

Sent: Friday, June 19, 2009 10:15 AM
Dear Mr Bement

Your "Joint Project of the FASB and IAS on Revenue Recognition" refers. I am fully supportive of the eventual alignment of the FASB and IASB rule setting bodies, as well as the general move from a "rules-based" approach to a more "principled-based" approach. I therefore believe that this discussion paper is broadly a positive development. I do, however, have some concerns with the specific applicability of the standard. In particular the long established guidance in respect of construction contracting and software revenue recognition.

Construction activities and software, by their nature, are significantly different from traditional manufacturing and distribution. I believe that introducing a general "change in control" concept to these areas risks reducing the relevance of the reported numbers for the user of financial statements. Surely, a "performance" measure would be a more accurate yardstick for all areas of activities. Construction companies have developed sophisticated models to accurately predict how far along a contract they have progressed - it is in fact one of their key internal risk management tools (and therefore should be of critical importance for external users of their financial statements too). By introducing "change in control", these companies would be forced to artificially amend their contracts with clauses that have notional changes in control - say, after the completion of the foundations of a building, the customer would "control" it. I have difficulty seeing how this change in "form" would benefit the "substance". As an alternative to torturous contract re-negotiations, will construction companies be forced to adopt, in essence, a completed contract method? How would that benefit comparability between companies, if the basis is reduced to the skill / appetite of their legal departments in re-drafting contracts?

For technology companies the issues are perhaps even more stark, especially given that since SOP97-2, very few, if any have been able to demonstrate VSOE for the product licenses that they sell. Is the entire body of literature (TPAs etc) to be discarded for the expediency of completed contract method. I have difficulty understanding how this accounting would in any way be reflective of the substance of software transactions.

In summary, I would propose that the "control" criteria be changed to "performance". For traditional companies, that would have little impact as they complete their performance when the risks / rewards pass to customers, which should be easy to objectively establish. Construction companies would be similarly unaffected as this is in line with their current practices. Software (especially when bundled with other elements) revenue should probably be exempt and the existing literature aggregated in a single standard. As it is, US standards dominate in this area so there should be little disruption to the large technology companies.

Yours faithfully
Johnson Revnik