By email to director@fasb.org File Reference Nos. 2011-230 and 2011-250

I want to share two scope issues and two usage matters in the proposed guidance on revenue. I think if you clarify these matters before you finalize the revenue guidance you will save hundreds of hours of discussion and analysis.

The scope matters involve the scope interaction of the revenue guidance with the guidance on fair value and derivatives. I think both matters are unintended consequences of the draft wording. It's possible similar issues exist for the interaction with other topics—the proposed scope paragraph refers simply to various topic numbers rather than pinpointing the detailed interaction.

Fair Value

The first scope matter is the proposed wording in paragraph 820-10-15-2(b)(1), which is set out as part of the consequential amendments (ASU 2011-250, page 145). Paragraph 820-10-15-2(b)(1) says an entity must not use the fair value measurement guidance of Topic 820 when applying any revenue guidance in Topic 605 because Topic 605 is a Topic that "permits measurements that...use standalone selling price". Is that what you intend?

To be exact, must an entity apply—or must an entity NOT apply—the fair value measurement guidance in Topic 820 when the entity estimates the fair value of

- Noncash consideration? (605-10-30-16 and ASU 2011-230, paragraph 63)
- A good or service receivable in exchange for consideration the entity promises its customer? (605-10-30-19 and ASU 2011-230, paragraph 66)

If you only mean to scope out measurements of standalone selling price, then you should redraft accordingly (especially, 820-10-15-2(b)). I presume you intend something more to the effect: "820-10-15-2: The Fair Value Measurement Topic does not apply as follows: (d) To measurement of a standalone selling price in Topic 605." But I don't know.

You have not invoked the definition of fair value in 605-10-20 in reference to measuring either noncash consideration or consideration to a customer. If you intend an entity to follow Topic 820 for those items, then saying so directly would be helpful, including using the definition of fair value that you intend. If Topic 820 does not apply it

would be helpful to clarify 820-10-15-2(b)(1) and to refer specifically to that exception when you refer to fair value in Topic 605.

Derivatives

The second scope matter is the wording in 605-10-15-2(c)(5) and 2011-230.9(c)(v). This paragraph suggests an entity must never apply Topic 605 to any contractual right or obligation that is within the scope of Topic 815.

Paragraph 605-10-15-2(c) says an entity must not apply the revenue guidance to any contractual right or obligation that is in the scope of Topic 815. I think you mean any contractual right or obligation that an entity has to subsequently measure at fair value under paragraph 815-10-35-1. Paragraph 815-10-35-1 applies to all derivatives (whether or not in a hedging relationship and whether or not they are bifurcated embedded derivatives), but does not apply to a derivative that an entity documents as a normal sale contract.

Many common transactions that are customer contracts within the scope of Topic 605 also meet the definition of derivatives under Topic 815. That is why the concept of a "normal sales contract" was created when the derivatives guidance was developed (see paragraph 815-10-15-37).

Any final guidance should clearly address this question: Before applying Topic 605 (rather than to the exclusion of Topic 605) must an entity apply the guidance:

- In Subtopic 815-10 to determine whether a customer contract is a derivative instrument in its entirety?
- In Subtopic 815-15 to determine whether a customer contract is embedded with a derivative instrument?

I presume you intend an entity to first apply Subtopic 815-10 to determine whether a customer contract is a derivative in its entirety.

• If a contract in its entirety *meets* the definition of a derivative, an entity may choose to document the contract as normal if the contract qualifies as normal. An entity would then apply Topic 605 to the accounting for a customer contract that the entity documents as a normal sale contract in accordance with 815-10-15-37. (A contract that qualifies as a normal contract in its entirety is not subject to evaluation for embedded derivatives [815-15-15-4].) If you don't clarify what you mean, the wording renders the normal sale contract exception meaningless, as there is no guidance on how to subsequently measure a normal sale contract.

• If a contract in its entirety *does not meet* the definition of a derivative, then an entity has to apply Subtopic 815-15 to determine whether the contract is embedded with a derivative. Because the contract is subject to Subtopic 815-15, the wording of 605-10-15-2(c)(5) and 2011-230.9(c)(v) again suggests the entity cannot apply Topic 605 to a host contract that is a customer contract because the rights and obligations were subject to evaluation under Subtopic 815-15. Is that what you intend?

Finally, Topic 815 is not synonymous with legacy Statement 133, so dealing specifically with Subtopics 815-40 (weather derivatives) and 815-45 (equity contracts) would be helpful.

In sum, I presume what you mean with respect to Topic 815, is that Topic 605 should not be applied to any of the following contracts:

- A contract that an entity has to subsequently measure at fair value in accordance with 815-10-35-1. [This takes care of any derivative or embedded derivative in Subtopics 815-10, 815-15, 815-20, 815-25, 815-30, 815-35 that is NOT documented as a normal sale contract]
- A contract that an entity has to initially recognize as a weather derivative in accordance with paragraph 815-40-25-4.
- A nonexchange-traded weather derivative as discussed in 815-45-15-2.

"Product"

It would be helpful if you review your use of the words "product" and "asset" to be sure they denote the scope you intend and don't connote something you don't intend.

For example, you explicitly say that a product can be a good or service:

"sale of a product (whether a good or service)" (ASU 2011-230, paragraph IG10)

But you then use the word product to talk about things that presumably can only involve a good only, not a service. For example, see the discussion of consignments beginning in ASU 2011-230, paragraph IG49. A consignment involves a consignee having physical possession of a good. It isn't clear how an entity would consign a service, so using the word "product" instead of "goods" is confusing.

The same concern exists for using asset to mean "good and service" in some places, but only "good" in others.

If, instead, you are redefining the concept of consignment to somehow include a service, it would be helpful if you point that out and explain.

"Transfer"

You refer to the action *transfer* in three ways:

- To transfer a good or service (ASU 2011-230, paragraph 3 and elsewhere)
- To transfer *control of* a good or service (ASU 2011-230, paragraphs 34, 37, and elsewhere)
- Transfer *physical possession of* a good or service (ASU 2011-230, paragraphs 37(c) and IG53)

The word "transfer" connotes physical transfer. However, you say that transfer of physical possession may or may not constitute transfer of control. If you are going to use "transfer" as a verb or noun, in each instance you should clarify whether you mean physical transfer or transfer of control. Otherwise readers may infer the wrong answer or be left to wonder.

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Thank you for considering these matters.

Sincerely,

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