# **MODEIN**

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Technical Director
File Reference No. 2011-230
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VIA EMAIL: director@FASB.org

Subject: Proposed Accounting Standards Update (Revised)
Revenue from Contracts with Customers

### Dear Technical Director:

Viacom, a global entertainment content company, appreciates the opportunity to comment on the Financial Accounting Standards Board's Exposure Draft of the proposed Accounting Standards Update of Topic 605 – Revenue Recognition. We support the objectives of the proposed standard and agree with the core principles and framework of the proposed revenue recognition model. However, as discussed below, we have some concerns on the revised proposal with respect to certain of the questions for which you have sought comment, and an additional recommendation on the transition guidance.

#### Licensing Arrangements

Question 1: Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Response: We generally agree with the criteria in the proposal for evaluating when an entity transfers control of a good or service over time, and hence, satisfies a performance obligation and recognizes revenue over time. However, we believe that the interplay between the service criteria and the implementation guidance on licensing and rights to use is unclear and somewhat contradictory, and that as currently proposed the implementation guidance is akin to a rules-based approach for the multitude of varied arrangements that may fall under this guidance simply because they are contracted in the particular legal form of a licensing arrangement.

For example, licenses to distribute entertainment intellectual property on certain digital distribution platforms are similar in substance to selling a more traditional cable television programming service to a cable or satellite television company. Under the proposal, the implementation guidance on licensing and rights to use concludes that when an entity grants a customer a license to use intellectual property of an entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights (paragraph IG 34). In contrast, providing a programming service is a

performance obligation that is satisfied over time. As a result, the revenue recognition pattern for the digital distribution arrangement will differ from that of a similar arrangement executed as a traditional cable programming service affiliation agreement when the substance of both arrangements is the same.

We believe the implementation guidance on licensing and rights to use should be expanded to encompass license arrangements that are in substance service arrangements that are satisfied over time. We believe the guidance in paragraph IG 36 already suggests that it may be appropriate to combine certain performance obligations; however, it is unclear how the criteria in paragraphs 23-30 would be applied in assessing these types of licensing arrangements and how the criteria in paragraph 35 would be applied in determining if the performance obligations are provided over time.

We note that existing accounting guidance for the recorded music industry provides for over time recognition of minimum guarantees for licensing arrangements in instances where a portfolio of property is subject to the terms of the agreement and believe that these portfolio-based types of arrangements with diversified groups of properties are different in economic substance from the licensing of specific identified assets for which the transfer of control may be met at a point in time.

We recommend that an additional paragraph of implementation guidance be included to provide indicators that a licensing performance obligation is being satisfied over time. Such indicators could include:

- The contract does not specifically identify each title of the intellectual property to be transferred and/or includes an obligation to provide intellectual property that is not yet completed or not yet available under the license (such as an "output" arrangement)
- A significant volume of bundled intellectual property is transferred under a single contract
- The arrangement contains a right or obligation for the licensor to substitute or refresh, or the customer to request substitution of, similar intellectual property to that specified in the contract
- The contractual deliverables are stated in units of output during the term of the contract (e.g., available programming hours or number of film titles available at various times)
- The licensor earns the right to payment for performance over time, either directly or based on refund rights or ratably declining termination payments

The proposed guidance needs to be flexible enough to be able to account for the substance of the economic arrangements encompassed by different license arrangements, which often vary even within industry segments.

## Onerous Contracts

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Response: We understand that the one-year time period for assessing onerous contracts is useful in addressing certain industry-specific issues that were raised in response to the initial exposure draft (e.g., airline tickets). However, we believe that the onerous assessment will still result in widespread unintended consequences of loss recognition across multiple industries, including cable television, which are inconsistent with the economics of the underlying arrangement and inconsistent with existing accounting practices.

Specifically, as currently drafted, the proposed standard may inappropriately penalize industries that develop or acquire assets for the purpose of exploiting them through multiple revenue streams. For example, a cable television network develops programs and acquires program rights from third parties in connection with providing its programming services to various distributors under contractual arrangements which may exceed one year. The costs of developing and acquiring program assets are recoverable both from the long term agreements with distributors and advertising revenues. Under existing guidance, the costs of internally developed programs and the contractual costs of licensing third party content are capitalized as program assets and amortized in proportion to the total revenues expected to be generated from the exhibition of the programming. Existing guidance also provides a framework to evaluate when such assets may be impaired. Application of the onerous assessment contradicts with the existing impairment guidance and could result in loss recognition in instances where the assets would not otherwise have been impaired. Under existing guidance for amortization and impairment of programming assets, the expected revenue stream includes revenues that are expected to be obtained from these distribution agreements and other sources, principally advertising sales. However, under the proposed onerous contract guidance, we would be required to assess each distribution agreement separately. In performing the assessment in this manner it is likely that a given distribution contract may be deemed onerous if the entire amount of investment in programming is assumed to be used in satisfying performance obligations under these distribution arrangements, even though the program assets are not consumed by each individual contract, or even the aggregate of distribution arrangements, and the underlying business is highly profitable.

We recommend that the onerous assessment be eliminated from the revenue standard and that cost recognition generally be left to the scope of existing guidance.

If the Board decides to leave an onerous assessment in the revenue standard, then we would recommend that the onerous assessment should be performed at the contract level or higher, and that the scope of the guidance be limited to assessment of the incremental direct costs that are being incurred for the sole purpose of fulfilling that contract, similar to existing guidance for construction contracts under Topic ASC 605. We also believe the scope should be limited generally to apply only to costs for which recognition and impairment, where applicable, are not covered in the scope of another Topic to avoid contradictory guidance within different standards.

We further recommend, if the onerous assessment is retained, that the arbitrary one-year scope provision be eliminated. This specific bright-line condition does not seem to be consistent with a principles-based standard.

#### Transition

We appreciate the desire of financial statement users for a full retrospective adoption but are concerned that the cost and effort of implementing the standard in that manner will outweigh the benefits. In addition, we are very concerned about the incremental burden that will be placed on our accounting and information technology staffs to gather and report financial data under duplicative accounting systems for the reported periods preceding the initial adoption date.

We believe a practical, and equally beneficial approach, would be to allow companies an alternative to retrospective application to include additional disclosures that provide information sufficient for financial statement users to assess the impact of adoption, similar to the provisions included previously in EITF 08-1, Revenue Arrangements with Multiple Deliverables and EITF 09-3, Certain Revenue Arrangements that Include Software Elements. Accordingly, we recommend the Board consider including a separate adoption alternative permitting companies to provide disclosures for each reporting period in the initial year of adoption that quantify the revenue that would have been recognized under the pre-existing revenue standards. This would significantly simplify the adoption effort and we believe is a reasonable approach that will still provide users with the necessary quantitative information they need to assess the overall impact of adopting the new standard.

We appreciate the opportunity to provide these comments. If you have any questions regarding our recommendations we would welcome the opportunity to discuss any of these comments with you.

Sincerely, Katherine Kill-Charlot

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