



Ford Motor Company

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Technical Director -- File Reference No. 2011-230
Financial Accounting Standards Board
401 Merritt 7
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VIA EMAIL: director@FASB.org

File Reference: Comments on Exposure Draft, Revenue Recognition (Topic 605)

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures and distributes automobiles across six continents. Ford Motor Credit Company LLC ("Ford Credit") is an indirect, wholly owned subsidiary of Ford that provides dealer and customer financing to support the sale of Ford Motor Company products.

We are pleased to have the opportunity to comment on the proposed Accounting Standards Update, "*Revenue Recognition*" ("proposed ASU). We support many of the principles emphasized in the proposed ASU and are pleased that the FASB and IASB are committed to issuing a converged standard.

We had initially found the guidance very helpful. The steps helped frame how an entity should evaluate its contracts with its customers, and we found that applying our interpretation of the guidance would result in an appropriate representation of the economics of our transactions. It was after we began discussing it with others that we realized some were interpreting the proposed ASU very differently than we were interpreting it.

We are submitting specific comments on matters that we believe are important for your consideration. We submit these comments with the goal of ensuring that the accounting reflects the economics of revenue transactions and reduces diversity in practice. In addition to these comments, we will file an Addendum with several examples after our conversation with members of the FASB and project team on March 29th.

We appreciate the Boards' attention to our comments. Please feel free to call me if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Susan Callahan".

Susan Callahan
Manager, Global Accounting Policies and Special Studies
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Identifying Separate Performance Obligations

The proposed guidance defines a performance obligation as a promise in a contract with a customer to transfer a good or service to the customer (¶ 24). Paragraph 24 also indicates that a constructive obligation qualifies as a performance obligation. We believe the guidance in ¶24 works well when the selling entity's customer is the ultimate consumer. However, we are unsure whether it also applies when the selling entity's customers resell the goods or services to their retail customers.

In our discussions with others, we understand that some believe the proposed ASU requires the selling entity to combine contracts entered into at different times with different customers (i.e., based on the customer's expectation that the selling entity will also enter into a contract with the customer's customer, even though it has no present obligation to do so). We also understand that some believe the Boards intend that the selling entity should combine any contracts that it expects to enter into with the customer's future retail customer with the contract for the sale of the goods or services to its customer. For example:

We have a marketing program under which we have negotiated with the dealer network to provide maintenance services for a limited time to retail customers who purchase certain of our vehicles from dealers. (Manufacturers are prohibited from actually performing the services or competing with the dealer network for such services in most jurisdictions.) Each retail customer who purchases or leases the vehicle during the incentive period can go to any authorized service provider and receive the services free. We can withdraw the program at any time and it would not affect the consideration a dealer owes us on the purchase of the vehicle. However, given the discussion in ¶24, some would argue that we have a constructive obligation to provide free maintenance services to customers purchasing those vehicles.

We disagree with this interpretation and we believe the proposed guidance, as presently drafted, does not support it. It is customer for vehicle manufacturers to provide incentives to the dealer's customer independently of the vehicle sales contract with the dealer. The incentives take the form of favorable financing provided by a captive finance company, cash rebates, and free services performed by unrelated third parties. The retail customer can often choose among the incentives offered; sometimes the incentives will come automatically with a particular brand or vehicle line. Incentives are generally announced and available for a quarterly period, and retail customers who purchase or lease a vehicle after the period are not entitled to receive the expired incentives. Regardless of the form of the incentive, the purpose is the same – to respond to conditions of the overall economy, enhance brand loyalty, respond to changes in retail consumer demand for a particular vehicle line and meet competitor actions.

The obligation to pay authorized service providers on behalf of the retail customer for maintenance is not an obligation to our customer, the purchasing dealer. Consequently, we believe it should be treated as an incentive and recognized in accordance with ¶65, as a reduction of revenue at the time of the sale of the vehicle to the dealer. To account for such arrangements as other than marketing incentives would effectively require us to account for the incentives we offer to retail customers as separate performance obligations. It would require us to reallocate the transaction price among the identified performance obligations each quarter as we decide to discontinue an incentive, change the amount of the incentive (either increase or decrease), or change the nature of the incentive (from services to cash or below-market rate financing).

We believe a conclusion that the selling entity should combine a constructive obligation to a retail customer with a contract to sell goods or services to a wholesale customer and account for the constructive obligation as a separate performance obligation will result in accounting that does not reflect the economics of the transaction. We have analyzed our arrangements under both interpretations and have found significant differences in the accounting. If we treat marketing programs offered to our customer's customer as performance obligations, it will increase the cost and complexity of complying with the proposed guidance, and will not provide meaningful information to users of financial statements because it is a misrepresentation of the selling entity's arrangements with its customer.

We strongly recommend that the Boards make it clear that when evaluating a contract for performance obligations, a selling entity only look to the terms of the contract with *its* customer.

Attributes of Distinct Goods or Services

We believe that it may not be faithfully representative of an entity's major business operations if an entity needs to apply the guidance for distinct goods or services because the entity sells the goods or services somewhere in its global organization. The economic and legal environment is unique in every jurisdiction. For example:

A global entity performs a service for its customer in Thailand but it is legally prohibited from performing the service in the U.S. In the U.S., the entity negotiates all the terms of providing a similar service, including the rate of reimbursement with a third party that is unrelated to the revenue contract. In the U.S., the entity offers the service free of charge to its customer's customer. In Thailand, the entity has performance risk; in the U.S., the entity has only a cash obligation and no performance risk.

The above example will provide very different financial results depending on whether an entity looks to whether it provides the service in any jurisdiction or whether an entity applies ¶28 on an entity-by-entity and jurisdiction-by-jurisdiction basis. It will also create significant reconciliations between the stand-alone financials of its affiliates and the consolidated financial statements. Accordingly, we urge the Boards to provide that the application of identifying performance obligations and distinct goods or services should be performed at a legal entity level.

We further recommend that the Boards clarify that when applying the attributes of distinct goods and services in evaluating performance obligations, the entity need not consider a hypothetical market. We support a view that when an entity evaluates whether there are separate performance obligations under a contract, it needs to consider whether there is an existing market for the good or service and whether the market is that of its customer under the contract.

Measurement of Revenue

We agree with the overall guidance for measuring revenue. In addition to the guidance provided in ¶65 that "consideration payable to a customer includes amounts that an entity pays, or expects to pay to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash, credit, or other items that the customer can apply against amounts owed to the entity" we recommend the words, "*or on behalf of a customer*" be inserted before the parenthetical. The economics of a transaction are the same, whether cash is paid to, or on behalf of, the customer or customer's customer. Adding the words will help clarify that it is the contingent obligation to make cash payments that results in a reduction to revenue, not to whom the cash payment is made.

Consistent with our comments above on identifying separate performance obligations, we also request that the Boards clarify that the entity considers the customer's customer only for purposes of measuring consideration in ¶65. We recommend that the Boards add the words, "*for purposes of this paragraph*" to the beginning of ¶65.

Repurchase Agreements

We ask that the Boards add a definition to clarify the intent of the words "*unconditional obligation*." Paragraph IG43 of the proposed ASU states, in part: "If an entity has an unconditional obligation to repurchase the asset at the customer's request (a put option) at a price that is lower than the original selling price of the asset, the entity should consider at contract inception whether a customer has a significant economic incentive to exercise that right."

It is unclear to us whether a contract that includes conditions will result in a contract that an entity evaluates under the proposed ASU or a leasing contract that an entity evaluates under ASC 840, when historical experience shows the counterparty to the contract meets the conditions with high frequency. For example:

Automobile manufacturers frequently sell vehicles to dealers that they immediately sell to daily rental companies. The manufacturer separately negotiates an agreement with the daily rental company to either, repurchase the vehicles at an agreed upon residual value reflecting the estimated length of time the vehicle will be kept by the daily rental company, or to make a payment to the daily rental company measured as the difference between the agreed upon residual value and the proceeds the rental

company receives when it re-sells the vehicle. The terms of the contract with the daily rental companies are conditional; the vehicles must be returned to us in an acceptable condition as to wear and tear, returned within a certain period of time, etc. In some cases, the daily rental company chooses not to return the vehicle, however historical experience shows that daily rental companies either return the vehicle or submit a request for reimbursement with high frequency.

We believe that the ordinary meaning of the term “unconditional” may result in a change from the lease accounting applied today. Depending on how one interprets “unconditional obligation,” the application of the proposed ASU to the example above could result in the selling entity (a) recognizing a sale of the vehicle and recognizing a refund liability for the portion of the selling price it expects to pay to the daily rental company on vehicles meeting the specified conditions and which it returns or requests reimbursement; (b) recognizing a sale of the vehicle with no refund liability (if it concludes the return conditions preclude the arrangement from qualifying as an unconditional obligation); or (c) accounting for the arrangement as a lease.

We request that the Boards add a definition of an unconditional obligation to avoid diversity in interpretation and practice.

Equipment Sold and Subsequently Repurchased Subject to an Operating Lease

In some situations, the dealer’s customer will choose to finance their purchase or lease through our captive-finance affiliate. The existing guidance in ASC 605-15 “*Revenue Recognition— Products*” provides that when a manufacturing entity meets the requisite conditions, it may recognize a sale at the time it delivers the vehicle to the dealer even when the related finance affiliate provides financing to the retail customer. We have observed that the proposed ASU does not specifically address these transactions; however, we also observe that these transactions would not be combined under the guidance of ¶17.

We are aware that others have interpreted ¶26 to imply that our finance affiliate’s action of standing ready to finance a purchase or lease would be a performance obligation that would require us to allocate a portion of the revenue on a vehicle sold to a dealer. We are also aware that others have interpreted ¶¶IG43-44 to imply that if a manufacturer, through its financing affiliate, agrees to repurchase the product, subject to a lease with the dealer’s customer, an entity should not recognize the original sale to the dealer or should account for the transaction as a sale with a right of return. We believe the existing guidance under ASC 605-15-25-5 appropriately addresses the substance of these transactions. We do not support a change to existing practice for such transactions.

We suggest that the Boards clarify their intent with respect to this type of transaction and again recommend that the Boards exclude the customer’s customer for purposes of evaluating performance obligations.

Warranty

We recommend that the Boards eliminate the length of the warranty coverage period as a factor in recognizing separate performance obligations. We request the Boards to consider instead requiring robust documentation of the entity’s intent in providing longer coverage. For example, an entity may document that the extended warranty is appropriate based on the introduction of a new technology, an unstable supplier part or a statutory requirement. We also suggest that warranty should be considered a separate performance obligation only if the coverage period is in excess of the entity’s standard warranty terms or is offered for products sold during a short window of time (i.e., similar to an incentive).

Effective Date

We are concerned that the FASB and IASB are not aligned with the effective date of the proposed ASU. We note that an early adoption is allowed under International Financial Reporting Standards (IFRS), but is not permitted under U.S. GAAP. In order to simplify implementation, maximize synergies and/or minimize costs when aligning its adoption with other projects and process improvements, we urge the Board to allow early adoption of the standard under U.S. GAAP as well.