June 30, 2015

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Re: File Reference No. 2015-250

Dear Ms. Cosper:

We are pleased to comment on the Financial Accounting Standards Board’s (FASB or Board) Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606); Identifying Performance Obligations and Licensing (Proposal).

We appreciate the Board’s efforts to provide additional guidance on the application of Topic 606. With respect to additional guidance provided for identifying performance obligations and licensing, we support the Board’s proposal to clarify the guidance and provide additional implementation guidance and illustrative examples.

Our responses to specific questions in the Proposal are included in Attachment 1.

Please contact Scott G. Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com should you have any questions.

Sincerely,

Crowe Horwath LLP
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 are supportive of this requirement as an optional practical expedient, however, as proposed, the ASU could result in unintended consequences. The guidance on accounting for a series of distinct goods or services as a single performance obligation was created to simplify and promote consistency in identifying performance obligations.

The Staff Paper (TRG agenda ref 27) ("Staff Paper"), Series of Distinct Goods or Services discusses the application of Topic 606 and provides examples of when the conclusion regarding a distinct good or service or a bundle of distinct goods or services being a performance obligation versus a series of goods or services impacts revenue recognition related to the allocation of variable consideration, contract modifications and changes in transaction price. For example, the Staff Paper notes that ASC 606-10-32-40 allocates variable consideration differently for performance obligations related to a distinct good or services (or a bundle of distinct goods or services) that is a performance obligation and a series of distinct services in accordance with 606-10-25-14(b). In addition, the Staff Paper notes that guidance for changes in transaction price included in paragraphs 606-10-32-42 through 45 applies differently, in some cases, to a single performance obligation comprised of non-distinct goods or services than it does to a single performance obligation resulting from the series provision. If the series of distinct goods or services provision is changed we recommend that the Board review existing guidance that specifies differences in application for distinct items and a series of distinct items such as those noted above to consider if the guidance should be changed to eliminate the distinction.

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 believe the proposed amendments in paragraph 606-10-25-16A would reduce the overall cost and complexity of applying Topic 606.

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 in paragraph 606-10-25-18A would reduce the cost and complexity of applying Topic 606. Shipping and handling activities that are performed after a customer has obtained control of the goods have a history of being considered a fulfillment activity or inconsequential or perfunctory.
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 proposed revisions to paragraph 606-10-25-21 and the related examples would improve the operability of Topic 606.

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 believe the proposed revisions to paragraph 606-10-55-54 through 55-64, as well as the related examples improve the operability of the implementation guidance about determining the nature of an entity's promise in granting a license. We have one suggestion as it relates to software. ASC 606-10-55-54 indicates that licenses of intellectual property may include but are not limited to certain licenses. The first item in the listing is “Software (other than software that does not meet the criteria in paragraph 985-20-15-5)”. ASC 985-20-15-5 addresses when software subject to a hosting arrangement is within the scope of ASC 985-20-15 and is the authoritative guidance when considering if the sale/license of software is a sale (right to use) under current GAAP. We believe that the reference to ASC 985-20-15-5 could be improved by providing additional guidance to clarify what type of software intellectual property licenses are excluded from the analysis.

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 guidance? If not, why?

We believe the proposed revisions to paragraph 606-10-55-57 improve the clarity of the guidance on the nature of an entities promise in granting a license accounted for as a single performance obligation. Specifically, the additional reference to paragraphs 606-10-25-23 through 37 will aid preparers in understanding that an entity should consider the nature of the promise in granting a license even when the license is not distinct. We note that in BC53 the change is described as “an entity should consider the nature of its promise in granting a license to appropriately apply the guidance on whether a performance obligation is satisfied over time or at a point in time and/or to determine the appropriate measure of progress for a combined performance obligation that includes a license and other goods or services (that is, to apply paragraphs 606-10-25-23 through 25-37),” In addition, BC53 includes an example where an entity grants a 10 year license that is not distinct from a 1-year service agreement. We believe the clarification could be improved by including the clearer context of the application of the concept and the example directly within Topic 606.

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 the proposed revisions to paragraph 606-10-55-64 adequately communicate the Board’s intent regarding restrictions.

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 believe the proposed revisions to paragraph 606-10-55-65 through 55-65B clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property. However, we also believe that paragraph ASC 606-10-55-65A may lead to inconsistency in application due to the judgment involved in determining if the intellectual property is the predominant item to which the royalty relates. For example, it may be difficult for management to determine when the customer ascribes “significantly more value” to the license than the other goods and services. We believe the proposed amendments could be improved by providing additional language as to what constitutes intellectual property as the predominant item as well as implementation guidance to assist reporting entities in assessing assumptions about the customer’s perspective of value.