



Investors Technical Advisory Committee

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | Phone: 203 956-5207 Fax: 203 849-9714

Via Email

March 12, 2012

Technical Director
Financial Accounting Standards Board
File Reference No. 2011-230
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*

Dear Technical Director:

The Investors Technical Advisory Committee (“ITAC”)¹ welcomes the opportunity to respond to the Financial Accounting Standards Board’s (“FASB” or “Board”) Proposed Accounting Standards Update (Revised)—*Revenue Recognition (Topic 605): Revenue from Contracts with Customers* (“revenue recognition ED”).

Summary

ITAC supports the objectives of the revenue recognition ED:

- Remove inconsistencies in existing revenue requirements.
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets
- Provide more useful information to users of financial statements through improved disclosure requirements.

¹ This letter represents the views of the Investors Technical Advisory Committee (“ITAC” or “Committee”) and does not necessarily represent the views of its individual members or the organizations by which they are employed. ITAC views are developed by the members of the Committee independent of the views of the Financial Accounting Standards Board and its staff. For more information about the ITAC, including a listing of the current members and the organizations in which they are employed, see <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175801857697&pid=1175801857636>.

A summary of ITAC's responses/recommendations to the questions posed is as follows:

Question 1: Control

- The Board's single dimension control-based model may produce a more liberal revenue recognition model for some transactions. In place of the Board's single dimension control-based model, ITAC recommends revenue producing transactions should transfer both control and substantial risks from the seller to the buyer.

Question 2: Collectibility

- ITAC agrees that users prefer revenues to be measured at the gross amount so revenue growth and receivables management can be analyzed separately. ITAC proposes two presentation alternatives for the collectibility related to a customer's credit risk.
- ITAC has concerns the proposed guidance does not specify a revenue recognition criterion that evaluates a customer's credit risk before revenue can be recognized. ITAC recommends the Board retains some form of the "collectibility is reasonably assured" revenue constraint.

Question 3: Variable Consideration

- ITAC does not believe the proposed constraint on the amount of revenue recognized for variable consideration will be effective and therefore recommends the Board retain some form of the "collectibility is reassured assured" constraint when measuring variable consideration.

Question 5: Disclosures

- ITAC supports the proposed disclosure requirements for revenues.
- ITAC want the disclosures proposed to be required for interim financial statement reporting.
- ITAC provides six additional disclosure requirements that would benefit users of financial statements.

Specific Comments on the Revenue Recognition ED

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?*

Sales When Seller Retains Significant Risks Related to Transferred Goods or Services

Our previous letters commenting on the Board's revenue recognition project raised concern about transactions in which the seller retains significant risks related to transferred goods or services. We continue to be concerned as application of the current ED may allow up front revenue recognition for these risky transactions and requires no special disclosures to alert investors to the risks.

Examples of risky transactions include, but are not limited to:

- Sales in exchange for the buyer's non-recourse debt, particular when the sale involves real estate.
- Sales in exchange for the buyer's debt when the buyer is a special purpose entity that is thinly capitalized.
- Sales to resellers where the seller grants a long return period, price protection, and assistance in finding end-use customers (in substance consignment).
- Cash sales when the seller guarantees or otherwise backstops debt financing the buyer's purchase.
- Seller financed purchases to entities with unusually weak credit.

Transactions where the seller retains substantial risk raise serious questions about whether a sale has occurred. These deals often signal sellers are desperate to boost revenue, remove troubled assets from the balance sheet, or avoid recording debt. They often would not occur under normal commercial terms. Buyers have little incentive to complete the transactions if economics underperform. In substance, they may not be binding deals if things go poorly.

Despite the risks, these transactions may qualify for upfront revenue recognition under the ED. In these cases, the seller transfers control to the buyer. While paragraph 37 mentions risk transfer as a factor to consider when deciding when control has transferred, it is only one of five factors. Further, the risk transfer factor also mentions reward transfer, which risky transactions often meet. Our discussions with the Board and staff confirm that some risky transactions will likely meet the ED's criteria for revenue recognition. In contrast, current accounting postpones revenue recognition for many risky transactions.

Curiously, the Board touches on risks related to these types of transactions in paragraph 14, which defines contracts. Paragraph 14(a) requires commercial substance. Further, paragraph 14(b) and the related paragraph BC 34(b), say that significant doubt at contract inception about collectability of consideration may indicate the buyer is not committed to perform, effectively negating the contract and revenue recognition. Yet, we doubt these paragraphs will be an effective revenue constraint when considering these types of transactions, as the wording is vague, and optimism about collectability of revenue is high at the front end of the contract.

Thus, the Board's single dimension control-based model may produce a more liberal revenue recognition model for risky transactions. Upon transfer, the buyer and seller are inevitably optimistic about the prospects of the transaction, and the Board's model reflects that optimism with upfront recognition of revenue. In some cases, the Board's model replaces current accounting that postpones or precludes revenue recognition in these situations. Ironically, many investors originally supported the revenue recognition project in part because of their concern that today's accounting rules allow premature revenue recognition.

For most companies, revenue growth is an important metric for investors and greatly affects a company's stock price and credit risk. Management is under enormous pressure to meet revenue growth targets, particularly when the underlying business does not comfortably deliver that growth. Retaining significant risks is one way to promote sales that would otherwise not occur. Thus, risky

transactions are sometimes the difference between making and missing revenue targets. Prudent standards must address these transactions.

US GAAP contains many examples of special-purpose industry guidance implemented to curb imprudent optimism in recognizing revenue. Examples relate to transfers of real estate and transactions when the seller is not reasonably assured of collecting revenue. Standard setters and regulators did not implement that guidance by accident – they did so to prevent revenue recognition when the risks and rewards do not transfer to the buyer. While the guidance addresses diverse fact patterns in diverse ways, one theme permeates most of it – seller’s risk. We are concerned that risky transactions will continue to exist and that upfront revenue recognition for those transactions would not help investors predict a company’s future and assess its risks.

We are not advocating specialized industry accounting or inconsistent rules, nor do we believe concerns about abuse should drive accounting principles. We support principles that companies and auditors can broadly apply across industries. Yet, hard lessons from the past should inform those principles and prudent standards should reflect the risks inherent in risky transactions.

In place of the Board’s single dimension control-based model, we believe revenue-producing transactions should transfer both control and substantial risks from seller to buyer.

The Board has already established a precedent for the view that both control and risks are important in deciding recognition issues (e.g. guidance on consolidations). Why should an entity recognize an asset through consolidation due in part to the parent’s risk of loss, but be able to derecognize similar assets under the ED without regard to risks?

As mentioned above, the ED requires companies to consider risks in paragraphs 14, 37, and BC 34. Yet, the language is ambiguous and may be ineffective. The Board needs to beef up the discussion of risks, establishing risk transfer as an equal partner to control in the recognition criteria.

Transactions that fail to transfer both control and substantial risks are failed sales and should not result in revenue for accounting purposes. Transfer and revenue recognition should wait until both control and risks have transferred.

If the Board were to persist with its control-only model in the proposed guidance, we suggest it require companies to segregate or flag risky transactions. One approach would classify the net gain or loss from transactions that fail to transfer substantial risks in other income and deductions, rather than in revenue and operating expenses. As a minimum, it is essential that companies disclose the nature of their risky transactions and how they affected revenues, expenses, gains and losses.

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 will address each point in the BC165 section of the ED which provides an excellent summary of the issues related to the measurement and presentation of collectibility related to a customer's credit risk.

Recognizing Revenue at the Amount to Which the Entity Expects to be Entitled

We agree with the conclusions outlined in BC167 that users prefer revenues be measured at the gross amount so that revenue growth and receivables management (or bad debts) can be analyzed separately. We do not support the 2010 ED proposal in which the transaction price was adjusted net for credit risk.

No Separate Recognition Threshold

We have concerns the proposed guidance does not specify a revenue recognition criterion that evaluates a customer's credit risk (expectations of collectibility) before revenue can be recognized. This is a major departure from the current US GAAP "collectibility is reasonably assured" constraint in Section 605-10-S99 or IFRS IAS 18 that specifies revenue is recognized only when "it is probable that the economic benefits associated with the transaction will flow to the entity." We recommend the Board retain some form of the "collectibility is reasonably assured" revenue constraint.

If the Board replaced the single dimension control-based model with a control and risks based model then the "collectibility is reasonably assured" revenue constraint may not be required. However, if the Board retains a single dimension control-based model, a "collectibility is reasonably assured" constraint is necessary.

Eliminating the revenue recognition threshold may provide companies with an opportunity to overstate revenues by booking revenues (offset by the impairment adjustment) that have a collectibility probability of less than 50%.

Presentation of the Effects of a Customer's Credit Risk

We agree with the presentation of gross revenues and any impairment losses (and reversals) presented as a separate line item adjacent to the revenue line item. We propose two presentation alternatives for the collectibility related to a customer's credit risk.

- Recommended income statement presentation. Present the impairments (expected uncollectible amount) taken at the time when revenue is recognized on the line adjacent to the revenue line item. All increases and reversals of impairments from prior periods would be presented with other expense items as is standard practice under current accounting.

Recommended Income Statement Presentation

	<u>Current Period</u>	<u>Prior Period</u>
Revenues - Gross	1,000,000	900,000
<i>Impairments related to current period revenues</i>	<i><u>(20,000)</u></i>	<i><u>(9,000)</u></i>
Cost of sales	<u>(500,000)</u>	<u>(450,000)</u>
Gross margin	480,000	441,000
Other expenses ex impairments	(200,000)	(200,000)
<i>Impairments/reversals related to adjustments from prior periods</i>	<i><u>(10,000)</u></i>	<i><u>(18,000)</u></i>
Operating Profit	270,000	223,000

We recommend this alternative because it would best serve the interests of investors. In determining what presentation alternative is the most appropriate the Board should consider the changes in various key performance indicators that analysts consider valuable in their analysis of a company. “Many companies currently account for credit risk (bad debt expense) as a financing cost or record the cost as an operating expense as part of operating profit. Moving impairment losses above the gross profit margin line would affect a number of key performance indicators calculated by companies.”² Prior periods’ impairment reversals should not be presented above the gross margin line because these accounting entries are not part of the current period operating results.

We have some concerns the *Impairments related to current period revenues* noted in the chart above could include the combination of Day 1 impairments and subsequent impairments during the current year. Therefore, we recommend an entity be required to disclose in a footnote the total amount of Day 1 impairments for the current period and year.

- Alternative income statement presentation. Separate presentation of the current period’s impairments and any increases or reversals related to adjustments from prior period revenues on the face of the income statement.

² KPMG, *New on the Horizon: Revenue recognition for telecoms*, January 2012, page 6.

Alternative Income Statement Presentation

	<u>Current Period</u>	<u>Prior Period</u>
Revenues - Gross	1,000,000	900,000
<i>Impairments related to current period revenues</i>	<i>(20,000)</i>	<i>(9,000)</i>
<i>Impairments/reversals related to adjustments from prior periods</i>	<i>(10,000)</i>	<i>(18,000)</i>
Uncollectible amount adjacent to revenue line item	(30,000)	(27,000)
Cost of sales	<u>(500,000)</u>	<u>(450,000)</u>
Gross margin	470,000	423,000
Other expenses ex impairments	<u>(200,000)</u>	<u>(200,000)</u>
Operating Profit	270,000	223,000
Percentage of revenues		
Uncollectible amount adjacent to revenue line item	3%	3%
<i>Impairments related to current period revenues</i>	2%	1%

If a company provides the break-out of the Uncollectible amount shown in the chart above, investors can analyze revenue growth and receivables management separately. Otherwise, without the break-out, investors would not have known the company's accounts receivables underwriting standards had deteriorated in the current period because the improvement in the impairment adjustments from prior period would have obscured the deterioration.

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 do not believe the proposed constraints on the amount of revenue recognized for variable consideration will be effective because:

- The two criteria included in paragraph 81 and the four indicators in paragraph 82 are subject to significant management judgment which may result in diverse revenue recognition accounting policy choices.
- The proposed definition of reasonably assured may not be an effective revenue constraint because it does not include a quantitative probability threshold that today prevents a company from booking revenue that most investors would consider inappropriate.

BC201 notes:

“The boards decided to specify the cumulative amount of revenue an entity recognizes should be limited to the amount to which the entity is reasonably assured to be entitled, rather than the amount that can be reasonably estimated.”³ “The Boards acknowledge that the constraint is a qualitative threshold, rather than a quantitative threshold, and is not meant to include assessments of collectibility”

The following paragraph from the IASB’s *Snapshot: Revenue from Contracts with Customers*⁴ document highlights the primary issue with the proposed reasonably assured constraint.

“The boards decided to use the term “reasonably assured” rather than “reasonably estimated” to describe the constraint. Thus, when the consideration is variable, the cumulative amount of revenue recognized would be the amount of consideration to which the company is reasonably assured to be entitled. The boards clarified that the reasonably assured constraint is not a quantitative probability threshold. Instead, the constraint considers the quality of information that the company uses to estimate the variable consideration to which it is entitled.”

We recommend the Board retains some form of today’s well established “collectibility is reasonably assured” constraint when measuring variable consideration.

Additionally, it’s unclear to us why the “reasonably assured” constraint for the revenue recognition criteria applies only to variable consideration and not to the transaction price that is allocated to the separate performance obligations in the contract. We agree with Mr. Linsmeier’s basis for conclusions comments⁵:

“Variable consideration should be recognized only when it is reasonably assured, a term that suggests that a recognition threshold must be exceeded for recognition to occur. No guidance is provided in the proposed Update that specifies the threshold that must be exceeded for revenue to be considered reasonably assured. Is that threshold consistent with the high confidence threshold used by accounting firms when implementing the concept of reasonable assurance in the U.S. auditing literature, or if no threshold need be met, should not a better term be used?”

The proposal allows a choice between an expected value (probability weighted amount) or the most likely amount notion to estimate the transaction price. This could lead to comparability issues among companies in their measurement of variable consideration. In the two examples below the measurement of variable consideration would vary significantly depending on which of the two methods was chosen. Some managements would conclude the prior experience is not predictive for these fact patterns, whereas other managements would say it is predictive.

We recognize many preparers object to the expected value notion because it is difficult to implement based on operational difficulties.

³ BC201, Exposure draft

⁴ November 2011, page 15.

⁵ Revenue Recognition (Topic 605), November 14, 2011, BC 376 (b).

Performance Bonus Target

<u>Probability</u>	<u>Bonus</u>	<u>Expected Value</u>	<u>Most Likely Amount</u>
40%	\$200	\$80	\$200
30%	\$100	\$30	
30%	\$50	<u>\$15</u>	
		\$125	\$200

<u>Probability</u>	<u>Bonus</u>	<u>Expected Value</u>	<u>Most Likely Amount</u>
60%	\$200	\$120	\$200
40%	\$0	<u>\$0</u>	
		\$120	\$200

Also, paragraph 85 provides a scope exception to the requirements in paragraphs 81-83 if a company licenses intellectual property. Paragraph 85 has the notion that intellectual property sales based royalties are not reasonably assured until the uncertainty is resolved. This contradicts the proposed revenue recognition rule for variable consideration. Why is the variable consideration related to intellectual property any different than other forms of variable consideration?

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.

We support the proposed disclosure requirements which will significantly improve the information users of financial statements receive about a company’s revenue composition and trends. Investors want the proposed disclosures to be required for interim financial statement reporting.

For all businesses, the nature and trend of revenues drive business performance, valuation and credit risk. Thus, insight into the revenues and related risks is essential for financial analysis.

The Board's project on revenue recognition offers for the first time comprehensive disclosures about revenue. Current required disclosures about revenues are inadequate. Not surprisingly, many companies voluntarily supply revenue data to help fill the void between current requirements and users' needs for information.

The Board is sure to hear many concerns from preparers about the volume of incremental disclosure it has proposed. Indeed, the increase is significant when measured relative to today's minimal requirements. Yet, when measured against the importance of revenue-related issues to financial analysis, and the volume of data that many companies voluntarily supply, the proposals are reasonable.

Generally, we find the proposals helpful, expanding disclosures in important areas. However, as discussed further below, enhancing the disclosures could better meet users' needs. In particular, the Board should:

- Require the same information for interim periods as the Board requires for annual periods.
- Expand disaggregated information and define the relationship between revenue disclosures and segment data.
- Require quantitative data about remaining performance obligations, including information about backlog.
- Expand disclosures about applying the reasonably assured notion to variable consideration
- Expand disclosures about contracts with significant financing components.
- Require private companies to disclose the same information as public companies disclose.

Interim Disclosures

We agree companies should provide the proposed disclosures on an interim basis. However, we do not favor the Board allowing abridged datasets during interim periods that could result in the reduction or loss of key useful information in the financial statements. In our view, the scope of proposed interim disclosures is only a subset of the extent of information users require for interim period analysis. The relevance of revenue generated by a company and the accompanying disclosures are not confined to an annual period. Analysis of company financial statement information is performed on an ongoing basis and is not condensed simply because it is a quarter-end period. In our view, apart from accounting policy information that has remained unchanged during periods subsequent to the annual reporting, interim disclosures should fully reflect the disclosures provided on an annual basis.

Disaggregation of Revenue

We rank disaggregated information about revenues as among the most important information in all of financial reporting.

Consistent with the Board's proposal, we support the goal of disaggregating revenue into categories that best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected. We agree with the listing of categories in paragraph 115.

However, we believe that the Boards should strengthen requirements in the following key respects:

- *Defining minimum standards as general guidance alone is insufficient.* The general guidance in paragraph 115 is unlikely to elicit robust disclosures, particularly from companies concerned about disclosing competitively sensitive information. To ensure high quality comparable information, the Board will need to be more prescriptive about minimum standards.
- *Define the relationship between revenue related disclosures and segment data.* For a multi-segment company, the segment is often the unit of analysis. As such, we recommend that disaggregated information about revenue be displayed within each business and geographic segment. For example, a company's Segment A would disclose product line data related to that segment.
- *Disclose information about the extent to which revenues are affected by innovation.* Innovation in customer service is a key success factor for most companies. Often, some products or services are in decline, others are stable, while others are rapidly growing and represent a company's future. When innovation is important, investors would benefit from disclosures about the extent to which it is affecting revenues. One example would be disclosure of percentage of revenues resulting from products and services introduced within the latest product life cycle (e.g., the most recent 2-3 years). We propose the Board provide a broad principal and allow management to decide on the most informative data in the company's circumstances.
- *Disclose non-financial data about sales volume as well as financial data about revenue.* Managers and investors are typically fluent in both non-financial and financial measures, particularly when analyzing revenues. Investors often try to understand volume, price/mix and foreign currency trends together as doing so often provides more insight into the persistence of revenue compared to the single revenue number. We suggest the Board set a broad principle and rely on management to decide on the most informative data based on the company's circumstances.

The following is an illustrative example of a segment disclosure about revenue:

Revenues – Segment A for year ended 2012

	Volume	Price/Mix⁶
By Product Line		
Line A		
Line B		
Line C		
By Geography		
USA		
Europe		
Asia		
By Customer		
Wholesale		
Retail		
Prime		
Sub-prime		
Innovation Measures⁷		
Revenues related to recently introduced products		

In addition, we believe investors would find a deferred revenues roll-forward table for interim and annual periods useful in understanding the “true” revenue growth trends of a company. Without a deferred revenues roll-forward table, analysts cannot determine the “true” revenue growth of a company because the information may be obscured by changes in the deferred revenue accounts from prior periods and additions to deferred revenues in the current period. For example, on the majority of technology company’s quarterly earnings conference calls, analysts invariably ask for the deferred revenue roll-forward information because it is vital to their understanding of revenue growth. Today, some companies provide roll-forward disclosure information while others provide no disclosure.

Reconciliation of Contract Assets and Liabilities

We advocate the Board require a tabular reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities and the proposed reconciliation line items. In addition, we believe companies should disclose qualitative information that is relevant to understanding the components of the reconciliation of the contract asset and liability line items. Further, we recommend the Boards require companies to disclose quantitative information (separate line item) on interest components related to the time value of money.

As an aside, the benefits to users of reconciling the beginning and ending balances of assets and liabilities are not limited to those related to revenues. Because of the insight these reconciliations provide, we suggest the Board restart the concept as outlined within the *Financial Statement*

⁶ Company should disclose the impact of foreign currency exposure on revenue growth.

⁷ Includes information that is not implicit in the product line disclosure such as new products introduced over some time period (e.g., the most recent 2-3 years).

Presentation (FSP) project. Reconciling revenue related assets and liabilities should not wait for the Board to complete the FSP project, however.

Analysis of Remaining Performance Obligations

We do not support providing companies with an option to disclose their analysis of remaining performance obligations on either a quantitative or-- substantially more limited— qualitative basis. In our view, the utility of the disclosure would be rendered significantly less meaningful if the quantitative allocation by appropriate time band for the duration of the remaining performance obligation is condensed and merely described in broad qualitative terms. Further, although the qualitative disclosure would provide more information than is currently disclosed, we do not believe the qualitative option would meet the objective of the disclosure for users of financial statements. Therefore, we believe the Board should require companies to provide the quantitative basis allocation.

We also view the scope of data proposed to be reported within the analysis of remaining performance obligations as incomplete. The Board has limited performance obligations to those in non-executory contracts. In our view, the template would be most helpful if it includes revenue from all performance obligations, including those in executory contracts. Doing so would provide insight into backlog – an important measure in some industries.

In addition, as stated in our letter dated November 3, 2010, we continue to believe the analysis of remaining performance obligations should also include contracts with an original timing of less than one year but whose timing has now been extended.

Reasonably Assured Threshold

In the event the Board finalizes the standard as proposed, we believe the proposal should explicitly require companies to disclose how they've defined "reasonably assured" as it relates to the specific facts and circumstances of their business activities and how their transactions have met -- and potentially could meet-- the reasonably assured threshold. The reasonable assurance criteria will affect revenue recognized including constrained revenue from variable consideration. Hence, given the potentially extensive level of judgment companies might apply in determining whether its experience is predictive of the amount of consideration to which it will be entitled, we believe disclosure to reflect the factors that companies applied to determine how the "reasonably assured" threshold is met is warranted.

Time Value of Money

The proposed standard requires companies to adjust promised amounts of consideration to reflect the time value of money when a contract has a significant financing component. The significant financing component has the potential of affecting relevant financial metrics and account balances including interest recognition, margins, revenue from operations, and contract balances. We believe the disclosures should be more robust and explicitly require qualitative information on how the company determined a financing component is significant to the contract. We also view revenue recorded as

interest and revenue from operations that are related to time value of money as meaningful, quite notably to cash flow analysis. These amounts can affect analysis from cash flow operations since the revenue recorded from the time value of money does not represent cash from the performance obligation. Users of financial statement information would want both the non-cash revenue and interest expense disclosed so they can potentially remove this information from their income statement models. Under today's accounting, analysts typically remove the imputed non-cash interest related to convertible debt that converts to cash. Therefore, we believe the Board should require companies to disclose the non-cash impact in the cash flow from operations section of the cash flow statement.

Nonpublic Entity Disclosure

We believe the Board should ensure that users of both public and private company financial statements have relevant information for analysis. The proposed standard provides non-public companies with the option not to provide certain important disclosures. Those include:

- A reconciliation of contract balances.
- The amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.
- A reconciliation of liability balances recognized from onerous performance obligations.
- A reconciliation of asset balances recognized from the costs to obtain or fulfill a contract with a customer.
- An explanation of the judgments, and changes in judgments, used in determining the timing of satisfaction of performance obligations and in determining the transaction price and allocating it to performance obligations.

We do not favor providing nonpublic entities an option that could result in the reduction or loss of key useful information regarding revenue recognition in the financial statement disclosures. We do not support divergent disclosures for similar transactions, based solely on whether an entity is privately owned. The economics of a transaction or business do not change if a company is privately owned. In our view, if a private company conducts complex business transactions that may demand complex financial reporting, it should not be exempt from the same relevant disclosure requirements that a public company (which could be a peer) would report for similar transactions.

Should the Board wish additional information regarding our views, please contact any member of the ITAC.

Sincerely,

A handwritten signature in black ink that reads "Investors Technical Advisory Committee". The script is cursive and fluid, with the word "Investors" on the left, "Technical" in the middle, and "Advisory Committee" on the right.

Investors Technical Advisory Committee