June 30, 2015

Financial Accounting Standards Board
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United States of America

Invitation to Comment on Exposure Draft – Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing

Time Warner, Inc. is pleased to respond to the Exposure Draft, Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing (the “Exposure Draft”) issued by the Financial Accounting Standards Board (“FASB” or the “Board”) on May 12, 2015.

We continue to support the Board’s objectives to address implementation issues that could arise as organizations implement the new revenue recognition standard. We commend the Board’s efforts to respond to concerns raised by constituents and the FASB-IASB Joint Transition Resource Group for Revenue Recognition (the “TRG”) in order to facilitate consistent application of the new revenue recognition standard.

Overall, we agree with the clarified principles and find them useful as we begin implementation. Our key comments on the more significant areas of the Exposure Draft are summarized below.

Licensing

Determining the Nature of the Entity’s Promise in Granting a License

We appreciate the Board providing additional clarification to help companies determine the nature of an entity’s promise in granting a license, which will ultimately determine whether the promise is satisfied over time or at a point in time. We are supportive of the revisions to the Exposure Draft that require entities consider the nature of the intellectual property to which the customer has rights and to classify intellectual property into one of two categories – symbolic or functional. We believe that incorporation of those revisions and related examples into the final standard will improve the operability of the standard and thus improve the consistency of application across and within industry groups.

License Restrictions

We strongly agree with the concept of the changes that have been proposed to clarify the distinction between contractual restrictions that define the scope of the license and situations where a customer’s
right to use intellectual property under a license has effectively been revoked. We agree that instances in which a license contains a contractual restriction that defines a licensee’s right to use or access the intellectual property should not impact the identification of promises in the contracts. However, in certain instances a license may include terms which effectively result in a revocation of licensed rights for a period of time followed by a re-granting of rights in a subsequent period. We agree that in such cases, those contractual provisions should affect the identification of performance obligations in a license. We further believe this clarification is necessary to improve the operability of this aspect of the standard and better reflects the true economics and substance of arrangements where a customer is able to access or use a license of intellectual property for more than one distinct and substantive period of time. While we recognize that judgement will be required in making this determination, we believe it is important for the Board to highlight this distinction in order for entities to appropriately apply the principles of the standard.

We believe the example illustrated in Example 61B in paragraphs 606-10-55-399K through 55-399O is helpful in clarifying that distinction. While helpful, we believe the revisions in paragraph 606-10-55-64(a) are somewhat ambiguous and could be better articulated. To enhance understandability, we propose the Board use specific language from the Basis of Conclusion paragraph BC39 to more explicitly state that not all contractual provisions should be characterized as restrictions on the customer’s right of use or right of access.

**Identification of Performance Obligations**

**Immateriel Goods or Services**

We are in favor the Board’s proposal to rely on materiality in determining whether an item or activity promised in a contract must be identified as a promised good or service and carried into the separation analysis.

We believe the provision in paragraph 606-10-25-16A to exclude immaterial items and activities will reduce cost and complexity of applying the guidance on identifying promised goods or services, will help entities appropriately evaluate the nature of its promises to the customer and, therefore, properly identify its performance obligations.

**Separately Identifiable Principle**

We believe the Board’s revisions for identifying when a promised good or service is “separately identifiable” better articulates when a promise is considered distinct. We believe the clarifications outlined in 606-10-25-21 will help to ensure identification of consistent and meaningful units of account. The clarified guidance and examples are improvements in illustrating that “separately identifiable” should be evaluated in the context of the bundle of promised goods or services in the contract, rather than evaluating the promised goods or services individually. These changes would help direct organizations to identify performance obligations that represent the true nature of the arrangement with the customer and ensure consistent and reasonable application of the separation model.
We would be pleased to discuss our comments with the Board or FASB Staff at your convenience.

Sincerely,

Douglas E. Horne
Senior Vice President and Controller