



financial executives
international

COMMITTEE ON CORPORATE REPORTING

March 2, 2012

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Mr. Hans Hoogervorst, Chairman
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Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 2011-230, Exposure Draft: *Revenue from Contracts with Customers*

Dear Madam and Sir:

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) appreciates the opportunity to provide its views on the Revised Proposed Accounting Standards Update, *Revenue from Contracts with Customers* (the “Revised ASU”) and the respective proposed amendments to the FASB Accounting Standards Codification[®]. FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

We continue to be supportive of the overall goals of the Boards’ joint revenue recognition project: the convergence of U.S. GAAP and IFRS, the simplification of existing GAAP, and the comparability of revenue across entities and geographical boundaries. We commend the Board members and staff for the extensive outreach performed to date and appreciate the Boards’ consideration of many of the concerns that were expressed in our previous comment letters on the Boards’ Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*, and the initial Exposure Draft, *Revenue from Contracts with Customers*. We believe the Boards have made significant progress on the proposed revenue recognition model. However, we still have some concerns with the Revised ASU as drafted, the most significant of those concerns being the proposed disclosure requirements. Our suggestions with respect to disclosures are further explained in the following paragraphs; our responses to the questions presented in the Revised ASU, in addition to other comments we have on the Revised ASU, are included in the Appendix to this letter.

Over the past decade, the size of financial statements has grown dramatically, with interim reports approaching the size of annual financial statements. KPMG/FERF's 2011 special report, "*Disclosure overload and complexity: hidden in plain sight*", a study of the Form 10-K filings of 25 Fortune 100 companies, revealed that the growth in overall disclosures was approximately 16 percent over the past six years (28 percent for footnotes over the same period). Depending on the nature of an entity's activities, the expansion of disclosures has been even more significant than that of the study: one of our CCR companies determined that the length of their financial statements had grown at an average rate of 13 percent per year since 2001 and, more specifically, their interim financial statements had increased 13-fold over that same period. While some of this growth could be curbed by eliminating redundancies, the recent emphasis on roll-forward schedules and adding significant disclosure requirements to interim reports is a trend that has been a major source for this increase.

Each data element that is required to be disclosed in financial reports carries with it an array of costs for financial statement preparers that includes, but is not limited to, the following:

1. Collection – establishing accounts, related controls, training, local review, reconciliation, collection and reporting into the consolidated results;
2. Review and analysis – consolidated review and analysis of variances for internal purposes followed by review with the Disclosure Committee, senior management and ultimately the Board of Directors;
3. Audit and reporting – external and potentially internal audit, schedule verification; and
4. XBRL tagging – for most public entities, each data element must be tagged, reviewed and potentially audited before being filed.

Such costs are necessary to achieve high quality financial reporting. With that being said, the dramatic increase in the level of disclosures has had the effect of diluting and diffusing the effectiveness of these processes while continuously increasing the costs of compliance.

The rapid expansion in disclosures also imposes costs for investors. The 2011 KPMG/FERF study notes that "...an important finding in the academic research indicates that disclosure has grown in volume and complexity and that it poses a dilemma particularly for smaller investors who may make suboptimal investment decisions due to the inability to absorb the volume and complexity [of the disclosures]..." We have heard leading analysts at major investment firms make similar observations in speeches over the past few years. This view is supported by recent letters issued by user organizations in support of the development of a disclosure framework, with the focus on effective and relevant disclosure rather than on volume.

The continuing expansion of disclosures is not sustainable. We look forward to working with the FASB on its Disclosure Framework project to develop a comprehensive framework that will improve the effectiveness of financial statement disclosures and eliminate redundant disclosures provided by public companies in their Securities and Exchange Commission ("SEC") filings. Improving disclosure effectiveness will require a framework that emphasizes decision useful information over the current one-size-fits-all model. We observe that the Disclosure Framework project is not a joint project. We believe that this is a FASB-only project due to issues unique to the U.S. reporting and regulatory environment, such as overlapping U.S. reporting requirements from the SEC and FASB, as well as multiple interpretations issued from the regulatory infrastructure, including the SEC, audit firms and the PCAOB. The result is an increased burden to U.S. entities, as well as duplicative and conflicting disclosure requirements that confuse financial statement users.

We believe that the disclosures proposed in the Revised ASU appear to fall into the one-size-fits-all model. For example, the disclosure requirements presume a meaningful delay in the conversion of a sale to cash. The disclosures also presume that revenue reporting by segment and geography, as required by

segment reporting rules, do not capture risks and opportunities meaningful to understand the timing, nature, amount and uncertainty of revenue and cash flows. We disagree with these presumptions and are concerned that preparer's will provide immaterial disclosures for fear of the regulatory response will further deteriorate financial reporting. We are also concerned that the disclosure requirements were designed to meet the needs of financial statement users internationally. For example, the existing framework for segment and geographic disclosures supplemented by management's discussion and analysis ("MD&A") in SEC reports provides a more robust context for users to understand the timing, nature, amount and uncertainty of revenue and cash flows than tabular information about risks such as those suggested in paragraph 115. Also, we believe the disclosure of remaining performance obligations proposed in paragraph 118 does not provide information beyond that which is currently required by the SEC. It is essential that the disclosure requirements be reconsidered to ensure that the issues that gave rise to the Disclosure Framework project are not exacerbated by the Revised ASU.

Disaggregation of Revenue

We agree that disclosure of disaggregated revenue information should help users to better understand the composition of the revenue that has been recognized in a reporting period. The Boards have acknowledged, however, that the level of disaggregation is important because information is obscured if the disclosure of that information is too aggregated or too granular. We believe that the current requirements in ASC 280, *Segment Reporting*, provide the appropriate level of information about the different types of revenue generating activities of a public entity. ASC 280-10 requires public entities to disclose, at the segment level, revenues from external customers for each product and service or each group of similar products and services, and by geographic areas. Further disaggregation, as proposed by the Boards in the Revised ASU, may conflict with that required by ASC 280 as disaggregation by economic factors may not be consistent with management's view of the business. In particular, management takes a long-term view and considers economic factors that can impact the timing, amount and uncertainty of revenue when determining the segment information they use to run the business. Existing business processes, such as data gathering and analysis, are designed to support the segment analysis used by CEOs and CFOs to explain their projections and results to the Board of Directors, analysts and investors. Presentation of additional revenue information by alternative risk factors, which may be susceptible to frequent change, may actually diminish a user's understanding of an entity's revenue by highlighting information that is transient and not qualitatively evaluated or described within the context of the segment information. In addition, systems are currently designed to be compliant with ASC 280. As a result, any additional disaggregation requirements would require new systems and processes to be implemented, further increasing the cost of the proposed requirements. In the interest of reducing the degree of redundancy and potential inconsistencies between the Revised ASU and ASC 280, we strongly recommend that the Boards remove the requirement to disclose disaggregated revenue information. If the Boards determine that there are improvements needed to current segment disclosures with respect to the disaggregation of revenue, we recommend that these changes be proposed in the context of segment reporting and not within the Revised ASU.

Contract Reconciliation and Roll-forward Requirements

We recognize that the contract reconciliation and roll-forward requirements in the Revised ASU seek to highlight potentially useful information by stratifying elements of current year changes through a comprehensive disclosure requirement. These concepts are similar in nature to the requirements set forth in the Boards' Financial Statement Presentation project. Our observations of that project, similar to the Revised ASU, are that the reconciliations and roll-forwards will significantly increase the volume and cost of existing revenue recognition disclosures. Further, we think a consolidated reconciliation, in all but the least complex of entities, is unlikely to highlight the key information the Boards or users of financial statements are seeking. While moving these reconciliations to a line of business level may yield some incremental information, it does so at the price of dramatically expanding the length of the disclosures, which will make it more difficult for users to analyze the financial statements. Therefore, we recommend

that the Boards replace these requirements with targeted disclosures that these reconciliations are designed to elicit. Our observations on each of these requirements, and the inherent difficulties with preparing them, are provided below.

Reconciliation of Contract Balances

We do not believe that the reconciliation of the movements in the aggregate balance of contract assets and contract liabilities is necessary to meet the Boards' objective of understanding the amount, timing and uncertainty of revenue and cash flows. The contract reconciliation in Example 19 of the Revised ASU requires a broad balance sheet roll-forward that would include all revenue recognized during the period as well as cash sales and transfers to receivables. This creates redundant disclosure as principal inputs to the reconciliation of contract balances, such as revenue and cash flows, are already presented in the Statement of Comprehensive Income and the Statement of Cash Flows. We believe that the remaining line items required in the reconciliation would likely be either immaterial for most entities (for example, the balances or changes in contract assets or liabilities) or already required to be disclosed elsewhere in the footnotes (e.g., effects of a business combination). We question whether the Boards' intent is to require all entities to prepare this reconciliation, regardless of the materiality of an entity's balances in contract assets or liabilities, which seems to conflict with the language in paragraph 117 of the Revised ASU. Paragraph 117 can be interpreted as only requiring disclosures about revenue activities that impact the contract asset or liability accounts rather than all revenues and changes in receivables for the period.

We believe that for most entities, this information is not currently produced or used by management to evaluate performance and run the business. As a result, much of the information required to complete the reconciliation will most likely have to either be tracked in multiple off-line repositories or costly new systems solutions. Therefore, aggregation of this information may require a significant administrative effort and/or significant cost to update systems to provide the necessary information. These concerns echo those expressed by entities with respect to the Financial Statement Presentation and Other Comprehensive Income projects. We do not believe that these reconciliations assist the Boards in meeting their stated objective, and as such, we believe that the perceived benefit of these disclosures do not outweigh the certain cost of providing the information.

If the Boards continue to require the reconciliation of the movements in the aggregate balance of contract assets and contract liabilities, it may be confusing to financial statement users. For example, entities that have diverse business lines are likely to have significantly different payment terms for each product line. Payments in advance or in arrears, in accordance with customary industry practices, may be present in some product lines but not in others. Blending the results of all these business practices together in a consolidated roll-forward would not provide meaningful information that users could utilize. To be responsive to investor needs, we again suggest that the Boards identify the specific elements of information that investors are seeking through the proposed disclosure requirements (e.g., a schedule of deferred revenue amortization). We believe this approach to disclosure would be far more efficient, meaningful and cost-effective than the potentially voluminous schedules that would be produced under those proposed by the Revised ASU.

Reconciliations of Onerous Performance Obligations and Contract Costs

Although we believe that these two reconciliations would have far less of a cost and resource impact to most entities as compared to the other disclosure requirements discussed in this letter, we believe the costs of preparing these reconciliation disclosures outweigh the potential reporting benefits. Again, the cost arises in segmenting elements of a contract based on the Revised ASU's definition of a performance obligation and then developing accounts and tracking mechanisms solely for compliance purposes. For example, segregation of onerous performance obligations arising from new performance obligations and changes in measurement of the existing liabilities may not currently be performed in accounting systems as it may not be consistent with how management currently views the business. As such, it will result in a

significant increase in implementation costs. As discussed further below, if the Boards decide to keep these requirements, they should only be mandated for annual financial statements.

Disclosure of Remaining Performance Obligations

We also do not agree with the requirement to disclose the aggregate amount of the transaction price allocated to remaining performance obligations and the timing of expected recognition. We believe that the intent of this requirement is to give users information to understand an entity's future revenue streams. However, this disclosure would be limited to performance obligations as defined in the Revised ASU and accordingly, it would not include potential performance obligations that would result from, for example, contracts that are cancelable or where a contract has been awarded but not signed and therefore, the information could be misleading to investors. In addition, due to many outside factors that could potentially affect the amounts in the disclosure (such as currency fluctuations, contract amendments/cancellations, contracts with a duration under one year, etc.), we question the value of the disclosure to the users of the financial statements and whether it will enable users to assess risks with future revenues, analyze trends, assess backlog and understand the impact of judgment changes. There are also concerns that projections of future performance through the disclosure of remaining performance obligations and the timing of expected recognition is not covered by the SEC's safe harbor rules. We believe that the information required in this disclosure is selective and would not necessarily enable an entity to reflect the economics specific to their business or industry to provide one indicator of future revenue. In addition, because it is based on the Boards' definition of a performance obligation, it is most likely different from what is being used by management for internal reporting or analysis purposes. As a result, to produce the disclosure, many entities would have to incur large expense to change systems and procedures to capture the appropriate data. We believe the cost of readying the systems and procedures to prepare such disclosure would far outweigh the perceived benefit of the disclosure.

Although only requiring the disclosure for contracts with an original expected duration of more than one year will provide relief to many preparers, we still believe that the substance of the disclosure will not provide predictive value to the users of financial statements in understanding the amount, timing and uncertainty of revenue and cash flows. We believe that the objective of this disclosure is served today through the disclosure of order backlog information as required by the SEC's Regulation S-K 101, which is supplemented with analysis provided through MD&A. We recommend that the Boards remove the requirement to disclose the aggregate amount of the transaction price allocated to remaining performance obligations and the timing of expected recognition because the measure itself requires disclosure of forward looking information that we believe is speculative, not predictive, and difficult to prepare and audit.

Interim Disclosure Requirements

In addition to our comments above, we also have significant concerns over the requirement to provide the disclosures as required by the Revised ASU on an interim basis. As part of its Disclosure Framework project, we believe that the FASB needs to develop a set of characteristics for information that should be required in interim reports. The consideration of these characteristics needs to be reflected in disclosures required by the Revised ASU. We recognize that interim financial statements are necessary to provide users with timely information, including assessing material changes from the annual 10-K filing. However, to enable timely filing of financial information, the FASB has historically acknowledged that there is a necessary balance to the level of disclosures required between the annual 10-K and interim/quarterly periods. We believe that the annual financial statements provide the comprehensive baseline for fundamental analysis of a reporting entity. Interim reports provide a snapshot that serves to assist in adjusting forecasts developed based on that baseline. Accordingly, beyond the basic financial statements and selected notes, interim reports should enable a user to assess material changes from the preceding full fiscal year. This objective is consistent with the manner in which the SEC rules and

regulations apply and serves to better highlight information that has changed rather than force investors to sift through voluminous disclosures to identify a handful of key areas where attention is needed.

In our view, requiring the tabular reconciliations in interim periods that do not have material changes from the most recent 10-K annual disclosures would not provide significant incremental benefits and would significantly increase the volume of disclosure and complexity of application. We believe that information currently included in the interim financial statements, such as revenues and cash flows and supporting MD&A, makes it possible for a user to assess significant changes from the prior fiscal year. Moreover, due to the potential systemic issues that could arise in the process to compile this information for many entities and the condensed timing for quarterly reporting, compliance with interim requirements would be particularly burdensome to preparers and would provide little, if any, incremental benefit to investors above existing interim disclosures in this area. We request that if the Boards decide to keep the disaggregation and reconciliation disclosures as proposed by the Revised ASU, that such information is only required annually.

XBRL Tagging Implications

As noted above, an important cost element of financial statement disclosures for public companies are the resources devoted to tagging, reviewing and potentially auditing the data provided in filings. Today, every data element is required to be tagged individually (so-called detailed tagging) whether it is comparable to information provided by other companies or not. Our outreach efforts related to the usage of XBRL data suggests that a very high percentage of the XBRL data that is tagged at a detailed level is not used by financial statement users. It is therefore our recommendation that the FASB consider whether it is necessary for all disclosures in new standards to be tagged at a detailed level. While all disclosed financial information is tagged in some form, we believe that it would be useful if the FAF (which manages the XBRL taxonomy), were provided with recommendations on which disclosure elements should be tagged at a detail level and when block tagging would be more appropriate. While this step does not address the existing set of tagged information that is not used, it would at least limit the growth in detailed tagging to information that is likely to be comparable or otherwise useful and understandable at the individual data element level.

The Appendix to this letter addresses other significant concerns including transfers of goods or services over time, proposed scope of the onerous test, transition, time value of money and incremental costs of obtaining a contract.

Thank you for your consideration of the points outlined in this letter. Members of CCR FEI would be pleased to assist the Boards in responding to the issues raised in this letter. Please contact Lorraine Malonza at 973.765.1047 or lmalonza@financialexecutives.org with any questions.

Sincerely,



Loretta V. Cangialosi
Chairman, Committee on Corporate Reporting
Financial Executives International

Appendix

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?

We agree that the final guidance for Revenue Recognition should include a model that allows revenue to be recognized over time when a performance obligation is satisfied over time and generally agree that the model proposed in paragraphs 35 and 36 for determining when a good or service is transferred over time will result in accounting that reflects the underlying economics in most cases. However, we are concerned about applying the model to contracts involving bundled goods or services deemed to represent multiple performance obligations under paragraphs 23 through 30.

We understand that Paragraph 29 was included in the Revised ASU to respond to feedback received from entities in the construction and manufacturing industries, particularly those entities that have historically applied ASC 605-35, *Construction-Type and Production-Type Contracts*. However, we believe the guidance in Paragraph 29 is still difficult to apply within these industries because it is not clear what is meant by a bundle of goods or services that are “highly interrelated”. In recent Aerospace & Defense (A&D) publications, some of the public accounting firms have suggested that in a contract for multiple units of a mature product, such as a contract for 50 aircraft, each aircraft would likely be a performance obligation, presumably because they do not believe the individual aircraft are “highly interrelated”. However, most entities in the A&D industry would conclude that a contract for multiple units of a mature product is a single performance obligation because the bundle of aircraft is negotiated as a package, are closely interrelated in terms of design, technology, function and ultimate use, require closely interrelated construction activities with substantial common costs, and are produced concurrently or in a continuous sequence under the same project management. Entities in the technology sector also have concerns with the criteria in paragraph 29, specifically because it was written for the benefit of the construction and manufacturing industries. These entities find it difficult to apply the guidance given the rules that are currently mandated in US GAAP and because the Board’s intent on what is meant by “highly interrelated” and “significant integration, modification, or customization” is not clear.

To avoid misapplication of the guidance as intended by the Boards, either by preparers or by public accounting firms when determining firm interpreted application, we recommend that the Boards provide clarity on whether paragraph 29 is applicable to all types of entities or industries or if it is more specific to those entities in the construction and manufacturing industry. If the scope of paragraph 29 is more refined to construction-type and production-type entities, we recommend that the Boards highlight this by stating the intended scope of this paragraph, which we believe would be similar to that in ASC 605-35-15-3. We also recommend that the Boards include a list of indicators or characteristics subsequent to paragraph 29 that a preparer would consider to determine if a good or service is bundled. Suggested indicators include the criteria from ASC 605-35-25-8 and ASC 985-605-25-82 through 85. In addition, if the scope of paragraph 29 is applicable to all entities and industries, we suggest that the Boards could include two examples in the Implementation Guidance that show how paragraph 29 would be applied within the construction and manufacturing industries as well as within the technology industry. This would enable preparers, users and regulators to understand the Boards intent for what is meant by “highly interrelated” and “significant integration, modification, or customization.”

Question 2

Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We agree with the Boards' proposal that the corresponding amounts that an entity assesses to be uncollectible because of a customer's credit risk would be presented as a separate line item adjacent to the revenue line item.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations. We believe that the indicators provided in paragraph 82 are appropriate to determine if an entity's experience is not predictive of the amount of consideration to which they will be entitled to receive.

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?

As we stated in our comment letter on the initial Exposure Draft, we do not believe that recording liabilities at the level of performance obligations for overall profitable contracts provides decision useful information. We understand the Boards believe it is preferable to apply the onerous test at a performance obligation level to ensure that adverse changes in circumstances are reported on a timely basis. However, if losses are expected to be realized on early performance obligations followed by profits on later performance obligations, we do not believe up front recognition of the anticipated losses would depict an adverse change in circumstances. Rather, decision useful information would be to understand when a contract, due to cost overruns or unanticipated production issues, has fallen into an overall contractual loss position. This would truly represent an adverse change in circumstances for which a liability should be recorded and the change in circumstances disclosed in the financial statements.

Question 5

The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity's remaining performance obligations (paragraphs 119–121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

As stated in our cover letter, we have significant concerns over the interim disclosure requirements as required by the Revised ASU. We recognize that interim financial statements are necessary to provide users with timely information, including assessing material changes from the annual 10-K filing. However, to enable timely information, the FASB has historically acknowledged that there is a balance in the level of disclosures required. Interim information should enable a user to assess material changes from the preceding full fiscal year. We believe the information currently disclosed in the interim financial statements, such as revenues and cash flows and supporting MD&A, makes it possible for a user to assess significant changes from the prior fiscal year. Due to the systemic issues that could arise in the process of compiling these tabular reconciliations for many entities and the tight timing for quarterly reporting, compliance with interim requirements would be particularly burdensome to preparers and would provide little, if any, incremental benefit to investors above existing interim disclosures in this area.

Question 6

For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We agree with the proposal to extend the Revised ASU's revenue recognition principles to the sale of operational assets not owned for sale in the ordinary course of business. While we can think of no compelling reason for any other conclusion, we do recommend that the Boards clearly define the boundary for where revenue recognition guidance ends and other guidance begins. For example, there are standards governing the sale of a business, discontinued operations and the disposal of a segment and we believe any guidance in the final Revenue Recognition standard should make it clear it does not apply to those situations.

Other Comments

Transition

We agree that retrospective application could provide users of financial statements with certain useful trend information. However, we also agree with the Boards' acknowledgement that retrospective application could be burdensome for most entities. For many financial statement preparers, particularly those with large and complex multiple-element arrangements and those with construction or other long-term contracts, retrospective application will be particularly arduous, as it would require such preparers to maintain dual reporting systems under both current GAAP and the proposed model for the retrospective periods. This would inherently increase the amount of time needed to adopt the proposed requirements or, alternatively, would require impractical and onerous judgments to estimate the period specific effects of applying the new requirements to previously reported results.

Absent the burden that retrospective application will present for most entities in restating revenue, there are also other downstream implications. For example, entities will have filed tax returns in various domestic and foreign jurisdictions under current GAAP revenue guidance prior to the effective date of the Revised ASU. Retrospective application of the Revised ASU will result in significant deferred tax implications. These calculations will need to be reassessed by each jurisdiction resulting in significant cost and effort. Generally, this analysis would commence only after an entity has restated the financial information in the period of transition. Implications of retrospective application could also include, but are not limited to, accounting for certain costs that are based on revenue, such as commissions or bonuses, and hedge positions on future revenue transactions for foreign currency fluctuations.

The costs to track and report under dual principles for extended periods of time would also be prohibitive. Many entities have had to build significant custom solutions, which may span multiple ERPs, to recognize revenue appropriately under existing standards and the proposed changes will require modifications to those systems. The lead times to make the system changes and provide three years (and potentially five years including selected financial data) of comparative financial data would be significant. Some entities may require two to three years to complete system implementations based on current IT roadmaps and the extent of changes required. We do not think the concerns over transition will be addressed by the exceptions in ASC 250, as there are very limited situations when it would be acceptable to state that retrospective application is impractical to perform.

We again recommend that the Boards implement a transition alternative similar to that allowed in Update No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* and Update No. 2009-14 *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*. This transition alternative would allow entities the flexibility to apply the guidance prospectively upon the date of adoption with the requirement to disclose comparative information for either the period of change or the period immediately preceding the change. Retrospective application would also be permitted. We believe that disclosing at least one period of comparative information about the change in accounting for revenue recognition provides sufficient information to investors about how the change affects a particular entity. Many of our member companies have reached out to their respective Investor Relations groups and entity analysts. Comments from Investor Relations groups indicate that either approach would not have a significant impact to an entity's ability to present transparent results. Analyst feedback actually indicated that prospective adoption may be favored as it would minimize the impact on valuation models. Members of CCR FEI would be pleased to assist the Boards in providing specific feedback from Investor Relations groups and analyst.

Should the Boards choose to require retrospective application of the new revenue recognition guidance, we recommend that additional practical expedients be developed to relieve some of the time and cost burden. Suggestions include the following:

- Expand the practical expedient that does not require a preparer to restate completed contracts that begin and end within the same annual reporting period to include contracts that have been completed or are winding down within a year after the effective date of the Revised ASU.
- Add a practical expedient that would not require a preparer to adjust completed contracts or those contracts that have been completed or are winding down within a year after the effective date of the Revised ASU to reflect the time value of money if the contract has a financing component that is significant to the contract.
- Add a practical expedient that would not require a preparer to capitalize the incremental costs to obtain a contract for completed contracts or those contracts that have been completed or are winding down within a year after the effective date of the Revised ASU.

Time Value of Money

We do not believe the broader implications of introducing time value into the revenue accounting model have been considered by the Boards. Business models that utilize implicit financing generally do so throughout the supply chain. An accounting model that discounts only revenues will distort the financial results of these business models. Therefore, we believe it is imperative that the Boards address time value holistically as opposed to revenues in isolation.

Also, we believe the Boards should provide guidance on the discussion in BC147 regarding circumstances where payments in accordance with typical payment terms of an industry “have a primary purpose other than financing.” A list of illustrative examples would be helpful and may include payments for security deposits, retainages, and risk transfer service arrangements (i.e., warranty and product maintenance contracts), etc.

Incremental Costs of Obtaining a Contract

We do not agree with the requirement in the Revised ASU that incremental costs of obtaining a contract be recognized as an asset. Rather, we believe that entities should have the ability to make a policy election to expense the incremental costs of obtaining a contract, rather than just those costs with an amortization period of one year or less as allowed by paragraph 97. In addition, we believe this policy election should be extended to contract set-up costs, consistent with the current option that is allowed in practice today for such costs. Compliance with the capitalization requirements in the Revised ASU may be particularly burdensome for certain entities and would provide little, if any, incremental benefit to investors. In certain cases, the incremental costs of obtaining a contract and contract set-up costs may be administratively difficult to identify, capture and control. In addition, it will likely require system and process changes including initial capitalization, amortization, impairment assessment, and allocation to performance obligations for onerous contract assessments, etc. The policy election option would also allow those entities the ability to control such costs by providing a better connection between the Statement of Earnings and the Statement of Cash Flows, which we believe is more relevant to the users of financial reporting than a more precise application of the matching principle.

While we acknowledge that allowing entities with a policy election option may result in inconsistencies in practice, we also recognize that entities will likely have different interpretations of what is defined as an incremental cost of obtaining a contract, as well as contract set-up costs, and therefore what amounts get capitalized. However, provided the policy applied for such costs is adequately disclosed and consistently applied, we do not believe the benefits of required capitalization outweigh the costs, particularly for entities in mature industries whereby the on-going run rate of expensing such costs would likely approximate the amounts that would be amortized (i.e. likely to be an insignificant difference once a steady state for obtaining new contracts is achieved).