June 30, 2015

Russell G. Golden
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear Mr. Golden:

The Committee on Corporate Reporting (CCR) of Financial Executives International (FEI) commends the Financial Accounting Standards Board (the “Board”) on the issuance of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09” or “the new standard”). CCR has followed the Board’s revenue recognition project closely and remains committed to a successful implementation of the new standard.

FEI is a leading international organization of 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily those of FEI.

We appreciate the opportunity to provide our views on the proposed amendments to ASU 2014-09 (“the proposed ASU” or “the proposed amendments”). In general, we support the proposed amendments related to identifying performance obligations and licensing because they would improve the operability of the new standard and result in useful information to users of financial statements. See below our responses to the specific questions in the proposed ASU.

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Question 1: Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

We support the guidance in paragraphs 606-10-25-14(b) through 25-15 (“the series provision”) of the new standard because it results in an entity identifying a reasonable number of performance obligations for promises to transfer a series of distinct goods or services over time. We are not opposed to the series provision being changed from a requirement to an optional practical expedient. We believe the series provision was intended to be applied to services and therefore, making the guidance optional minimizes the risk of unintended consequences from an entity being required to apply the guidance more broadly than was originally intended. However, we are unaware of specific circumstances in which an entity would select the expedient.

Question 2: Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

We support the proposed amendments clarifying that an entity is not required to identify promised goods or services that are immaterial in the context of the contract.

Question 3: Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

Yes, we support the proposed amendments in paragraph 606-10-25-18A because they result in reasonable conclusions when accounting for shipping and handling services.

Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

1 For example, if a company provides a weekly service under a one-year contract, the company would identify just one performance obligation for the year rather than identifying and allocating consideration to fifty-two separate performance obligations, one for each week of the year.
Yes, we support the proposed amendments to better align the factors with the principle for assessing whether promises are separately identifiable. We also support the articulation of these proposed clarifications to the principle and factors via the addition of examples. We think the amendments in the proposed ASU on identifying performance obligations would improve the operability of the new standard and result in companies identifying meaningful performance obligations that are consistent with the overall purpose and nature of an entity’s contracts with customers, and how the entity fulfills its contracts.

**Question 5: Would the revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples, improve the operability of the implementation guidance about determining the nature of an entity’s promise in granting a license? That is, would the revisions clarify when the nature of an entity’s promise is to provide a right to access the entity’s intellectual property or to provide a right to use the entity’s intellectual property as it exists at the point in time the license is granted? If not, what alternatives do you suggest and why?**

Yes, we support the proposed amendments related to how an entity would evaluate whether its promise is to provide a right to access intellectual property or to provide a right to use intellectual property as it exists at a point in time.

**Question 6: The revisions to paragraph 606-10-55-57 that state an entity should consider the nature of its promise in granting a license of intellectual property when accounting for a single performance obligation. Does this revision clarify the scope and applicability of the licensing implementation guidance? If not, why?**

We generally support the proposed amendments clarifying that an entity should consider the nature of its promise in granting a license when accounting for a single performance obligation that includes both a license and the delivery of other goods/services. However, it is unclear in some cases how to recognize revenue for a single performance obligation when the guidance for the license suggests the performance obligation is satisfied one way (e.g., at a point in time) and the guidance for the other goods/services suggests the performance obligation is satisfied another way (e.g., over time). For example, antivirus software includes both a software license and when-and-if available updates that represent one performance obligation (see Example 10, Case C). Based on paragraph 606-10-55-57 of the proposed ASU, an entity would consider the nature of its promise in granting the software license and would conclude it is a functional license with point in time revenue recognition. However, based on paragraphs 606-10-25-23 to 25-37 of the new standard, the entity likely would conclude the performance obligation should be recognized over time. Because different conclusions are reached, it is not clear how revenue should be recognized in this arrangement and how these two sections of the guidance interact. In particular, it is unclear how the determination that the software license is functional impacts revenue recognition. We believe the standard should be
revised and/or examples should be provided to clarify how the nature of a license impacts revenue recognition when there is a single performance obligation that includes a license and other goods or services.

**Question 7:** Would the revisions to paragraph 606-10-55-64 adequately communicate the Board’s intent (a) that restrictions of time, geographical region, or use in a license of intellectual property are attributes of the license (and, therefore, do not affect the nature of an entity’s promise in granting a license or its assessment of the goods or services promised in a contract with a customer) and (b) about determining when a contractual provision is a restriction of the customer’s right to use or right to access the entity’s intellectual property? If not, what alternatives do you suggest and why?

We think the proposed amendments in paragraph 606-10-55-64 adequately clarify the factors that the Board intends an entity to disregard for purposes of determining the nature of a license.

**Question 8:** Would paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property? If not, what alternatives do you suggest and why?

We think the scope of the guidance in paragraph 606-10-55-65A should be expanded to include long-term revenue sharing arrangements that are, in substance, a sale of IP and where consideration is based on the continuing performance obligation by the licensee to develop and commercialize the IP sold.

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Please feel free to contact Lorraine Malonza at (973) 765-1047 if you would like additional information on any of the issues or recommendations in this letter.

Sincerely,

*Stephen J. Cosgrove*

Stephen J. Cosgrove  
Chair, Committee on Corporate Reporting  
Financial Executives International