

From: [Gregg Nelson](#)
To: [Director - FASB](#)
Subject: File Reference No. 1890-100, Discussion Paper, "Effective Dates and Transition Methods"
Date: Monday, January 31, 2011 10:51:19 AM
Importance: High

January 31, 2011

Leslie F. Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Submitted via email to "director@fasb.org")

Re: File Reference No. 1890-100, Discussion Paper, "Effective Dates and Transition Methods"

Dear Ms. Seidman:

The International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the Discussion Paper (DP), "Effective Dates and Transition Methods," issued by the Financial Accounting Standards Board ("FASB" or "the Board"). Implementation of the proposed accounting standards that are the subject of this Discussion Paper represents a significant level of change that will create a challenging environment for all stakeholders involved in financial reporting. We appreciate that the Board has acknowledged that careful analysis of the transition methods and implementation timeline must be properly considered to give stakeholders the best possible chance for a successful adoption.

There are two variables in the current environment that make it very difficult to respond definitively to some of the questions in the Discussion Paper. First, public companies cannot ignore the potential that a move to International Financial Reporting Standards (IFRS) may be required during the transition periods of some of these pending new standards. Therefore, the extent of the convergence between the FASB standard and the standard issued by the International Accounting Standards Board (IASB) could materially impact the effect transition dates have on companies. Secondly, final standards for the projects listed in paragraph 3 of the Discussion Paper have not yet been issued and may be significantly changed before a final standard is issued. If certain standards are simplified, the transition impact on company processes will also generally be simplified.

Therefore, we developed the following three main principles that we considered when responding to the questions in the Discussion Paper and are included in Appendix A to this letter:

- The transition method determined for each standard should attempt to minimize the cost and complexity while balancing the needs of users. Specifically, companies should not be required to adopt a standard twice: first under US GAAP, and then again upon adoption of IFRS. This will occur when the two Boards have not issued completely identical standards. Even if the U.S. does not adopt IFRS, preparers will still be significantly impacted by the lack of identical standards as they will have to implement one process at the

consolidated level and another process in their local country statutory reporting.

- Frequent restatements of historical financial information to comply with the retrospective requirements of each standard's transition rules will be confusing to the average user of company accounts and will also complicate corporate communication.
- Sufficient time must be given to companies to implement the process changes required so that any "historical" periods that will require presentation are post-implementation of the new processes.

Based on these principles, we believe the most appropriate transition approach would be for a one-time transition, but only after U.S. public company adoption of IFRS (if required by the SEC). Under this approach, companies would not be required to adopt a new standard twice (either due to the fact that the IFRS and U.S. GAAP standards are not identical or due to the transition requirements mandated upon first time adoption of IFRS). This approach would also facilitate clearer communication between companies and users of the financial statements on the impacts of new standards.

In addition, we feel that any implementation of the Financial Statement Presentation project by either the FASB or the IASB should be delayed until several years after any potential move to IFRS in the U.S, or if the U.S. does not move to IFRS, several years after the adoption of the other joint projects. Both preparers and users of financial statements will need time to adapt to multiple changes in accounting standards. To cloud these changes with an additional change in financial statement presentation will add yet another level of complexity which is unnecessary at a time of unprecedented change in financial reporting.

Thank you for the opportunity to comment on the Discussion Paper. If you have any questions, please contact me at (914) 766-3190.

Sincerely,

Gregg L. Nelson
Vice President, Accounting Policy & Financial Reporting
IBM Corporation

Appendix A – Answers to Selected Questions

Question 1a: Please describe the entity (or the individual) responding to this Discussion Paper. For example: a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

IBM is a preparer of financial statements in accordance with U.S. GAAP. In addition, for 2010 reporting, IBM will apply IFRS for statutory reporting in 45 countries. The company also has definite plans to convert an additional six countries to IFRS. Furthermore, there are seven countries that currently allow IFRS that the company will consider for transition in the future.

Question 1b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities

registered on a securities exchange.

IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue, utilizing its portfolio of consulting, delivery and implementation services, enterprise software, systems and financing. The company operates in over 170 countries employing over 400,000 people. In 2010, consolidated revenues were \$99.9 billion with net income of \$14.8 billion. IBM common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Question 1e – Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow.)

Response

All of the “high priority” (revenue recognition, leases and financial instruments) Memorandum of Understanding (MoU) projects will have an impact on the company. The extent of that impact will depend upon the level of change from current GAAP in each standard, how much the final standards differ from the published exposure drafts and the transition methods required.

The proposed revenue recognition model based on contracts, performance obligations and transfer of control is similar in concept to current practice. However, we have concerns about certain aspects of the model which could require significant changes to processes, controls and systems such as warranty accounting, the time value of money and measuring and periodically re-measuring variable consideration. In addition, as discussed in our revenue recognition exposure draft comment letter, full-retrospective application would be extremely onerous for companies (see question 4).

IBM's Global Financing business unit provides lease and loan financing to its clients. This captive financing entity provides material revenues to IBM. The company will be significantly affected by the proposed lessor accounting model and the financial instruments project. Adding to the complexity on the financial instruments project is the fact that the FASB proposal would require entities to record customer loans at fair value whereas the IASB proposal would not. In addition, although the Boards have recently stated that they will soon issue a converged proposal on impairment, the Boards have previously proposed very different impairment models which require recording loan losses at different times during the life of a loan and either include (IFRS) or exclude (U.S. GAAP) taking future expectations of impairment into consideration. As mentioned in our cover letter, if the Boards cannot reach a converged solution on projects like financial instruments and the U.S. moves to IFRS, entities would be forced to implement the financial instruments standard twice. Considerable expense and system changes would be required to achieve essentially the same accounting as under current U.S. GAAP for recording loans. However, implementing the IASB expected loss impairment model would be far more complex to implement than the FASB proposal and would require considerable changes to existing IT systems.

IBM is a lessee of real estate, with approximately 2,000 leases worldwide. The proposed lessee accounting model which would require lessees to record right-of-use assets and liabilities would have a significant balance sheet and systems implementation impact to IBM.

With the exception of the Financial Statement Presentation project, the remaining MoU projects listed in the Discussion Paper do not have a significant impact on the company.

Question 2a - Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases): a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?

Response

As mentioned in our response to question 1e, the impact of implementation will be dependent on several factors, including the extent the final standards differ from the exposure drafts and the transition methods required. In addition, upon redeliberation by the Boards, new requirements may be added to the final standards, requiring additional time and effort.

Clearly, this level of change is unprecedented, and therefore, it is difficult at this time to provide a detailed estimate of the cost and time required to implement the proposed standards. However, based on our experience with other internal projects, it will be significant. In addition, these changes will compete for limited resource with other business priorities. As an example, IBM is already committed to a multi-year ERP system implementation based on the existing accounting standards. These changes will only add to the cost and complexity of that project and cause some of what we are doing today on that project to be redone. While this situation maybe unique to IBM, other companies will have similar issues to face.

When final standards are issued, the company will develop detailed project plans identifying the resources needed, both technical and human, to perform restatements, amend policies/processes, modify existing systems, potentially develop new systems and educate accounting and other finance staff worldwide. While we cannot estimate exactly how long a particular implementation would take, we can give an indication of the tasks which would be required.

Revenue Recognition/ Leases- As discussed in our revenue recognition exposure draft comment letter, IBM has a significant number of large, complex multiple-deliverable arrangements which also contain leases. In our services business, we have thousands of existing multiple year contracts that can span up to ten years or longer. Full or even simplified retrospective application could require a project team to review numerous outstanding contracts. If the proposed implementation date is far enough in the future that any potential restatement date is also in the future, the work effort may be somewhat simplified because accounting staff could perform parallel runs of the same financial data under both the current and new standards.

Lessee Accounting - New systems and tracking mechanisms would have to be implemented to initially record new lease transactions, restate existing lease transactions, assess options and contingent rentals, evaluate potential changes in the "more likely than not" lease term, calculate

amortization of right-of-use assets and impute interest expense on liabilities to lessors. This will be an extremely costly, time consuming and labor intensive undertaking.

Adding to the complexity of both the revenue recognition and leasing projects will be the new judgments that companies will have to make in the restatement process. For example, company personnel will have to be trained to estimate variable consideration at various points in the life of a contract. In regard to leases, staff will have to be trained to estimate the longest lease term more likely than not to occur while also learning how to estimate the impact of options and contingent rentals. Although these concepts may not sound theoretically challenging, they are new, and entities will need practical application guidance from both the Board and the public accounting firms on how to develop consistent determinations.

Financial Instruments – As discussed in question 1e, this depends on whether the Boards ultimately issue converged standards and whether or not the U.S. moves to IFRS. Each Board's proposal contains certain complexities. In general, the FASB approach to the valuation of customer loans will be more complex and require more time to implement than the IASB's proposal. However, the IASB proposal on impairment is far more complex to implement than the FASB's proposal.

Question 4 - In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Response

Revenue Recognition – As discussed in our revenue recognition exposure draft comment letter, we feel that full retrospective application of the revenue standard will be too burdensome and costly (see response to question 2a).

We recommend that the Boards permit a transition alternative consistent with the alternative that was included in the following Accounting Standards Updates: No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, and No. 2009-14, Software (Topic 985) : Certain Revenue Arrangements That Include Software Elements. These updates required the disclosure of comparative information sufficient for investors to understand the impacts of the changes on the reporting entity. Similar to these updates, the Boards could permit full retrospective application.

Another alternative that the Boards could consider is to permit entities certain exemptions that would streamline and focus the work effort required. The items exempted from full retrospective application should only be those that will be applied to new or materially modified contracts after the date of adoption of the new standard. We recommend that, at a minimum, time value of money, variable consideration, contract modifications and onerous contract accounting for individual performance obligations be part of the exemptions that the Boards consider.

Leases - We agree with the initial application as proposed, without, however, a look-back on "more likely than not" items (options, contingent rentals, etc.) as these will be difficult to assess with 20-20 hindsight. Similar to the revenue recognition project, the Boards could allow full

retrospective implementation, but we do not recommend that this be required.

Financial Instruments - It would not be practical to historically apply the initial measurement requirements in the proposal. In particular, determining the fair values of instruments and impairment of financial assets at historical points in time will be challenging. Therefore, if the FASB decides to proceed with its proposed classification and measurement approach, we would agree with the proposal to require a cumulative effect adjustment to the statement of financial position for the reporting period that immediately precedes the effective date.

Financial Instruments – Hedge Accounting – We recommend that the final standard only require prospective application of the proposed hedge accounting provisions to hedging relationships that exist as of the implementation date in light of the potential long term nature of some hedging relationships. Certain hedge accounting relationships that exist at the implementation date will be eliminated and application of the transition guidance would require companies to assess and measure hedge effectiveness for historical periods for which information may be difficult or impractical to obtain.

Question 5a - In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

Response

The company prefers a single date adoption approach for all MoU projects, especially for the “high priority” MoU projects: revenue recognition, leases and financial instruments, but only after IFRS adoption in the U.S. for the following reasons:

- 1) It will be more efficient and cost effective for entities to review all applicable transactions only one time. For example, if the adoption dates for revenue recognition and leasing are not the same entities would be required to analyze all contracts that generate both revenue and leasing income twice.
- 2) Sequential restatements/changes to reported financial results would hinder entities’ investor outreach in explaining trends, impact the usefulness of the financial statements and may cause users to lose confidence in the financial reporting process.

Question 5b - Under a single date approach, what should the mandatory effective date be and why?

Response

As stated in our cover letter, we believe the most appropriate transition approach would be for a one-time transition, but only after public company adoption of IFRS (if required by the SEC). Under this approach, companies would not be required to adopt a new standard twice (either due to the fact that the IFRS and U.S. GAAP standards are not identical or due to the transition requirements mandated upon first time adoption of IFRS). This approach would also facilitate clearer communication between companies and users on the impacts of new standards. If the Board chooses not to consider

the IFRS decision in determining an effective date, we still recommend a single date approach that permits all required historical periods to be presented to still “be in the future”.

Question 6 - Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Response

Any decision on early adoption of standards must be linked to a potential transition to IFRS in the U.S. In the company’s comment letter to the SEC on the proposed IFRS Roadmap, we supported early adoption of IFRS for U.S. entities. As stated in the cover letter, we feel that adoption of the MoU standards should occur after any potential adoption of IFRS in the U.S. Therefore, if early adoption of IFRS is allowed in the U.S., then we do not see any reason why early adoption of the IFRS versions of the MoU projects should not also be permitted.

Question 8 - Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Response

If the U.S. does not transition to IFRS, we firmly believe that the FASB and IASB adoption dates and transition methods should be identical for the following reasons:

- 1) It will enhance comparability between the two sets of standards.
- 2) As discussed in question 1a, for 2010 reporting, IBM will apply IFRS for statutory reporting in 45 countries. The company has definite plans to convert an additional six countries to IFRS. Further, there are seven countries that currently allow IFRS that the company will consider in the future. If adoption dates under U.S. GAAP and IFRS are not identical, the company and other large multinational corporations could have different applications for identical standards, creating significant inefficiencies and unnecessary costs.