still providing information necessary to enable users to understand trends in key metrics or financial statement line items.

**Determination of transaction price**

We largely agree with the proposed guidance on the determination of transaction price. However, we believe the following changes would make this aspect of the proposal more operational:

• Variable consideration that depends upon a subsequent sale (e.g., sales-based payments) should not be estimated as part of the transaction price. Estimating these amounts is often difficult and highly uncertain (as supported by the Boards’ conclusion that these types of payments are never reasonably assured until the contingency is resolved for licenses of intellectual property). Requiring entities to estimate these highly uncertain amounts only to constrain recognition seems to us to be counterintuitive and not cost-beneficial. We recognize such a change could also impact the allocation of transaction price, as discussed below. In our experience, constituents do not appear to understand that variable consideration needs to be estimated for purposes of determining the transaction price even when revenue related to that consideration will be constrained. We recommend that the Boards clarify and expand discussion within the Basis for Conclusions on why they believe estimation is necessary when the constraint is present.

• We are also concerned that eliminating the guidance within ASC 605-45-50-3 and 4 regarding the classification of taxes collected from customers and remitted to governmental authorities will create substantial incremental effort and costs. Determining whether a tax is being assessed on the company or on its customers can be very difficult and cumbersome, particularly for companies that operate in many jurisdictions. We do not believe this is an area of significant user concern and that the existing option to present this activity on a gross or net basis (with proper disclosure) is more practicable and cost-beneficial.

We also suggest the Boards consider including examples similar to those included within ASC 605-50 *Customer Payments and Incentives*, which demonstrate application of the principles in paragraphs 65 - 67 of the ED on consideration payable to customers. We believe that the existing examples are helpful in illustrating guidance to a wide variety of incentive arrangements and that without such guidance, diversity in practice could develop.
Allocation of transaction price

We agree with the proposed guidance on allocating transaction price to separate performance obligations based on the relative standalone selling price. However, we believe the requirement in paragraph 75 to allocate a discount to one or more performance obligations (rather than across all of the performance obligations in the bundled transaction) introduces unnecessary complexity. We believe this scenario would likely arise in limited circumstances, and creates an additional burden on preparers to document and assess whether isolated allocation is needed. We understand the Boards' conceptual basis for this provision and would not be opposed to modifying this guidance to presume a relative standalone selling price allocation but allow entities the option to allocate a discount to specific performance obligations using the principles in paragraph 75.

When revenue is constrained, we believe additional clarity should be provided on how revenue is recognized in performance obligations satisfied over time. We believe divergent views exist on how the proposed guidance should be applied in such situations. For example, an entity performs a service with fixed consideration of $4,000 and variable consideration of $2,000. The entity does not have predictive experience to indicate the variable consideration of $2,000 is reasonably assured prior to completion of the service. When performance is 50% complete, proposed guidance could be interpreted to (a) recognize $3,000 (calculated as 50% of $6,000, which reflects the entire transaction price), or (b) recognize $2,000 (50% of $4,000. which reflects only the amount for which the entity has predictive experience). View (a) could result in no revenue being recognized in a subsequent period until the variable consideration becomes reasonably assured. We believe an example to illustrate the intended application of the proposed guidance would be helpful.

We believe the Boards should provide clarity on accounting for variable consideration when a contract is modified. For example, prior to a modification, variable consideration may be allocated to all of the performance obligations in the contract, including those that have been satisfied. Subsequent to the modification, the proposed guidance in paragraph 22(a) implies that variable consideration would only be allocated to those obligations that were not satisfied as of the modification date. We believe entities should be permitted to allocate variable consideration to the pre-modification period if evidence supports that such variable amounts related to those satisfied deliverables, consistent with other aspects of the proposed model such as paragraph 76.

Licenses of intellectual property

We generally support the Boards' decision that a license gives rise to a performance obligation that is satisfied at the time in which the customer obtains control of the underlying rights. However, we believe the Boards should provide additional clarity on accounting for licenses that contain restrictions. For example, within the entertainment industry, license arrangements often contain a number of restrictions on the customer's use of licensed intellectual property. These restrictions can take many forms, including mandating (1) the sequence in which television episodes can be aired, (2) the frequency at which movies or episodes can be run, and (3) certain rest periods whereby the content cannot be used by the licensee for a specified period of time during the license term (often referred to as a split window restriction).

Determining at what point (if any) a restriction impedes a customer's control of the intellectual property can be subjective. In the above example, we understand the following diverging views have developed (assume that the customer's license rights are non-transferable):
1. The license is viewed as one performance obligation. Once the customer can begin to benefit from that license, control would be transferred and the licensor would recognize revenue (subject to the reasonably assured threshold). The rationale for this view is that the licensor has satisfied its performance obligation and the customer can begin realizing the rewards of controlling the license (the restrictions are simply a characteristic of the license).

2. The restrictions create multiple performance obligations. Until the specific restriction passes, the customer cannot benefit from that portion of the license. Accordingly, the transaction price would need to be allocated to each performance obligation and would be recognized once the customer could begin benefitting from that particular performance obligation.

These provisions are customary within the entertainment and media industry and usage restrictions also exist in licenses in other industries such as technology and franchising. As the example above demonstrates, we believe distinctly different revenue recognition patterns could emerge without additional clarity.

**Time value of money**

We remain concerned that the cost and complexity of applying the time value of money provisions in the proposed guidance do not outweigh the benefits provided to financial statement users. While we believe the practical expedient to exclude contracts less than one year from the time value of money assessment is helpful, we do not believe the Boards have alleviated all concerns on the application of the time value provisions.

The proposed guidance presents significant operational challenges, particularly for contracts with multiple performance obligations spanning multiple periods with varying payment streams or for upfront fees received for a service provided over an extended period of time. Additionally, we do not believe that time value is an area of significant concern for financial statement users, and application of the provisions by preparers may increase the level of effort required by users to analyze revenues.

We also believe that the time value assessment may result in uneconomic reporting of related transactions. This is because the guidance is focused on the timing of payment compared to the timing of satisfying a performance obligation without any consideration of the timing of costs. For example, a vendor may provide a financing element to its customer but may also structure arrangements with its own suppliers to mirror the timing of payments in the customer contract (which payments are not discounted). By addressing only one side of the equation (the revenue leg), the reporting may not reflect the overall economics of the business model.

If the Boards feel strongly that time value of money needs to be addressed based on user input, we recommend excluding the requirements from the proposed standard in its entirety and these concerns be addressed in a separate future project.

We also recommend that the guidance clarifying how to apply time value of money to goods or services which are available for delivery to the customer upon request (for example, loyalty points and prepaid phone cards) should be included in the standard itself or the implementation guidance rather than in paragraph BC144.

**Performance obligations satisfied at a point in time**

We agree with the principle that a performance obligation is satisfied when a good or service is transferred to the customer. We largely agree with the indicators provided in the ED in assessing when
control has transferred to the customer. However, we note that the basic control criterion outlined in paragraph 37 only focuses on the rewards or benefits of ownership while one of the indicators focuses on both risks and rewards. We believe the Boards’ intent is to focus on the benefits of ownership, consistent with a control model and therefore suggest that risks be removed as an indicator of control transfer in paragraph 37.

**Contracts with multiple parties**

We believe that additional guidance may be necessary when contracts with multiple parties are inextricably linked to ensure that the economics of an overall business transaction are appropriately captured. Appendix A provides an example of such a situation that could occur when applying the onerous contract test. In addition, we believe a similar situation could arise when assessing contract related assets for impairment. For example, a credit card company may defer contract costs related to cardholder customers but those assets are not recoverable based solely on cash flows to be received from the cardholder (because the credit card company will also receive fees from the merchant). In this example, the cash flows from all inextricably linked contracts (even if with different parties) need to be considered when performing the asset impairment test.

The guidance in paragraph 10 states that arrangements where the counterparty is a collaborator rather than a customer are not within the scope of the proposed guidance. We believe it is unclear what recognition and measurement guidance would apply to these transactions. Many entities currently look to the existing revenue guidance when accounting for some or all aspects of these arrangements. Because these arrangements are explicitly scoped out of the revenue proposal, we believe it is unclear what guidance should be applied to income related components of collaboration arrangements if no other guidance exists.

**Consideration payable to a customer**

We agree that consideration payable to a customer (or to other parties that purchase the entity’s goods or services from the customer) should be accounted for as a reduction to the transaction price unless the payment to the customer is in exchange for a distinct good or service. However, the language in paragraph 65 regarding amounts “that the customer can apply against amounts owed to the entity” could imply that an entity who pays cash to a customer’s end-use customer need not record the cash as a reduction of the transaction price under the premise that the end-use customer cannot apply that cash to amounts owed to the entity. We do not believe this interpretation is the Boards’ intent.

Accordingly, we suggest the following revision to paragraph 65:

Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to a customer (or to other parties that purchase the entity’s goods or services from the customer). It also includes credit or other ‘cash-like’ items that the customer can apply against amounts owed to the entity. An entity shall account for such consideration payable to a customer as a reduction of the transaction price and, hence, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 28 and 29) that the customer transfers to the entity.

Consideration provided to a customer (or to other parties that purchase the entity’s goods or services from the customer) may also take the form of a product of service. While not addressed within the guidance above, we believe an entity should evaluate whether the product or service constitutes a separate performance obligation, as described in paragraph 24, which may require a portion of the transaction price to be allocated to it.
Advertising

We do not agree with the Boards’ decision to eliminate the existing guidance on the accounting for advertising barter transactions. Existing guidance provides a substantial threshold in order for these transactions to be recognized in the financial statements. We believe this criterion is appropriate given the inherent uncertainty associated with valuing advertising swaps. At minimum, we encourage the Boards to consider additional outreach on the operationality of valuing such transactions.

We also disagree with the FASB’s decision to eliminate existing deferred advertising cost guidance. Companies that currently capitalize such costs are doing so because there is a high correlation between the costs that they are incurring and the resulting contracts they obtain during a particular period. We believe capitalization of such costs is appropriate and consistent with the economics of the business model (that is, those companies may incur acquisition costs through effective advertising rather than through more traditional sales efforts where sales commissions may be paid).

Basis of conclusions

We believe certain information currently within the Basis for Conclusions would be more appropriately located within the authoritative guidance because the information illustrates concepts within the model that may otherwise not be apparent. Such examples include:

- BC144 - time value of money for loyalty points;
- BC146 & BC147 - significance of a financing component;
- BC155 - re-evaluation of the effects of time value of money for changes in timing;
- BC174 & BC175 - presentation of collectibility when a significant financing component exists; and
- BC230-BC233 - learning curve considerations.