



March 12, 2012

Financial Accounting Standards Board  
Attention: Technical Director  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2011-230: Proposed Accounting Standards Update (Revised) – *Revenue Recognition (Topic 605), Revenue from Contracts with Customers*

Ladies and Gentlemen:

BMC Software, Inc. (“BMC”) appreciates the opportunity to respond to the Proposed Accounting Standards Update (Revised) entitled “*Revenue Recognition (Topic 605), Revenue from Contracts with Customers*” (the “Proposed Standard”). BMC is a global enterprise software and solutions company that is publicly traded on the NASDAQ Global Select Market exchange and is a member of the Standard & Poor’s 500 and the NASDAQ 100 market indexes.

By letter dated October 20, 2010, BMC was a respondent to the initial June 2010 Exposure Draft on this very important topic. We are appreciative of the outreach efforts, deliberations and progress that the joint Boards have made since the issuance of the original Exposure Draft and believe that the Proposed Standard is substantially improved as a result. However, as addressed herein, we remain principally concerned that the Boards have retained the full retrospective adoption requirements in the transition provisions of the Proposed Standard and continue to advocate that companies should be provided with the election to adopt this standard on a prospective application basis. We are also including our views regarding the accounting for contract costs and disclosure requirements as prescribed by the Proposed Standard. On the former, we support the appropriateness of asset recognition in the manner prescribed in paragraphs 91-94 of the Proposed Standard. On the latter, while we are generally supportive of enhanced disclosure requirements, we advocate a more principles-based (vs. prescriptive) approach and do not support full incremental disclosure requirements on an interim basis. Our detailed comments follow.

#### **Effective Date and Transition**

We remain concerned that the Boards have retained the full retrospective adoption requirements in the Proposed Standard and continue to advocate that companies should be provided with the election to adopt this standard on a prospective application basis (e.g., consistent with the FASB guidance issued under ASC 605-25/ASU 2009-13), with disclosure of supplemental quantitative and qualitative information to aid in comparability, due to the enormity of effort and cost that it will take companies such as BMC to adopt this standard on a full retrospective basis.

It is our belief that the Boards and the financial statement user communities supportive of mandatory full retrospective adoption are forming this view without regard to: i) a full understanding of, or respect for, extremely substantive constraints by financial statement preparers, and ii) proper substantive consideration of the usefulness of an alternative method (e.g., forms of prospective adoption with additional quantitative and qualitative information to aid in comparability, such as those methods that were employed successfully by numerous U.S. companies in connection with the recent adoption of ASC 605-25/ASU 2009-13 without any significant concerns or repercussions by the financial statement user community, most notably investors).

For companies such as BMC that enter into long-term multiple element contracts having durations of five or more years, full retrospective adoption preparation will require eight or more years of restatement effort plus an additional two years of restatement effort when considering the *Selected Financial Data* requirements within Annual Reports on Form 10-K. Among other things, restatement efforts would require us to:

- i) Re-review and account for thousands of historical contracts in order to restate consolidated revenue and deferred revenue balances (the latter alone of which represents the majority of our total consolidated liabilities). Notwithstanding dual ERP system constraints and resultant manual (e.g., spreadsheet) accounting efforts that are a huge concern to us and similarly-situated corporations, the technical accounting effort to train personnel and re-review, document and account for these contracts would be massive and would encompass an indeterminably large number of incremental employee and consultant labor hours over the course of multiple years via resources that are already limited and that may be difficult to employ;
- ii) Restate corresponding income tax, deferred charge (e.g., deferred commission and third party royalty costs that we generally record over the associated contract revenue recognition periods) and other accounts impacted by a change in revenue recognition timing and consider the potential impact of revenue recognition changes on the timing of capitalized software development cost amortization;
- iii) Establish and maintain significant manual systems including customer contract, revenue sub-ledger and financial data repositories to house parallel sets of revised financial statements and associated support in connection with the restatement of multiple prior year accounting periods on a global scale with regional differentiation (e.g., due to differing tax rates, foreign currency impacts, etc.);
- iv) Establish, maintain and test the sufficiency of key financial reporting controls, process documentation, accounting policies and our overall control environment in a manner sufficient to allow management to conclude that internal control over financial reporting is effective in the year we adopt this new pronouncement;
- v) Engage our independent public accounting firm to completely re-audit customer transaction accounting and other restated accounting and test the sufficiency of underlying internal controls during this approximate ten year time period in order to allow such firm to opine on the revised annual financial statements for the three years presented in our first annual financial statement filing upon adoption as well as our internal controls over financial reporting as of the end of the fiscal year in which we adopt this new pronouncement. This will require enormous internal and external resource efforts and will result in significant incremental audit fees; and
- vi) Adjust the timing of critical ERP upgrades because of the additional effort, resource limitations and system constraints that would be imposed by a requirement to develop and run parallel order processing, revenue accounting and financial systems, including manual systems, for a period of three years in addition to the restatement of multiple prior year accounting periods, all in an effort to prepare for adoption of this proposed standard. This concern is further heightened for companies that run on versions of major ERP systems that go off support (by the ERP vendor) absent significant upgrade in the next several years.

The enormity of the above efforts, and associated costs, cannot be underestimated. Simply put, this would be a colossal undertaking for BMC and many companies like us. While the Boards have added

certain practical expedients to the Proposed Standard in an attempt to simplify retrospective adoption efforts, such measures will not provide substantive benefit to us and similarly-situated companies. Most notably, the relief provided relating to contracts that begin and end in the same fiscal year would not provide any substantive benefit to companies like us in the enterprise software and Software-as-a-Service (SaaS) industries because very few contracts commence and terminate in the same fiscal year (substantially all contracts contain maintenance and/or SaaS subscription durations of at least one year from contract execution). As the Boards are certainly aware, this would also be the case in many other industries where long-term contract durations are standard.

Based on the foregoing, it remains our view that the costs and risks associated with a full retrospective adoption requirement will greatly outweigh the benefits. Accordingly, companies should be provided with the option to adopt this standard through prospective application in a form substantially similar to that prescribed by ASC 605-25/ASU 2009-13, allowing company management to carefully consider the approach that is most appropriate for its particular facts and circumstances. If adopted on a prospective application basis, we also believe that companies are capable of providing quantitative and qualitative disclosures that will aid in the comparability of financial statements as was demonstrated when many U.S. companies, including large multinational public companies with significant investor and analyst followings, successfully adopted ASC 605-25/ASU 2009-13 on a prospective application basis without substantive concerns or repercussions by the financial statement user community, most notably investors.

### **Contract Costs**

We support the appropriateness of asset recognition in the manner prescribed by paragraphs 91-94, and related provisions, of the Proposed Standard. We note that such treatment is also generally consistent with other existing accounting standards (e.g., ASU 2010-26, Financial Services—Insurance (Topic 944): *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*). We are commenting on this topic, in brief, as we are aware that there remain opposing corporate views on this subject, particularly as it relates to the deferral of sales commission and similar costs directly associated with the origination of non-cancelable customer contracts.

BMC has a longstanding practice of establishing assets for direct and incremental sales commission costs associated with non-cancelable customer contracts whose revenue is deferred into future periods. Because such costs represent a material portion of contract profitability and our overall operating profit, we believe that such costs should be deferred and charged to expense over the same period as the related revenue is recognized. In our view, treatment otherwise (e.g., expense as incurred) would not reflect the true economics of the underlying transactions, create volatility in operating profit and materially distort the underlying fundamentals of what is occurring in the business, which we believe would be detrimental to investors. Moreover, with the continued growth of the Cloud computing industry, which BMC and a growing number of technology companies participate in via SaaS and other subscription offerings whose revenues are generally recognized over non-cancelable contract service periods of one or more years, we believe that it is particularly important to maintain an asset recognition model for contract costs in order to properly reflect the true economics of transactions period to period and avoid the volatile distortion that would otherwise occur in financial statements. Accordingly, we are supportive of the requirements in the Proposed Standard and hope that the final standard remains in substantially the same form, at a minimum maintaining the asset recognition option for companies where suitable.

### **Disclosures**

We are supportive of enhanced disclosure requirements having the intent of enabling financial statement users to better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we believe that the prescriptive disclosure requirements in the Proposed Standard are in excess of what should be necessary to enable users to understand key financial statement information. The totality of the disclosure requirements in the Proposed Standard will require substantial incremental effort by financial statement preparers, including significant manual efforts and/or

system implementation and customization efforts due to the fact that most accounting, ERP and revenue reporting systems do not readily provide such information today. Moreover, we are hard pressed to believe that many of the prescriptive requirements (e.g., contract asset/liability and onerous performance obligation roll-forwards) would provide financial statement users with necessary financial information by virtue of the fact that companies such as BMC do not otherwise prepare or utilize such information internally to run their businesses. Overall, we believe that the effort and cost to prepare and disclose all of the required information in the Proposed Standard will significantly outweigh the benefits to users and that a more equitable balance needs to be achieved. To this end, we believe that the Boards should adopt a more principles-based approach with fewer prescriptive requirements, with remaining prescriptive requirements limited to more decision-useful information that is consistent with the manner in which company management typically reviews its business. In our view, achieving such a balance is even more relevant to U.S. public companies already subject to additive financial statement disclosure requirements prescribed by the SEC including *Management's Discussion and Analysis of Financial Condition and Results of Operations* ("MD&A") requirements in interim and annual filings, wherein we believe that sufficient supplemental quantitative and qualitative information can and should be provided to enable users of the financial statements to understand key aspects of a company's revenue generating and cash flow cycles.

Notwithstanding the foregoing, we particularly do not believe that the full disclosure requirements prescribed by the Proposed Standard should apply to interim financial statements unless there has been a material change from the prior annual financial statements. This view is also principally based on our belief that the costs of preparing and disclosing such prescriptive information would significantly outweigh the perceived benefits. Moreover, for U.S. companies in particular, we believe that annual financial statement disclosure requirements can and should further be supplemented quarterly by sufficient quantitative and qualitative information contained within MD&A to enable users of the financial statements to understand key aspects of a company's revenue generating and cash flow cycles, and material changes thereto. We also note that U.S. public companies would be most burdened by the interim disclosure requirement in the Proposed Standard because public companies in many other global regions, as well as private companies, are not required to prepare or file quarterly financial statements in the same manner as U.S. public companies.

For avoidance of doubt, the foregoing view on interim disclosure requirements would not apply to appropriate quantitative and qualitative disclosures deemed necessary by management to aid in comparability of interim financial statements should companies be allowed to adopt the Proposed Standard on a prospective application basis, as separately advocated by us under "Effective Date and Transition" above. If prospective application adoption were applied, we would advocate that appropriate interim period disclosures should be provided as necessary to enable financial statement users to understand comparability between interim financial statement periods.

---

We would be pleased to further discuss our comments with you. Should you have any questions in relation to this letter, please contact me at 713.918.2740, or Paul Vigil, Senior Director-Revenue Recognition, at 713.918.1197.

Sincerely,

/s/ T. Cory Bleuer

T. Cory Bleuer  
Vice President, Controller & Chief Accounting Officer