March 13, 2012

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Mr. Hans Hoogervorst, Chairman
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Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 2011-230, Exposure Draft: Revenue from Contracts with Customers

Dear Madam and Sir:

Thank you for the opportunity to comment on the Revised Proposed Accounting Standards Update, Revenue from Contracts with Customers (the “Revised ASU”) and the respective proposed amendments to the FASB Accounting Standards Codification. General Motors Company (“GM”) designs, builds and sells cars, trucks and service parts and, with its partners, produces vehicles in 30 countries. GM has leadership positions in the world’s largest and fastest-growing automotive markets. More information on GM and its subsidiaries (including OnStar, a provider of in-vehicle safety, security and information services) can be found at http://www.gm.com.

On behalf of GM, we strongly support the overall goals of the Boards’ joint revenue recognition project, the convergence of U.S. GAAP and IFRS, the simplification of existing GAAP, and the comparability of revenue across companies and geographical boundaries. While we support these goals, we have significant concerns with the proposed guidance relative to:

1) Accounting for product warranties under a model that requires a separate evaluation of whether an additional “service” is being provided beyond a standard assurance-type warranty;

2) Accounting for all distinct goods and services as performance obligations when these items are functioning as sales incentives to a customer;
3) The definition of standalone selling price and limiting the use of the residual method or specific identification method when allocating the transaction price to separate performance obligations; and

4) Requiring the incorporation of a time-value of money concept when upfront payments are received.

We also have observations pertaining to other elements of the Revised ASU relative to:

5) Accounting for non-cash consideration provided to other parties that purchase the entity’s goods or services from the entity’s customer;

6) Accounting for variable consideration paid to a customer; and

7) The ability to arrive at different accounting for two economically similar transactions, the sale of a vehicle with a repurchase feature and the sale of a vehicle with a residual value guarantee (both arrangements are common in our industry).

As written, we believe the Boards’ proposed accounting model will result in the following:

- Accounting for certain assurance-type warranties (ones that would otherwise qualify as an assurance-type warranty except its term is for an extended period of time) under a mixed attribute model thereby interjecting unnecessary complexity and cost into the accounting model;

- Accounting for certain items meeting the Boards’ definition of a distinct performance obligation in a manner different from the way the business is managed, which is not representationally faithful to the revenue-generating activities of an entity;

- Allocating revenue to certain incidental performance obligations (sales incentives) not meant to generate a profit separate from the primary item being sold;

- Allocating a discount (based on relative selling price) to performance obligations not giving rise to the discount; and

- Incurring unnecessary costs to comply with the Revised ASU in areas where the costs clearly outweigh any perceived benefits.

In addition, we believe the time value of money concept included in the Revised ASU is not practical. We have also provided additional observations on the Revised ASU, including situations where the Boards could further clarify the intent of the standard.

**Determining when a warranty provides the customer with a service in addition to the assurance that a product complies with agreed-upon specifications**

We support the Boards' decision that assurance-type warranties should be accounted for on a cost accrual basis when a customer does not have the option to purchase the warranty separately from the product. However, the Revised ASU would require that an entity determine
when a warranty provides the customer with a “service” in addition to the assurance that a product complies with agreed-upon specifications and account for that “service” as a separate performance obligation. For the very same reasons that it is difficult to determine when a fault has arisen in a product, we believe it will be equally difficult to determine whether a warranty offered with the sale of a vehicle contains a service element beyond an assurance-type warranty. In relation to this, we see two problematic areas:

1) We may manufacture two vehicles on a common platform and offer different warranty periods for the two vehicles. Another original equipment manufacturer ("OEM") may offer warranty periods longer or shorter than ours. We do not believe a “service” element should be implied simply because of the life of the warranty. Furthermore, should we ultimately be required to separate a “service” element simply because of the life of the warranty, we note the Revised ASU provides no guidance on measurement in that situation.

2) In the automotive industry, roadside assistance coverage can contain elements of both warranty and an additional service, yet tracking the type of coverage being provided is not practical. For example, roadside assistance would need to be bifurcated to determine whether the service provided was due to a problem ultimately covered by warranty, such as a breakdown of a warranted part, or for some other reason, such as a flat tire. These types of “services” are hereafter referred to as “related to the product warranty.”

With respect to the first item above, some have interpreted that the Revised ASU is intended to require an OEM to analyze a warranty to distinguish whether a service element exists when the underlying term (life) of a warranty is longer than that required by law, or other factors not outlined in the standard, such as longer than industry standards. In this regard, the Revised ASU states that an entity should consider certain factors to determine whether a warranty provides a customer a “service” in addition to the assurance that the product complies with agreed-upon specifications. The Boards noted that this provision was intended to provide a “clear principle” that allows an entity to account for economically similar warranties in a similar manner. However, we question whether the principle is one that can be realistically applied in practice. In this regard, the application of the current guidance in the Revised ASU is not clear to us; for example, how should the term “agreed-upon specifications” be interpreted relating to the length of the warranty coverage, the related laws or any other factors.

Therefore, we recommend that the Revised ASU specifically provide that a warranty not separately priced be accounted for in accordance with Subtopic 460-10 unless the warranty, in part, provides a customer with a service that is not specifically related to the product warranty. We question the usefulness and benefit to users of our financial statements of requiring an OEM to perform an analysis of “factors” to determine if a warranty (that is not separately priced) might include a “service” element simply because its term is 48 months or 50,000 miles instead of 36 months or 36,000 miles or it is longer than those offered by another OEM.

With respect to the second problematic item relating to warranty, we note that the Revised ASU requires that if an entity promises both an assurance and a service-type warranty but cannot reasonably account for them separately, the entity should account for both items together as a separate performance obligation. We encourage the Boards to reconsider whether such arrangements should always be considered performance obligations in their totality in these
cases, particularly when the service element is nominal related to the assurance-type warranty. It can be extremely difficult at times to differentiate the nature of the tasks the entity promises to perform between those that are agreed-upon specifications or an additional service. As discussed above, roadside assistance is often provided with the sale of a vehicle, and roadside assistance can contain elements of both assurance-type warranty and an additional service. We believe tracking this type of coverage is not practical and that separating these items is of no benefit to users of our financial statements. As such, we would propose in the event a particular warranty coverage item, such as roadside assistance, contains elements of both assurance-type warranty and an additional service, both elements in their totality should be evaluated as a single unit of account. If either the service element is immaterial in relation to the warranty, or the majority of the expected costs of the service element relate to assurance-type warranty coverage, the entire service element related to the product warranty would be accounted for as part of the warranty under Subtopic 460-10. Otherwise, the entire service element related to the product warranty would be accounted for as a separate performance obligation.

In summary, we do not believe it would be an improvement in practice to account for a portion of a non-separately priced product warranty as a separate performance obligation and revenue-generating activity based solely on the term of the warranty, even if the warranty is provided for an extended time period. Requiring an entity to bifurcate warranty coverage into two elements, one to be accounted for on a cost accrual basis and the other to be accounted for as a performance obligation interjects unnecessary complexities into the accounting model without improving the usefulness of the information to a user of the financial statements. Simply stated, the current warranty accounting model (albeit not perfectly aligned with the Boards’ model in the Revised ASU) is not “broken;” therefore, there is no need to modify the existing accounting model to interject unnecessary complexities and subjectivity into the accounting for warranties.

**Accounting for all distinct goods and services promised as sales incentives to a customer as performance obligations**

GM’s ongoing major or central operations are to design, build, and sell vehicles, as well as service parts, to independent authorized retail dealers. These dealers serve as distributors, taking delivery of vehicles and parts from GM and retailing them to individual consumers. Dealers also perform maintenance and repair services, including those provided under our limited warranty program. The contracts (including franchise agreements) between GM and the dealer to sell and service GM products specify the rights and obligations of each party, including the specific provisions concerning the sale of a vehicle or parts from GM to the independent dealer. OnStar, a wholly owned subsidiary of GM, sells subscriptions to retail customers, which provide in-vehicle security, communication and diagnostic services.

Several methods are used to promote the sale of our products, including the use of dealer and retail incentives. The sole purpose of the incentives is to be competitive in the marketplace and increase GM’s vehicle sales. The level and type of incentives is dependent upon competition in the markets in which we operate and demand for our products. GM management continually evaluates the cost of its various incentive programs and is often indifferent to the form of the incentive offer employed. In turn, dealers rely on competitive incentive offerings both when making vehicle purchase decisions and during their subsequent negotiations with the retail consumer. Incentives generally come in the form of rebates, dealer allowances, supported finance rates, subsidized leases and other free services that will be honored by third-party
service providers. Free services include, but are not limited to: oil changes, tire rotations, vehicle inspections, satellite radio services, roadside assistance, courtesy transportation, and occasionally free vehicle insurance.

Each vehicle sale is invoiced to the dealer and includes a listing of all items included with the vehicle, the majority of which transfer with the car or truck when the dealer sells it to the ultimate owner. For example, when a car is shipped to a dealer the invoice may include in addition to other standard equipment items (such as engine, transmission, etc.) the following: 1) four year or 50,000 mile bumper-to-bumper warranty, 2) five year or 100,000 mile power-train limited warranty, 3) five year or 100,000 mile premium care maintenance, 4) five year or 100,000 mile courtesy transportation, 5) five year or 100,000 mile roadside assistance, and 6) twelve months OnStar directions and connections service. Subsequent to sale by the dealer to the retail customer, GM is responsible to reimburse any participating dealer who provides a vehicle owner with any necessary warranty, maintenance and/or courtesy transportation, thereby reimbursing the dealer for services provided. The vehicle owner can go to any dealer for service or warranty repairs. Further, GM contracts with another entity upfront to provide roadside assistance, an arrangement that includes no profit or return to GM other than the sale of the vehicle. Under these arrangements, GM incurs all the costs of providing such services but does not actually perform the underlying services. If a retail customer does not have the services performed, no costs are incurred by GM. OnStar, a wholly owned subsidiary, provides the twelve months of directions and connections service. In addition, GM offers many other cash incentives that are paid to the dealer, the retail customer, or a financial institution.

Under the Revised ASU, the two warranties above (bumper-to-bumper and power-train) would be accounted for as a cost accrual in accordance with the guidance on product warranties in Subtopic 460-10 (see separate discussion above). The remaining items appear to be performance obligations under the provisions of the Revised ASU. We reach this conclusion based on our understanding that the Boards have determined that all goods and services promised to a customer as the result of a contract should be considered performance obligations because they are part of the negotiated exchange between the entity and its customer (paragraph BC65). As such, entities are required to allocate consideration, based on a stand-alone selling price that for all intents and purposes includes a profit margin, to all distinct goods or services for purposes of revenue recognition since they are goods or services for which the customer ultimately pays, even though the entity considers those goods or services to be part of the cost of the product, marketing incentives or incentives to sell a product rather than separate revenue-producing activities.

We believe application of the model proposed by the Revised ASU will result in accounting for items as performance obligations when they are no more than sales incentives, which will result in accounting for these items in a manner that is different from the way in which the underlying business is managed. Accounting for items that are not intended to be separate revenue-generating activities, such as roadside assistance, as performance obligations along-side activities that are considered revenue-generating, such as OnStar, presents GM’s business in a way that is not representationally faithful to financial statement users. Furthermore, this accounting will be extremely burdensome and complex to apply. The Revised ASU will require GM to allocate the consideration of each vehicle, to a number of incidental performance obligations, and require that the process be performed multiple times for each vehicle due to cash and non-cash rebates or other variable consideration contained in the transaction price.
The implementation of these new processes results in a small percentage of the consideration being allocated to items that are economically incentives to sell vehicles, not separate business or revenue-generating activities. This “one-size fits all” model is less than appealing to GM. On the whole, this accounting provides little if any discernable benefit for financial statement users when the provisions of the model are applied to incidental goods and services or services to be performed by other entities that are functioning merely as sales incentives and results in an accounting model that is not aligned with the underlying transaction because:

- With the exception of OnStar, from a business perspective any incidental goods or services bundled with the sale of vehicle are truly sales incentives, and not viewed as separate revenue-generating activities. The form these incentives take depends on what the sales and marketing teams believe will be the most effective at moving vehicles at the time. The cost of incentive is budgeted, and it doesn’t matter whether it takes the form of a cash rebate or a free oil change with the cost being the same value as the rebate;

- Upon bundling incidental goods or services with the sale of a vehicle, the selling price is not impacted on a one-for-one basis – rather the inclusion of these items impact to a greater extent the amount of other sales incentives offered at the time the vehicle is sold, not the standalone selling price to be charged for the inclusion of the incidental item to the transaction;

- In assessing whether to include an incidental good or service with the sale of a vehicle, management assesses the item from a marketing and cost perspective, not from a revenue-generating perspective;

- The incidental goods or services are not separately bargained for items, but rather items offered to all customers purchasing a vehicle at a particular point in time;

- Prior to the sale of the vehicle to the dealer, GM has already contractually arranged for the covered services to be performed by a third-party service provider, who assumes responsibility for fulfillment of these services, including the acceptability of the services provided to the retail consumer. That is to say, upon sale of the vehicle, GM’s remaining obligations to third party service providers function similar to a financial obligation, not as a revenue-generating activity or performance obligation; and

- In most cases, absent bundling such items with the sale of a vehicle, many customers would not have purchased the good or service on a standalone basis, evidenced, in part, by the fact that when we offer a choice between a free service or cash incentive, retail consumers overwhelmingly choose the cash option.

We believe these incidental goods and services meant solely to be sales incentives should be recognized immediately as a cost of the vehicle sale, which is the proper accounting given this business, rather than delaying the cost and a portion of the revenue. When such incidental goods and services (sales incentives) are immediately expensed, our financial statement users are provided with a more clear understanding of our performance and the accounting is greatly simplified and is far less burdensome. We recognize the accounting for some of these elements in a revenue transaction is not a change from current practice. However, in the past, we have
negatively impacted the business by not permitting certain sales incentives to be offered since they would have qualified as multiple-element transactions and due to the lack of an IT systems solution to support the accounting for these items we prohibited the business from such offers. Other items offered were either not material or manual solutions have been used on a limited basis. We find both situations very disconcerting and believe the Revised ASU provides an opportunity to address these situations, improve the accounting and simplify the process.

We believe that our request to permit a cost accrual approach to be applied to elements of a transaction meant solely to function as an incentive to support the sale of a much larger core product, in our case a vehicle, aligns with the Boards’ reasoning, as discussed in paragraphs BC290 and BC291, associated with permitting assurance-type warranties to be accounted for on a cost accrual basis. Although the entire margin would be recognized upon sale of the vehicle to a dealer, any margin attributable to additional elements (roadside assistance, premium care maintenance, etc.) would not be significant as these elements in total are relatively small in comparison to the overall cost of the vehicle, would be hypothetical since they are provided as incentives to sell vehicles, and are not considered to be separate revenue-generating activities apart from the vehicle any more than any of the other standard equipment items. As such, we believe that the Boards permit that these items be accounted for as a cost component of the vehicle that should be accrued when the vehicle is sold to the dealer, which is truly the essence of the transaction. GM is in the business of selling vehicles not providing roadside assistance or maintenance. These features are simply costs absorbed to generate the sale. We don't provide the service so there really is not a margin.

Recognizing that our recommendation to permit goods or services used as incentives to be expensed as part of the vehicle sale in a manner consistent with cash incentives or in a manner similar to an assurance-based warranty may not align with the base accounting model within the Revised ASU, we offer as a suggestion that in order to apply a cost accrual accounting model to incidental performance obligations the following criteria should be met: 1) the goods or services being provided are intended to be incentives to sell the underlying product consistent with cash or other incentives, 2) the cost is incidental relative to the primary product being sold, 3) the goods or services being used as incentives are not intended to provide a separate return apart from the primary product being sold, and 4) the specific goods and services used as incentives are available to all potential customers purchasing the product during the timeframe the incentive is being offered, as opposed to being separately negotiated for each customer.

*Allocating the transaction price to separate performance obligations*

We believe the Boards should re-evaluate the acceptable allocation methodologies of the transaction price even if the Boards provide for a practical expedient for incidental performance obligations that are viewed as sales incentives to be accounted for as a cost accrual, as certain items will be accounted for as performance obligations under the Revised ASU. Further, we believe the Revised ASU should provide additional implementation guidance pertaining to the establishment of a standalone selling price.

*Standalone Selling Price*

The Revised ASU indicates that the standalone selling price is the price at which an entity would sell a good or service on a standalone basis at contract inception, and indicates that when an entity sells a product or service separately that price would be the best observable metric to use
when performing an allocation of purchase price to multiple performance obligations. Furthermore, the Revised ASU indicates in paragraph 73 that entity-specific factors and information about the customer or class of customer can be considered. This guidance is relatively consistent with current GAAP except for the elimination of the requirement to move through a hierarchy when determining the standalone selling price.

In our experience, current practice has evolved to require a rigid use of a “standalone selling price” in most situations. Absent further clarification in the Revised ASU, this practice will likely continue. We believe all factors should be considered in determining the appropriate value to use for an individual item when determining whether a particular good or service being transferred as part of a transaction has a standalone selling price apart from the transaction. For example, we transfer an OnStar subscription as part of the sale of every GM vehicle in certain geographical locations. One motivation behind doing so is to provide a large base of potential customers to which the service is offered on a “free” or “trial basis” so as to increase the potential number of individuals who discover this great service and subscribe for usage beyond the initial “trial period.” In this case there is an observable selling price (the amount we charge a single customer to subscribe for an OnStar subscription subsequent to the initial “trial period”); however, applying that value to OnStar sold on every GM vehicle when the service is provided in part as an incentive to sell the vehicle and to locate future subscribers, may not be the best result. We further note that prices may be different due to volume discounts and due to our class of customer, the dealer. The fact that less than 50% of the retail customers are successfully converted to a subscriber basis upon expiry of the “trial period” strongly indicates the value being ascribed to the “trial period” service by many retail customers is clearly less than our selling price to a single subscriber electing to renew. This fact would also be considered by the dealer who is purchasing the vehicle with OnStar service from GM. This observation is also true for other incidental service obligations, such as deferred maintenance, roadside assistance, etc., where a majority of retail customers purchasing a vehicle would not be willing to purchase such services on a standalone basis. We believe that a customer who is willing to separately subscribe to OnStar subsequent to the “trial period” or purchase an extended warranty or maintenance contract is clearly a separate class of customer and the observable selling price to these customers should not be presumed to be the standalone selling price when these services are bundled, as a sales incentive, with the sale of a vehicle. That is, despite the fact that we have an observable input, the amount that we charge a single retail subscriber, we believe all other pertinent factors should be considered in determining the appropriate value to use in the allocation.

Given this example and the fact that there are likely similar situations other entities will be required to assess, we recommend the Boards consider whether observable standalone selling price should be the only alternative, or at least what in practice will likely be the only alternative, if a standalone selling price exists for a particular good or service. We believe the Revised ASU intends to permit the ability to establish different standalone selling prices depending on the facts and circumstances. If the Boards agree, we believe the final standard should provide specific guidance and examples as to the application of concepts pertaining to the incorporation of entity-specific and customer-specific (including class of customer) information in the development of the estimated standalone selling price, including when such information can be utilized to overcome other observable inputs. Along these lines, we believe a single good or service can have more than one standalone selling price depending on the facts and circumstances and the final standard should indicate that this is a correct assertion.
Allocation Methodologies
We do not believe that the “standalone selling price allocation methodology” is the best or only alternative that should be applied under the Revised ASU in all fact patterns. We support the Boards’ decision to permit application of other allocation methods, such as the residual value method or allocating the entire discount to a single performance obligation, in limited circumstances. However, we believe the criteria established in the Revised ASU are too restrictive. In particular, we believe use of the standalone selling price method is not appropriate or will be overly burdensome to apply when the other elements within the transaction are in effect sales incentives.

When considering the use of other allocation methods beyond the standalone selling price method, we ask that the Boards consider the burdensome result of applying the proposed allocation method to sales incentives, and permit an entity to allocate revenue using a residual value approach, a specific identification approach, or some other appropriate method of allocation. This would be appropriate when these non-cash incentives are minor to the overall transaction, not negotiated separately and not treated as separate business lines or revenue-generating activities, and are used almost solely to sell a more significant product in terms of value. The residual value approach in paragraph 73 of the Revised ASU, with its current limitation on usage, would not appear to apply to the GM example noted above. Neither would the specific identification approach in paragraph 75 (OnStar is offered in all vehicles in certain geographical locations). However, the residual value approach or the specific identification approach would make sense because the items offered represent a discount that is being offered on a vehicle, not a discount related to the incidental services. In this regard, we see no benefit to users of our financial statements, when the end result of allocating based on relative selling price is a different amount of deferred revenue being allocated for each OnStar activation stemming from each vehicle sale, with fewer discounts being allocated to smaller less expensive vehicles with smaller margins and larger discounts being allocated to more expensive vehicles with larger margins.

In any case, a residual value method or specific identification approach would result in an appropriate value being placed on each service, with the discount going to the vehicle, which is the primary driver of the transaction for GM and the element within the transaction that would cause the offering of the discount. That is, use of the residual value approach or a specific identification approach for automobiles or similar items would provide for a better method of allocation that is consistent with the underlying business—in GM’s case, selling vehicles—and not result in misleading allocations to other services for which the discount was not intended. GM does not sell vehicles in order to support a warranty, roadside assistance, maintenance or courtesy transportation—it is quite the opposite, in that these activities are used to support vehicle sales. As such, it is counterintuitive to allocate a discount to any of the incidental obligations. In addition, either of these approaches could further simplify any adjustments to the transaction price for variable consideration, such as changes to cash rebates and the like, that ultimately should be considered a vehicle discount and not require a complete reallocation of the transaction price to all of the performance obligations.

Other parties that purchase the entity’s goods or services from the customer
The Revised ASU does not appear to consider other non-cash incentives which GM could provide
apart from the individual vehicle sale to our customer, the dealer. These types of incentives are primarily in the form of cash today, such as discounts offered to veterans, loyal consumers, or model year-end cash rebates. However, GM could, and does in some cases, provide other non-cash items. For example, GM might provide customers in certain geographic areas “free vehicle insurance” for a year, which would be paid for by GM and provided by a third party insurance company. Another example might be where GM separately offers recent college graduates a “graduation gift” consisting of a free computer tablet when they purchase a new GM vehicle within 60 days of their college graduation date. In either example, GM would provide “other parties” that purchase a GM vehicle from our customer (the dealer) with an incentive in a non-cash form directly from GM.

In this regard, the Revised ASU does not address the treatment of non-cash items provided to “other parties” in the form of goods or services offered in connection with the sale of the vehicle by our customer, the dealer. Specifically, paragraph 65 addresses cash incentives; however, it does not appear to address goods or services. Some have interpreted the Revised ASU to indicate that should consideration in the form of goods or services (non-cash consideration) be offered to “other parties,” the variable consideration provisions of the Revised ASU apply to the vehicle and the total consideration reallocated among the vehicle and other performance obligations in accordance with paragraph 54 and paragraphs 77 to 80. Others have interpreted the provisions of the Revised ASU to indicate that this is a contract modification, no amounts are reallocated from the initial vehicle sale and the onerous contract provisions (when such services exceed twelve months) would apply. This accounting would result in larger profits from vehicle sale to the dealer to be offset by costs that will be recorded in future periods, an accounting result with which we would find troubling at best. As such, we believe the Revised ASU needs to address the accounting for non-cash incentives offered to “other parties,” especially when such items are offered subsequent to a sale to a customer, in our case the dealer.

In considering these types of non-cash items, similar to our observations above when we discuss sales incentives such as premium care maintenance and roadside assistance, we view these items as sales incentives and for the same reasons discussed above recommend that the Revised ASU permits that these items be accounted for on a cost accrual basis.

**Time Value of Money**

We are opposed to the time value of money guidance provided in the Revised ASU. We do not believe the Boards have fully considered the broader implications of introducing this particular concept into the revenue recognition model. Recognizing revenue in excess of the cash received as illustrated in Example 9 in paragraph IG66 in the Revised ASU makes no sense to us in a revenue example in isolation. We believe that an accounting model that inflates revenues for interest expense will distort business results and believe the Boards should consider this issue holistically at a later date rather than implement it in the revenue recognition standard in isolation. If the Boards retain this provision in the Revised ASU, we believe additional guidance should be given for when a contract contains a financing component that is significant to the contract. In this regard, it would appear this provision may apply when we separately sell OnStar, premium care maintenance, or roadside assistance, but not when we embed these items within a vehicle sale. However, it is important to note that this would result in different accounting for similar transactions. Further, this would interject a significant level of complexity into the accounting model. Simply stated, we do not believe the time value of money provisions
would be practical for us to apply, and the concept is too conceptual in nature.

**Variable Consideration**

The Revised ASU indicates that an entity must estimate the total amount to which it is entitled in exchange for transferring the promised good or service to a customer, including variable consideration. Consideration payable to a customer is also specifically discussed and indicates if consideration payable to a customer, including amounts to a customer or to other parties that purchase the entity’s goods or services from a customer, is a reduction of the transaction price, an entity must recognize the reduction of revenue at the later of either the time revenue is recognized or when the entity pays or promises to pay the consideration (a promise that might be implied by the entity’s customary business practices). We believe the intent of the Revised ASU is to require an entity to estimate the amount of incentives to be issued to customers and other parties that purchase the entity’s goods from a customer based on the variable consideration provisions of the Revised ASU and that the commentary on consideration payable to the customer is only meant to reinforce this notion. However, including a separate discussion on timing of recognition of consideration payable to a customer utilizing language that is very similar to ASC 605-50-25-3 in the Revised ASU implies that consideration payable to a customer may be reflected at a different point in time than other variable consideration. If this is not the intent of the Revised ASU, we believe that clearer linkage between the notion that the promise “might be implied by the entity’s customary business practices” in paragraph 67 and the notion that an entity should “estimate the total amount” to which it will be entitled, including amounts paid to other parties in the distribution chain in paragraph 54 should occur.

**Sale of a vehicle with a repurchase feature versus a sale of a vehicle with a residual value guarantee**

OEMs often sell vehicles to fleet customers such as rental car companies and provide the fleet customers an option to put the vehicles back to the OEM at a later date. For example, an OEM may sell a vehicle to a rental car company for $25,000 and provide the rental car company the option to put the vehicle back to the OEM in twelve months for $15,000. The vehicle is typically sold immediately at auction upon exercise of the put option. The revised ASU indicates that this type of arrangement should be accounted for as a lease if the rental car company has a significant economic incentive to exercise its right. However, we also have transactions that are structured such that the OEM provides only a residual value guarantee of $15,000 and the rental car company maintains the responsibility to remarket the vehicle. Under current GAAP, these transactions where residual value guarantees are significant are also accounted for as a lease. However, under the Revised ASU, the transaction with the residual value guarantee would likely qualify as a sale. It is important to note that the auction market for used vehicles is well established and considered to be very liquid.

Subject to completion of the Boards project on leasing, we believe the Revised ASU may result in two economically similar transactions being accounted for in a different manner and/or provide structuring opportunities that may lead to different accounting for economically similar transactions. We believe the Boards should consider this factor prior to finalization of the Revised ASU.

Again, I appreciate the opportunity to provide the Boards with comments and appreciate the
Boards' consideration of the points outlined in the letter. I am available to discuss this letter at the Boards' convenience. GM would also be willing to be a trial site in working with the Boards on this very important project. Should you have any questions or need to discuss this letter, please contact me at (313) 667-3434.

Sincerely,

Nick S. Cyprus
Vice President, Controller, and Chief Accounting Officer
General Motors Company