Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
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(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2015-250

Dear Mr. Golden:

The International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the proposed Accounting Standards Update: Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (the "proposed ASU" or "exposure draft"), issued by the Financial Accounting Standards Board ("FASB").

We commend the FASB for issuing the proposed ASU and for their responsiveness to stakeholder concerns. Overall, we are supportive of the revisions related to performance obligations and believe the changes improve the operability of Topic 606 and may reduce the cost and complexity of applying the standard. In response to question 1, with respect to the guidance on accounting for a series of distinct goods or services as a single performance obligation, it is our view that it should be an optional practical expedient, aligned with the statement in Basis for Conclusions paragraph 113 that the guidance was included to simplify the application of the model. It may increase complexity for some stakeholders if the guidance is not optional. Furthermore, we are aware that other questions have been raised regarding the series of distinct goods or services guidance and we believe that any changes made to the standard related to this guidance should be incorporated into this proposed ASU rather than a new ASU.

The proposed changes related to licensing should improve the operability of the guidance and result in greater consistency in application. However, additional clarity is needed when an entity is considering the nature of an entity’s promise in granting a license when accounting for a single performance obligation that includes a license and other goods or services. In this regard, paragraph 606-10-55-57 indicates that when a single performance obligation includes both a license and one or more other goods and services, an entity should consider the nature of its promise in granting a license (i.e., determine whether the license constitutes a right to access or a right to use an entity’s intellectual property) in order to apply paragraphs 606-10-25-23 through 25-37 (i.e., to determine if the performance obligation is satisfied over time or at point in time). As such, it appears in all cases where a single performance obligation includes a license, an entity should determine the nature of the license (i.e., apply the "Licensing" guidance). As a result, an entity would either determine that the license grants a right to access or a right to use intellectual property with revenue recognized over time or at a point in time, respectively. Subsequently, the entity would apply paragraphs 606-10-25-23 to 25-37 (i.e., the “Satisfaction of Performance Obligations” guidance) to determine if the single performance obligation is recognized over time or at a point in time. As such, it appears that there are two separate evaluations performed for the same goods or services to determine over time or point in time revenue recognition, each of which could result in a different conclusion.

Consider the new antivirus software example beginning in paragraph 606-10-55-140D. In this example, the software license and the when-and-if available updates are considered a single performance obligation. Based on paragraph 606-10-55-57, the entity would consider the nature of its promise in granting a license and would conclude it is functional intellectual property that should be recognized at a point in time (i.e., the license is a right to use intellectual property). The entity would then apply the “Satisfaction of Performance Obligations” guidance
and would conclude that the entity transfers control of the single performance obligation over time since the when-and-if available updates are critical to the continued utility of the software and are provided over time. Since the “Licensing” guidance suggests point in time revenue recognition and the “Satisfaction of Performance Obligations” guidance suggests over time revenue recognition, it is unclear how the revenue related to this performance obligation should be recognized under the model. We assume in this scenario the revenue should be recognized over time; however, we do not think that conclusion is clear under the guidance and do not understand the purpose of first determining the license is functional.

In Basis for Conclusions paragraph 53, we noted that the Board considered an example where an entity grants a 10-year symbolic license that is not distinct from a 1-year service arrangement when revising paragraph 606-10-55-57. The Board concluded the license should not be recognized over one year if the nature of the license is a right to access. We agree with this conclusion and understand why the nature of the license should be considered in this particular scenario (i.e., when the license is symbolic and is sold with other goods or services with a shorter duration). However, we do not think the guidance is clear on how revenue should be recognized once the nature of the license has been determined, particularly in arrangements where the license is functional and the other goods or services sold in the single performance obligation have a longer duration. Furthermore, even in the example considered in BC 53, we do not think it is entirely clear how to apply the guidance. For example, while we understand that the license should be recognized over the 10-year term, should the 1-year service arrangement also be recognized over the 10-year term? If not, it appears this would result in more than one attribution method.

To provide greater clarity, we believe the standard should be revised and examples should be added to further explain how the “Licensing” guidance and the “Satisfaction of Performance Obligations” guidance interact. For example, the antivirus software example could be expanded to explain how the entity considers these two sections of the standard in determining whether the performance obligation should be recognized over time or at a point in time. Additionally, we think it would be helpful to expand the flowchart in paragraph 606-10-55-63A to demonstrate how the “Licensing” and “Satisfaction of Performance Obligations” guidance should be applied when there is a single performance obligation with both a license and other goods or services. Finally, we think the standard should make clear, through either revisions to the guidance or an example, that a functional license (that does not meet the criteria in 606-10-55-62) will not always be recognized at a point in time. That is, if there is a single performance obligation that includes a functional license as well as other goods or services, that performance obligation could be recognized over time. We do not think that point is clear in the standard.

Thank you for the opportunity to comment on this proposed ASU. If you have any questions or wish to discuss our comments further, please do not hesitate to contact me at 914-766-2008.

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