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30 June 2015

Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing (File Reference No. 2015-250)

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing (the Proposed ASU) from the Financial Accounting Standards Board (FASB or Board).

We support the FASB’s objective to provide additional clarifications and examples to reduce diversity in practice when entities adopt the new revenue standard and reduce the costs and complexity of applying the new guidance. We believe the proposed amendments would address many of the concerns raised by constituents about the new standard on identifying performance obligations and accounting for licenses of intellectual property (IP).

We continue to support the convergence of Accounting Standards Codification (ASC) 606 with IFRS 15, Revenue from Contracts with Customers, and believe that the FASB and the International Accounting Standards Board (IASB) should use the same words in their standards whenever possible. Accordingly, we believe that any decision by the Board to include additional guidance in ASC 606 or use words that are different from those in IFRS 15 should be very carefully considered.

Overall, we support the Proposed ASU because the additional clarifications would improve consistency and, in many cases, provide a practical approach to applying the new standard. We also believe it will be important for the FASB and the IASB to explain whether differences in the wording they are proposing for each topic could result in different conclusions for entities applying ASC 606 and those applying IFRS 15.

Identifying performance obligations

We are encouraged by the proposed revisions to paragraph 606-10-25-21 and believe that these revisions, together with the new examples, would result in more consistent answers for similar contracts with customers.
We agree that the proposal to clarify that an entity would not be required to identify goods or services that are immaterial in the context of the contract and the proposed shipping and handling election would reduce the cost and complexity of applying ASC 606. Amending the standard to make the requirement to account for a series of distinct goods or services as a single performance obligation an optional practical expedient would further reduce the cost and complexity of applying ASC 606.

Licensing

We support the Board's efforts to improve the operability of the implementation guidance for determining the nature of an entity's promise in granting a license. Overall, we agree with the proposed classification of licenses of IP as either functional or symbolic. As further discussed in Appendix A, we recommend that the Board further consider the challenges involved in determining a single method of measuring progress for a performance obligation consisting of two or more promised goods or services with different patterns of performance. We also suggest that the Board further clarify when the proposed guidance on contractual restrictions would apply.

Our responses to the questions posed in the Proposed ASU are set out in Appendix A. In Appendix B, we recommend some editorial changes to the proposed language.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst & Young LLP

cc: International Accounting Standards Board
Appendix A – Responses to questions posed in the Proposed ASU, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing

**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 Board’s proposal to change the requirement to account for a series of distinct goods or services as a single performance obligation to an optional practical expedient to reduce the cost and complexity of applying ASC 606. If the requirement is changed to an optional practical expedient, entities would not be required to perform an analysis to determine whether they meet the criteria for applying the series guidance. They would only have to consider the series criteria if they choose to apply them.

We believe the requirement for entities to evaluate whether promised goods or services in their arrangements meet the criteria to be accounted for as a single performance obligation consisting of a series of distinct goods or services may not be intuitive and could involve a complex analysis in certain situations. Accordingly, we support a practical expedient and the examples below illustrate why.

For example, an entity may provide research and development (R&D) services in connection with a license of IP. These services may involve a number of activities (e.g., enrollment of patients, laboratory testing, opening/closing clinical trial sites, preparation of regulatory filings). In most cases, these activities will not be performed consistently or consecutively throughout the service period (e.g., enrollment of patients in a clinical trial may only occur at the beginning of the period). The nature of these activities also may depend on the progress and success or failure of the R&D testing.

Today, many entities treat R&D services as a single deliverable (i.e., not a combination of separate deliverables). Under the new guidance, entities would have to determine whether the R&D services meet the criteria to apply the series guidance. This could be a complex analysis because it is not clear whether R&D services provided on a daily basis are substantially the same.

Some entities have questioned whether R&D services are analogous to hotel management services, which are described in paragraph 285 of the Basis for Conclusions of ASU 2014-09 as an example of a type of service that should be accounted for as a single performance obligation because it meets the criteria in 606-10-25-14(b). Hotel management services commonly include different activities (e.g., maintenance, security, snow removal, front-desk reception) that may not be performed consistently or consecutively throughout the contract period. For R&D services, the series determination may have a significant effect on the timing of revenue recognition because of the guidance on the allocation of variable consideration and/or the accounting for contract modifications. Because the analysis may be complex, adding a practical expedient would reduce the cost and complexity of applying ASC 606.

In another example, contract manufacturers may produce a large number of homogenous items that are designed to meet the customer’s specifications and are delivered in batches. Contract manufacturers would need to determine whether their arrangements meet the criteria to be accounted for as a series of distinct goods. Today, contract manufacturers typically account for each
good separately and not as a series of distinct goods. Requiring entities to evaluate the criteria for applying the series guidance even if the pattern of transfer is not the same (i.e., the items will be delivered in batches) may not be intuitive. Therefore, adding a practical expedient would reduce the risk of entities misapplying the requirement.

Questions about when to apply the series guidance would still exist for entities that want to apply it. However, allowing entities to choose whether to apply the series guidance would allow them to take a practical approach to identifying performance obligations that involve the same or similar goods or services.

**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 amendment that an entity would not be required to identify goods or services promised to a customer that are immaterial in the context of the contract. We believe that the proposed amendment would reduce the cost and complexity of applying the guidance.

Without the proposed amendment, an entity that does not account for immaterial promises in a contract would be required to identify and accumulate those misstatements for each individual contract. Public Company Accounting Oversight Board Auditing Standard (AS) No. 14, *Evaluating Audit Results*, would require the auditor to evaluate those misstatements, together with any other misstatements identified during the audit. Therefore, we share the views expressed in paragraph 11 of the Basis for Conclusions that it would be unduly burdensome to require an entity to aggregate and determine the effect on its financial statements of those items or activities determined to be immaterial at the contract level.

We nevertheless expect questions to arise about the meaning of “immaterial in the context of the contract.” To address these questions, based on our understanding of the proposal, we believe paragraph 606-10-25-16A should also indicate that (1) if a contract includes several items that are each individually immaterial at the contract level, an entity would need to consider whether they are immaterial in the aggregate at the contract level to ensure that the entity is accounting for a material portion of the revenue components within each contract and (2) the guidance applies even when immaterial promises at the contract level are material when aggregated across contracts. Provided we understand the Board’s intent, we suggest the following changes to 606-10-25-16A (proposed text is underlined):

- An entity is not required to identify promised goods or services that are immaterial in the context of the contract, even if those promised goods or services are material in the aggregate across contracts. A promised good or service that is individually immaterial in the context of the contract may be material when aggregated with other immaterial promises in the contract. An entity shall evaluate whether optional goods or services (that is, those subject to a customer option to acquire additional goods or services) provide the customer with a material right in accordance with paragraphs 606-10-55-42 through 55-43.

We also believe it would be helpful to clarify in Example 12 why the entity did not conclude that the maintenance services were 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.

We believe the proposed amendment would reduce the cost and complexity of applying the new guidance for entities with reporting obligations under US Generally Accepted Accounting Principles that choose to apply the election.

We observe that the election could create a difference between the application of ASC 606 and IFRS 15 for entities that perform material shipping and handling activities after a customer obtains control of the good. Entities applying IFRS 15 would be required to identify shipping and handling as a promised good or service and record some of the promised consideration in the arrangement as revenue when the shipping and handling services are performed. Entities applying ASC 606 could elect to recognize revenue earlier, when control of the good transfers to the customer. We believe that the Board should clearly acknowledge this difference with IFRS 15. While continued alignment of the revenue standards would be beneficial, we support the Board’s proposal on this issue.

In addition, it is not clear from the proposal whether an entity could apply the shipping and handling election to some contracts but not others or if, as with other practical expedients in the new standard, an entity would have to apply the election consistently to all similar contracts in similar circumstances. We suggest that the Board clarify whether an entity would have to apply the election to all contracts or all similar contracts.

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?

We believe the revisions to paragraph 606-10-25-21 in the Proposed ASU would improve the operability of the standard because they would make it easier for entities to understand the separately identifiable principle. In particular, the proposed language in paragraph 606-10-25-21(c) clarifies that goods or services should depend on each other in order to be combined into a single performance obligation. The two-way dependency is further explained in paragraph 30 of the Basis for Conclusions: “The entity should not merely evaluate whether one item, by its nature, depends on the other.” Paragraph 606-10-25-21(c) in ASU 2014-09, as well as IFRS 15.29(c), had previously been interpreted by certain entities as requiring only a one-way dependency.

A further improvement to paragraph 606-10-25-21(c) would be to include the concept discussed in the Basis for Conclusions paragraph 31(b) that an entity should consider whether each good or service may affect the other’s “utility” (i.e., the ability to provide benefit or value) when analyzing whether goods or services are highly interdependent or highly interrelated. We suggest the following changes to paragraph 606-10-25-21(c) (proposed text is underlined):

- The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For this analysis, an entity should consider whether each good or service significantly affects the other’s intended utility (i.e., its ability to provide benefit or value).
Since the terms "element" and "unit" are not defined in the accounting literature, we also recommend revising the last sentence of paragraph 606-10-25-21(a) as follows: A combined output or outputs might include more than one phase, element, or unit, multiple goods or services that are capable of being distinct (e.g., 100 highly specialized devices that work together to provide a single solution to a customer).

We also believe that the proposed examples would improve the operability of the guidance and illustrate its application in circumstances where questions frequently arise. We suggest the following additional clarifications to the examples:

- **Example 10, Case B** – We believe it is important to explain in paragraph 606-10-55-140C why the highly specialized devices are highly interrelated and highly interdependent. In addition, since the design services are not part of the contract, it would be helpful to clarify why the entity is providing a significant integration service for all of the devices in the contract. Without further explanation, we anticipate that entities could conclude that any contract for the production of multiple goods would be a single performance obligation, which we do not believe is consistent with the Board’s intent. We also suggest clarifying in paragraph 606-10-55-140A whether the "various activities" inherent in providing the specialized devices to the customer are promised goods or services in the contract or whether the activities are merely fulfillment costs. Based on the discussions at the Joint Transition Resource Group for Revenue Recognition and at the joint Board meeting in February 2015 on distinguishing between promised goods or services and fulfillment costs in an arrangement, we think it is important for the example to be clear on this point.

- **Example 10, Case C** – Basis for Conclusions paragraph 31 states that the evaluation of whether two or more promises in a contract are highly interrelated or highly interdependent (in accordance with 606-10-25-21(c)) considers both fulfillment and beneficial interdependence and that an entity may be able to fulfill its promise to transfer each good or service in the contract independently of the other. Therefore, it is not clear whether (or why) fulfillment is a determining factor when analyzing 606-10-25-21(c). Example 10, Case C (606-10-55-140F), and Example 55 (606-10-55-365A) conclude that the promises can be fulfilled independently, but a **single** performance obligation is identified. In the following examples that also consider fulfillment, the conclusion is that the promises can be fulfilled independently, but **separate** performance obligations are identified:
  - Example 11, Case A (606-10-55-143)
  - Example 11, Case C (606-10-55-150C)
  - Example 11, Case E (606-10-55-150l)
  - Example 12, Case A (606-10-55-153)
  - Example 44 (606-10-55-312)
  - Example 57 (606-10-55-377)
  - Example 61A, Case B (606-10-55-399H)
In certain examples, the fact that promises can be fulfilled independently seems to be overridden by other factors when an entity concludes that a single performance obligation exists. In other examples, the fact that promises can be fulfilled independently seems to support the conclusion on separate performance obligations. We recommend clarifying the concept of fulfillment in the Basis for Conclusions and in the examples to minimize confusion.

► Example 11, Case A – This example suggests that the factor in 606-10-25-21(a) (i.e., the entity provides a significant integration service) is dependent on the factor in 606-10-25-21(b) (i.e., one or more goods or services significantly modifies or customizes other goods or services). If each factor in paragraph 606-10-25-21 is independently evaluated for a promised good or service in a contract, we believe it would be helpful to clarify this point in Example 11, Case A. We suggest the following change to paragraph 606-10-55-143: "The entity observes that none of the promised goods or services significantly modify or customize another. Therefore, in addition, the entity is not providing a significant service of integrating the software and the services into a combined output." We have a similar comment for Example 56, Case B (paragraph 606-10-55-372A), and Example 57 (paragraph 606-10-55-377).

► Example 11, Case E – Paragraph 606-10-55-150I includes an analysis of whether the entity’s promise to transfer the equipment is separately identifiable from the promise to transfer the consumables. It states that “the customer can readily obtain the consumables in the contract from other entities.” We believe this statement is relevant for the analysis of whether the equipment and consumables are capable of being distinct, but it does not appear to affect the conclusion on whether the promises are separately identifiable. We suggest removing this statement to avoid confusion over the analysis of paragraph 606-10-25-21.

We are aware of the potential for diversity in practice for scenarios similar to two of the revised examples. In Example 11, Case A, the software updates promised in the contract are not necessary to maintain a high level of utility in the software license during the license period. Therefore, a conclusion is reached that the software updates do not significantly affect the customer’s ability to use and benefit from the software license and are distinct in the context of the contract.

In contrast, Example 10, Case C, concludes that the software license and the software updates are not distinct in the context of the contract because the software license would provide the customer with little of its intended benefit without the software updates. In practice, there may be many circumstances where the software license will provide more than a small amount of intended benefit but less than a high level of functionality without the software updates. We anticipate that entities may reach different conclusions about similar facts based on different judgments about the level of utility provided by a license without software updates. If the Board is concerned about this potential diversity in practice, we believe that further guidance in this area would be helpful.
**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?

We support the Board’s efforts to improve the operability of the implementation guidance for determining the nature of an entity’s promise in granting a license. Overall, we agree with the proposed classification of licenses of IP as either functional or symbolic based on whether the underlying IP has significant standalone functionality.

We believe that providing examples of functional and symbolic IP are helpful illustrations of the Board’s intent for certain types of licenses to be classified as functional or symbolic. Paragraphs 45 and 46 of the Basis for Conclusions provide specific examples of types of IP that generally would be considered functional or symbolic. These examples were also included in the 18 February 2015 joint Board meeting handout, were part of the discussion at the joint Board meeting and were included in subsequent Board meeting minutes. We recommend that the Board add these specific examples to ASC 606 (the Proposed ASU includes them only in the Basis for Conclusions).

Consistent with the discussion in the Basis for Conclusions paragraph 47 of the Proposed ASU on the inclusion of paragraph 606-10-55-62, we are not currently aware of examples or situations when a functional license of IP would meet both of the required criteria in this paragraph. If the Board decides to retain the paragraph, we suggest that it clarify what it means for the functionality of IP to “substantively change” and illustrate this concept in an example.

We also suggest a clarification to paragraph 373 of Example 56, Case B. This example illustrates an arrangement for a license of IP for a mature drug compound and manufacturing services that are determined to be distinct promises. It includes the following language, “The entity concludes that the patented drug formula is functional intellectual property (that is, as a mature drug, it has significant standalone functionality in the form of its ability to treat a disease or condition).” [emphasis added]

We believe that the language in this paragraph may have unintended consequences and cause some entities to interpret a drug’s state of development as a determinative factor in the conclusion of whether a license of IP is functional (i.e., that only a mature and/or approved drug formula can have significant standalone functionality), which is not consistent with our understanding of the Board’s intent. We suggest making the following edit to the sentence, “(that is, as a mature drug, it has significant standalone functionality in the form of its ability to treat a disease or condition).”
**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?

The Board’s proposed revisions to paragraph 606-10-55-57 would clarify that entities would consider the licenses implementation guidance for all contracts that include a license of IP, including all instances when a license is part of a performance obligation consisting of two or more promised goods or services. While we understand this proposed requirement, we believe the guidance would not be applied consistently across industries.

Consider the following example. An entity grants a three-year license of IP and provides 12 months of R&D services to a customer. The R&D services are unique, cannot be provided by other parties and are never sold separately. The entity determines that the license of IP and R&D services should be bundled into a single performance obligation. The entity considers the nature of the promise for the license, in accordance with paragraph 606-10-55-57. The IP is determined to have significant standalone functionality (i.e., it is functional IP) that is not expected to substantively change. The R&D services are recognized using an input method (cost-to-cost) over the 12-month service period. Due to the requirement to use a single method of measuring progress for a combined performance obligation, some entities may conclude that revenue should be recognized at a point in time when the license of IP is granted. Other entities may conclude that revenue would be recognized using an input method (e.g., cost-to-cost) over the 12-month service period.

In our view, this example highlights the challenges in determining a single method of measuring progress for a performance obligation consisting of two or more promised goods or services with different patterns of performance. We recommend that the Board further consider this issue.

Regardless of whether the Board provides additional guidance on this topic, we recommend that the Board amend Example 10, Case C, Example 55 and Example 56, Case A, in the Proposed ASU to illustrate how the requirement in paragraph 606-10-55-57 should be applied. As currently written, these examples do not refer to the requirement in paragraph 606-10-55-57 or otherwise explain how an entity should evaluate it in combination with the general guidance on satisfaction of performance obligations in paragraphs 606-10-25-23 through 25-30. We also suggest illustrating in these examples how the entity should determine the pattern of performance for the performance obligation consisting of two or more promised goods or services with different patterns of performance.

**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 believe that the revisions to paragraph 606-10-55-64 would adequately communicate the Board’s intent that restrictions of time, geographic region or use in a license of IP are attributes of a 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.
However, in response to Question 7(b), we are less certain about the applicability of paragraph 606-10-55-64(a) and recommend clarifying when a term in a contract is a restriction that should be disregarded when identifying and determining the nature of promises in a contract. For example, the guidance could indicate that a contractual term specifying when the IP may be used in a license arrangement is a restriction if the customer does not lose control of the underlying IP for a substantive period of time during the license term (i.e., control of the IP does not revert back to the entity during the license period).

We also believe entities may think the words “restriction” and “provision” in paragraph 606-10-55-64(a) are being used interchangeably, even though the words appear to mean different types of contractual terms. We recommend that the Board either clarify these words or use one word consistently throughout.

Example 61B helps illustrate paragraph 606-10-55-64(a) and states that the entity has the right and expects to license the IP to one or more customers during the three years between the two airing periods (years four through seven). We recommend that the Board clarify in the example and in paragraph 606-10-55-64 whether the entity's intent to license the IP to other customers is a determinative factor in the analysis. Alternatively, if the entity's intent is not a determinative factor, we suggest removing this language (i.e., removing “and expects”) from paragraph 606-10-55-399K.

**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 support the Board's efforts to clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of IP. We generally believe that the proposal would help alleviate confusion over when the “royalty constraint” guidance should be applied. We believe it also would clarify that a royalty stream should not be accounted for partially under the variable consideration guidance and partially under the sales- and usage-based royalty guidance.

We note that the proposal would make certain changes in Examples 57 and 61 to refer to the practical expedient (in paragraph 606-10-55-18) that allows an entity to recognize revenue in the amount to which it has the right to invoice if “…an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date…” Paragraph 163 of the Basis for Conclusions for ASU 2014-09 elaborates on this concept of value to a customer and notes that, “…value to the customer is not intended to be assessed by reference to the market prices or standalone selling prices of the individual goods or services promised in the contract, nor is it intended to refer to the value that the customer perceives to be embodied in the goods or services.”

We do not believe it is clear how and/or why the practical expedient in paragraph 606-10-55-18 is being applied to recognize revenue for the sales-based royalties in these two examples after it was determined that paragraph 606-10-55-65 should govern the recognition of the royalties. We also believe it is unclear what an entity should consider when determining whether the amount it has a right to invoice is commensurate with the value to the customer of its performance. We recommend that the Board include additional language to clarify what factors should be considered as part of the evaluation and conclusion in these examples. We believe the practical expedient could be incorrectly and/or inconsistently applied if the Board does not provide further clarification in these examples.
Appendix B — Other editorial comments about the Proposed ASU, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing

We recommend the following editorial changes to the language in the proposal:

Paragraph 606-10-55-62 includes two criteria that must be met for revenue related to a license of functional IP to be recognized over time. We recommend that the Board make clear that a promised good or service would not be considered when evaluating whether functionality of licensed IP is expected to substantively change (per the criterion in paragraph 606-10-55-62(a)). This change could be made by adding the word “promised” to this paragraph, as follows, “... as a result of activities of the entity that do not transfer a promised good or service to the customer.” If this change is not made, we anticipate that some constituents may believe that only the effects of a separate performance obligation would be ignored in the analysis.

Paragraph 606-10-55-64(b) explains that entities should disregard guarantees provided to a customer that a patent to IP is valid and that it will defend that patent from unauthorized use when identifying promises in a contract. Paragraph 48(b) in the Basis for Conclusions notes that an entity would exclude its guarantee “…that it has a valid patent to intellectual property and that it will defend and maintain that patent.” We suggest the following edit to paragraph 606-10-55-64(b): “Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend and maintain that patent from unauthorized use...” Without this change, we anticipate there may be confusion as to whether the Board intended for activities to maintain a patent to be identified as a promised service in an arrangement.

Paragraph 606-10-55-372A evaluates whether the license of IP and manufacturing service in Example 56 are separately identifiable. We suggest the following edits to clarify the evaluation of the factor in 606-10-25-21(c), “The entity further concludes that the license and the manufacturing service are not highly interrelated or highly interdependent because the customer entity could separately purchase the license without significantly affecting its ability to benefit from the license, and the entity can fulfill its promise to subsequently manufacture the drug for the customer.”

Paragraph 606-10-55-380 of Example 57 evaluates the nature of the entity’s promise in granting a franchise license. We suggest that the following two edits be made in this paragraph to maintain consistent use of the term “utility” when describing functional and/or symbolic IP: “The trade name and logo have limited standalone functionality; the utility value of the products developed by the entity largely is derived from the products’ association with the franchise brand... The utility value of the license is its association with the franchise brand and the related demand for its products.”

Paragraph 606-10-55-382 concludes on the appropriate pattern of revenue recognition for the franchise license in Example 57. We believe the following edit should be made to this paragraph: “The entity concludes that the ratable recognition of the fixed franchise fee plus the periodic royalty fees earned corresponds directly with the value to the customer... therefore, a time-based method represents an appropriate measure of progress toward the complete satisfaction of the performance obligation.” This edit would help clarify that ratable recognition is the result of a time-based method of measuring progress.