



**March 13, 2012**

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116  
United States of America

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**File Reference No. 2011-230 Exposure Draft of a Proposed Accounting Standard Update -  
*Revenue from Contracts with Customers***

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update, *Revenue from Contracts with Customers* (the Exposure Draft).

FinREC agrees with the Boards' objectives and supports a single revenue recognition model. While the Boards have made considerable progress since issuing the original exposure draft, we believe further consideration and deliberation is warranted for the Boards' objectives to be fully achieved. We are concerned, however, that certain concepts are not clear, might be challenging to apply and/or do not appear cost beneficial.

Our answers to the specific questions in the Exposure Draft provide more detail on the views expressed above and are attached in Appendix A to this letter. We have also provided remarks on additional matters as described in Appendix B. We therefore respectfully request that the Boards and their respective staffs consider the following observations:

**Performance satisfied over time**

We agree with the principles the Boards have provided to determine when an entity transfers control of a good or service over time. We also agree that an asset having no alternative use is relevant in the assessment of when a performance obligation is satisfied over time.

We are concerned with the guidance provided for when a promised asset would not have an alternative use. The proposed definition of no alternative use appears broad, and significant judgment is needed to determine if an entity can practically re-direct a promised asset to another customer. For instance, it is unclear whether standard inventory items that are contractually identified for a specific customer and for which the entity has been paid in advance should be accounted for as performance obligations satisfied over time or at a point in time (i.e., when they are delivered). The items can be readily redirected to other customers because of their standardized nature should the buyer cancel or breach the contract, but the proposed definition might result in revenue being recognized as the inventory is manufactured in this situation, which might not reflect the economics of the transaction.

## **Presentation of customers' credit risk**

We agree with the proposal that revenue should be recognized without consideration of customers' credit risk. However, we believe that the requirement to present the impact of credit risk on the face of the income statement is too prescriptive and that entities should be given the option of either the proposed presentation or to present revenue net of the adjustment for credit risk on the face of the income statement with the unadjusted revenue amounts in the footnotes to the financial statements. FinREC generally does not support standards that allow for optional accounting or presentation; however, given the various different types of revenues the proposed standard would impact, we feel that an option in this situation provides the reporting entity the ability to present revenue and credit adjustments in the most meaningful way to its users.

## **Variable consideration and reasonably assured**

We agree that the revenue an entity recognizes should be limited to that for which the entity's experience is predictive of the amount to which it will be entitled. We are concerned, however, that it is unclear that "reasonably assured" is intended to be a qualitative threshold, not a specific quantitative threshold, and diversity in interpretation will result. We therefore suggest not using the term "reasonably assured" to determine when an entity's experience is predictive. We believe eliminating the term will avoid confusion with the existing understanding of "reasonably assured" under current IFRS, US GAAP and US auditing standards, which are not consistent with each other.

We also do not believe that an exception is needed for licenses of intellectual property with consideration that varies because a customer's subsequent sales are not "reasonably assured" until those subsequent sales occur. We believe that the principle and indicators could be improved as we suggest in our response to question 3 of Appendix A such that they will provide sufficient guidance on when an entity's experience might not be predictive because the entity is unable to influence the outcome in a pure sales-based royalty type arrangement.

## **Onerous performance obligations**

We agree with including an onerous assessment in the revenue standard, but we continue to believe the assessment should be at the contract level unless the economics of a transaction or customer relationship warrants consideration either at the performance obligation level or for a combination of contracts. Making it clear that the onerous assessment starts at the contract level unless the facts and circumstance indicate another level would be more appropriate will reduce the burden on preparers while still providing information to users that appropriately identifies when a revenue contract becomes onerous.

If the Boards affirm their proposal to assess onerous losses at the performance obligation level, we believe applying the onerous test to only those performance obligations expected to be satisfied over a period of time in excess of one year is appropriate.

## **Disclosures**

We believe that the proposal requires too many disclosures in both interim and annual financial statements. There is a risk of obscuring useful information due to the volume of disclosures required. We also believe that simplified disclosures will better balance the objectives of users and the burden on preparers. We do not believe that the disclosures required for interim financial statements focus on the appropriate information. We also do not agree with the inclusion of predictive and forward-looking disclosures, as they present significant challenges and could be based on assumptions that are difficult to support. In our view, disclosure that focuses on the expectations about future revenue based on facts that exist at the end of the reporting period would mitigate the loss of useful information needed by financial statement users.

We recognize that analysis of financial statement information is performed on an ongoing basis and is not condensed simply because it is a quarter-end. Therefore, we believe that companies whose

revenues may be somewhat less predictable quarter-to-quarter because of a variety of reasons, including industry fundamentals, seasonality, or other factors, should be required to provide more robust disclosures on an interim basis. However, that information should be provided qualitatively and not with prescriptive quantitative information that would be required of all entities. We believe that the Boards should address disclosures that are quantitative and prescriptive relating to revenue recognition in conjunction with the more comprehensive Disclosure Framework Project.

If users of non-public entity financial statements require less information than users of public entities, we agree with the exemption of certain proposed disclosures for non-public entities given the potential burden on such entities.

### **Additional considerations**

#### *Time Value of Money*

Although we understand the conceptual basis for adjusting the transaction price to reflect the time value of money if a contract includes a significant financing component, we do not support its inclusion in the proposed model as we believe that practical challenges and costs will outweigh the benefit to users.

In assessing benefits, we question whether all users will benefit by accounting for time value of money in this manner. Accounting for time value of money by adjusting promised amounts of consideration will affect key balances and financial metrics (such as revenue, interest, and margins) in a less than optimal depiction of an entity's financial performance. For example, while cash received in advance of services performed or goods received may be considered positive from a liquidity and overall analytical perspective, the higher amounts of interest expense associated with that transaction would appear to be detrimental to that same entity's profile when analyzing its interest-based measures. Interest expense might also be clouded with obligations that are settled via performance as opposed to payment. Such a financial reporting outcome, without further disclosure, might render revenue and interest expense, for instance, less relevant for some users.

In evaluating time value of money, an entity would also need to consider how it manages its overall net cash inflows and outflows in an arrangement in order to accurately reflect the time value of money. This adds even further complexity. If the Boards affirm their proposal for reflecting time value of money, then we recommend the Boards further indicate how an entity should account for its net cash flows in an arrangement when assessing time value of money.

#### *Unit of Account*

It is unclear whether repetitive service arrangements, such as a two-year contract to provide daily cleaning services, are a single performance obligation or multiple performance obligations. This determination could impact the pattern and timing of revenue recognition, accounting for contract modifications and the assessment of onerous performance obligations. We suggest the Boards clarify how to determine the unit of account in such arrangements.

#### *Transition*

We appreciate that retrospective application is theoretically preferable and provides consistency across periods presented, but remain concerned over practical challenges, particularly for longer term contracts. We note the following challenges with the practicability of applying the proposed model retrospectively:

- The need to track and report under both current revenue guidance and the proposed model (to populate the Five Year Selected Financial Data) would likely lead to costly system adjustments, especially for complex contracts (e.g., construction-type and multiple element arrangements)

- The need to revisit tax calculations used to set up deferred tax assets and liabilities in all jurisdictions will be very complex
- The need to deal with costs that are linked to revenue transactions, such as bonuses, sales commissions, and other key ratios
- The potential impact of retrospective debt covenant violations and/or violations of debt covenants at the time of adoption of the Exposure Draft

We recommend that the Boards allow private companies the option of deferring the effective date for two years after the effective date for public companies. We believe this will allow private companies enough time to put in place the necessary systems and processes to apply the guidance and also capitalize on the experience of public companies.

Sincerely,

Richard Paul, Chair

Financial Reporting Executive Committee

Dusty Stallings, Chair

Revenue Recognition Comment Letter Task Force

## APPENDIX A

### Exposure Draft on Revenue from Contracts with Customers

**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 with the principles specified in paragraphs 35 and 36 of the Exposure Draft to determine when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue.

We also agree with the concept in paragraph 35b of the Exposure Draft that an asset having no alternative use is relevant in the assessment of when a performance obligation is satisfied over time. We are concerned, however, that there is still confusion about whether the criteria apply to the transfer of an asset. We suggest clarifying that the intent of paragraph 35b is that an entity's performance either does not create an asset (as is the case in most service arrangements) or that it doesn't create an asset with an alternative use. We suggest clarifying the precursor paragraph 35b of the Exposure Draft as follows:

*35b. The entity's performance does not create an asset or an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met*

We understand from some of the Boards' recent communications that paragraph 35b was not intended to apply to goods but only services, and request that the Boards clarify this in the final revenue standard.

We believe that the intent in paragraph 35biii of the Exposure Draft is to specify that no further action is required by the entity in order to receive payment for performance to date, or in other words, the right is unconditional. We recommend clarifying the first sentence in paragraph 35biii of the Exposure Draft as follows to emphasize that principle:

*35biii. The entity has an unconditional right to payment for performance completed to date, and it expects to fulfill the contract as promised.*

We are concerned with the guidance provided in paragraph 36 for when a promised asset would not have an alternative use. The proposed definition of no alternative use appears broad, and significant judgment is needed to determine if an entity can practically re-direct a promised asset to another customer. For instance, it is unclear whether standard inventory items that are contractually identified for a specific customer and for which the entity has been paid in advance should be accounted for as performance obligations satisfied over time or at a point in time (i.e., when they are delivered). The items can be readily redirected to other customers because of their standardized nature should the buyer cancel or breach the contract, but the proposed definition might result in revenue being recognized as the inventory is manufactured in this situation, which might not reflect the economics of the transaction. We also believe it would be helpful to include an example to illustrate what is meant by an entity being unable to "practically" redirect an asset to another customer.

**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 proposal that revenue should be recognized without consideration of customers' credit risk and that ASC Topic 310 or IFRS 9 should be applied to account for uncollectible consideration.

We believe that the requirement to present the impact of credit risk on the face of the income statement in a line item adjacent to revenue is too prescriptive and that entities should be given the option of either the proposed presentation or to present revenue net of the adjustment for credit risk on the face of the income statement with the unadjusted revenue amounts disclosed in the footnotes to the financial statements. As stated earlier, FinREC generally doesn't support standards that allow for optional accounting or presentation, however, we feel that an option in this situation provides the reporting entity the ability to present revenue and credit adjustments in the most meaningful way to its users.

It is unclear how revenue and the line item reflecting customer credit risk should be presented on the income statement given that revenue can arise from situations other than from contracts with customers. We believe it would be helpful to include, in the implementation guidance, an example of the presentation of impairment amounts as a separate line item, including any relevant subtotals and possible descriptions, and how amounts should be disclosed in the footnotes to the financial statements.

**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 constraining the revenue that an entity recognizes for satisfied performance obligations to that for which the entity's experience is predictive of the amount to which it will be entitled. We also agree with the indicators in paragraph 82 for identifying when an entity's experience might not be predictive.

We are concerned, however, that it is unclear that "reasonably assured" is intended to be a qualitative assessment, not a specific quantitative threshold. If the Boards' intent is to have a qualitative constraint, the term "reasonably assured" should be removed as it implies a quantitative threshold. Reasonably assured currently exists in US GAAP and US auditing standards, specifically in SEC SAB Topic 13 in assessing whether collectability is reasonably assured, which is considered to be a very high threshold. It also appears in IFRS in IAS 20, Accounting for Government Grants, where it is a probable or more likely than not threshold. Given the inconsistency of the interpretation of "reasonably assured" today, and the Boards' intent to focus on the qualitative aspects of an entity's experience, we believe the term should be removed.

We suggest the following to replace the guidance in paragraph 81 through 83:

81. Where consideration is variable, the cumulative amount of revenue recognized to date shall not exceed the amount for which the entity's experience is predictive of the consideration to which it will be entitled. Predictive evidence might include the entity's own experience or other objective evidence (such as access to the experience of other entities).
82. An entity shall use judgment when evaluating whether its experience is predictive of the amount of consideration to which it will be entitled. This is a qualitative assessment that should consider all relevant facts and circumstances.
83. Indicators that an entity's experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled include, but are not limited to, the following:
- (a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include volatility in a market, the judgement or behavior of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
  - (b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time in the near term.
  - (c) the entity's experience (or other evidence) with similar types of performance obligations is limited.
  - (d) the contract has a large number and broad range of possible consideration amounts.

The presence of any one of the indicators in paragraph 83 does not necessarily mean an entity's experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled mean that the entity is not reasonably assured to be entitled to an amount of consideration. This list is not all inclusive, and any other relevant evidence should be considered to determine if the entity's experience is predictive.

We disagree with the exception in paragraph 85 of the Exposure Draft as it relates to licenses of intellectual property. We believe the principle, as amended by our suggestions, is sufficient to address sales-based royalty arrangements without the need for an exception. An example of a license of intellectual property where an entity does not have predictive experience because it is not entitled to consideration prior to a customer's subsequent sales that are based on third party behavior (e.g., a license of a new film to a movie theatre with the consideration being variable based on third party ticket sales) would be necessary to illustrate the application of the guidance, yet still allow for judgment in the determination of when an entity's experience is predictive.

#### **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?*

We agree with including an onerous assessment in the revenue standard. We believe the assessment should be at the contract level unless the economics of a transaction or customer relationship warrants consideration either at the performance obligation level or for a combination of contracts. Making it clear that the onerous assessment starts at the contract level unless facts and circumstance indicate another level would be more appropriate will reduce the burden on preparers while still providing information to users that appropriately identifies when a revenue contract becomes onerous.

If the Boards affirm their proposal to assess onerous losses at the performance obligation level, we believe applying the onerous test to only those performance obligations expected to be satisfied over a period of time in excess of one year is appropriate. We also recommend that the Boards clarify that if an entity has identified a performance obligation that is onerous at contract inception, but the overall contract is profitable, an entity might need to reexamine its allocation of the transaction price to the performance obligations. The Boards incorporated a similar concept in the business combination guidance. For example, a security service provider sells equipment and a two-year service agreement in a bundled arrangement. At contract inception the overall contract is expected to be profitable. However, based on the allocation of the transaction price to each performance obligation, the entity expects a loss on the service element. We believe that in such circumstances the entity should re-evaluate its allocation of consideration and ensure that the allocation method selected maximizes the use of observable inputs.

#### **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 believe the development of a comprehensive disclosure framework is necessary in order to provide decision useful information for users of financial statements and believe that the proposed disclosures should be evaluated in conjunction with the FASB's Disclosure Framework Project.

We do not believe that tabular reconciliations should be required in interim financial statements. We believe that disclosures included in interim financial statements should focus instead on

qualitative information and significant changes that have occurred in the interim period, as well as other information that management uses to assess its business. We believe that valuable information regarding such changes might be obscured given the volume of disclosures required.

We also believe that simplified disclosures, both in interim and annual financial statements, will better balance the objectives of users and the burden on preparers. The proposed disclosures are excessive and might require the accumulation of data solely for the purpose of financial statement disclosure rather than disclosing useful pertinent information that management uses to manage the business. Requiring management to disclose the information management uses in assessing performance and making operational judgments provides users with more concise and insightful information. It also capitalizes on information entities are collecting for operating purposes rather than requiring entities to implement new systems and processes to collect the data necessary to comply with the proposed standard.

The disaggregation of revenue disclosure should reflect the information about revenue that is used to manage the business, consistent with segment reporting guidance, and should not duplicate segment disclosures.

We do not agree with the requirement to include predictive or forecasted information in the footnotes, such as that required by paragraph 119. We believe this could present significant challenges given that this type of prospective information, regardless of the amount of diligence used in its creation, is inherently prone to change, which will likely reduce its usefulness. The inclusion of prospective information will also challenge preparers given their limited ability to support key assumptions about future events and the potentially high legal exposure associated with the inclusion of such information in financial statements. We believe that predictive disclosures should be addressed in other documents that are subject to appropriate Safe Harbor provisions. We also believe the inclusion of predictive or forecasted information in the footnotes will raise significant concerns with the ability to audit that information. We are, however, in favor of requiring entities to disclose facts and circumstances that exist at the reporting date that are expected to have an impact on comparability in future periods.

We believe the cost and effort of complying with the disclosure requirements would be prohibitive for many non-public entities. We agree with the exemption of certain proposed disclosures for non-public entities in paragraph 130 given the potential burden on such entities and request similar relief be granted for non-public entities if the Boards retain the proposed requirements in interim financial statements.

## **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 that it would be beneficial for an entity to 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, as this should help achieve consistency in other areas of accounting. However, we are concerned that addressing this issue might delay the completion of the revenue recognition standard given the potential interaction with other accounting guidance. In

particular, the scope of this guidance is not clear and could, therefore, conflict with existing guidance (such as deconsolidation) as it relates to items such as sales of subsidiaries or incorporated assets.

If this guidance is included in a final revenue standard, we recommend that the boards clarify that other applicable guidance should be applied first and then the control and measurement guidance from the revenue standard should be applied if no other guidance is applicable.

## **APPENDIX B - ADDITIONAL MATTERS**

### ***Unit of Account***

We agree that distinct performance obligations should be identified and accounted for separately. However, we believe there needs to be greater clarity about whether repetitive service arrangements are a single performance obligation or multiple performance obligations. For example, a two-year contract for daily technical telephone support service could be accounted for as a single performance obligation satisfied over time or as a series of distinct performance obligations (i.e., satisfied daily). This might affect the pattern and timing of revenue recognition, the accounting for contract modifications and the assessment of onerous performance obligations. We suggest the boards clarify how to determine the unit of account in these arrangements.

### ***Transfer of control***

We agree with the principle that revenue should be recognized when a performance obligation is satisfied and control transfers as indicated in paragraphs 31-33 of the Exposure Draft. Paragraph 37 of the Exposure Draft also makes reference to additional indicators of transfer of control for performance obligations satisfied at a point in time. For ease of understanding the indicators of control, we recommend the indicators in paragraph 31-33 and 37 of the ED be combined and referred to a section titled "Indicators of Control".

We are concerned that the indicator in paragraph 37d of the Exposure Draft as to whether a customer has the significant risks and rewards of ownership of the asset may be interpreted as more than an indicator. Entities might place too much emphasis on this indicator or focus on aspects of risks and rewards that do not reflect transfer of control (such as whether economic risks or rewards have transferred, even though control of the asset might have transferred). We believe that additional wording should be included to make it clear that assessment of transfer of risks and rewards of ownership of the asset is only an indicator of the transfer of control and is not determinative in and of itself. An example might also be helpful in illustrating this issue.

### ***Measuring progress - Input methods***

We agree that the objective of measuring revenue over time is to depict the transfer to the customer. We note the Boards' concern in paragraph 45 of the Exposure Draft with possible shortcomings of input methods, specifically as it relates to inefficiencies. We are concerned that the term "inefficiency" is not sufficiently clear, including whether the assessment should focus on entity specific inefficiencies or also those that might be market driven, and ask the Boards to provide clarifying language. We also suggest clarifying paragraph 45 as follows:

*45. A shortcoming of input methods is that there may not be a direct relationship between the entity's inputs and the progress towards satisfaction of a performance obligation ~~transfer of control of goods or services to the customer because of unplanned~~ inefficiencies in the entity's performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the ~~transfer of control of goods or services~~ progress towards satisfaction of a performance obligation to the customer (for example, the costs of unplanned wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract).*

### ***Time Value of Money***

Although we understand the conceptual merit of including the impact of time value of money for contracts that contain a significant financing component, we do not support its inclusion in the revenue standard as we believe that the complexity and effort involved with applying the guidance

to many contracts would not be cost beneficial. We believe that practical challenges will likely arise in otherwise straightforward contracts as a result of applying this guidance. Assessing the time value of money in a long-term multiple element service arrangement, for example, where consideration is received throughout the performance period will be very challenging and add complexity. Such an arrangement might include a wireless service provider who provides a wireless device and a two-year service commitment in a contract. A receivable related to the handset would be recorded at contract inception, but the payment for that handset will be received over the two-year service period. In this example it might prove challenging for an entity to determine whether there is a significant financing component. Entities might also need to make significant and costly changes to their systems and processes, when the cost and effort of performing such assessment does not outweigh the benefits.

In assessing benefits, we question whether all users will benefit by accounting for time value of money in this manner. Accounting for time value of money by adjusting promised amounts of consideration will affect key balances and financial metrics (such as revenue, interest, and margins) in a less than optimal depiction of an entity's financial performance. For example, while cash received in advance of services performed or goods received may be considered positive from a liquidity and overall analytical perspective, the higher amounts of interest expense associated with that transaction would appear to be detrimental to that same entity's profile when analyzing its interest-based measures. Interest expense might also be clouded by obligations that are settled via performance as opposed to payment. Such a financial reporting outcome, without further disclosure, might render revenue and interest expense, for instance, less relevant for some users.

In evaluating time value of money an entity would also need to consider how it manages its overall net cash inflows and outflows in an arrangement in order to accurately reflect the time value of money. This adds even further complexity. If the Boards affirm their proposal for reflecting time value of money, then we recommend the Boards further indicate how an entity should account for its net cash flows in an arrangement when assessing time value of money.

We recommend that the Boards revise the guidance to require only that the time value of money be taken into consideration in those contracts with an obvious significant financing component, but not require this accounting for other contracts.

We also recommend the following be added to paragraph 59 of the Exposure Draft:

*59. In assessing whether a financing component is significant to a contract, an entity shall consider various factors including, but not limited to, the following:*

*(a) The expected length of time between when the entity transfers the promised good or services to the customer and when the customer pays for those goods or services*

*(b) Whether the reason for the time period between the transfer of the goods and services and when the customer pays is due solely to the required allocation of revenue when multiple performance obligations are part of the same contract*

*(c) Whether the amount of consideration would differ substantially if the customer paid in cash promptly in accordance with typical credit terms in the industry and jurisdiction*

*(d) The interest rate in the contract and prevailing interest rates in the relevant market.*

### ***Contract Costs***

We agree with the Boards' decision to require capitalization of certain costs as this is consistent with the definition of an asset under US GAAP and IFRS. We have some concerns, however, over the inconsistency of the amortization period required for capitalized contract costs compared to the recognition period for revenue.

Paragraph 98 of the Exposure Draft states that contract costs can be amortized over the anticipated contract term, including renewals of an existing contract. This may lead to an inconsistency with the recognition of revenue for performance obligations with renewal options as noted in IG20 to IG24, or with the accounting for nonrefundable upfront fees in IG 29 to IG 32. For example, a contract might have a renewal option that does not constitute a material right. In that situation, an entity would not consider future performance obligations until the option is exercised, including to determine the period over which any nonrefundable fee might be allocated. In accordance with paragraph 98, however, the entity might be required to amortize capitalized contract costs over the anticipated contract term (including renewals). The contract period over which revenue and capitalized costs are recognized should be consistent, with both recognized over the period benefited.

### ***Allocation of Discount***

We agree with allocating a discount to one (or some) separate performance obligations based on the criteria in paragraph 75 of the Exposure Draft. We request that the Boards provide additional information in the Basis for Conclusions as to the intent of the Boards and a more complex example of how to apply the guidance in paragraph 75 of the Exposure Draft related to the allocation of a discount between performance obligations. We are concerned that Example 11 in the Exposure Draft is too simplistic and could lead a reader to misinterpret the guidance related to the allocation of a discount.

### ***Customer Loyalty Programs***

We agree that customer loyalty programs create rights that are separate performance obligations. Further, we agree with allocating the transaction price to separate performance obligations based on their relative stand-alone selling prices. We request that the Boards clarify how to account for an arrangement with a customer that does not fall under the scope of the proposed guidance, such as a financing arrangement (for example, a loan to a credit card customer that also is provided frequent flyer awards), when a customer loyalty program exists.

### ***Transition***

We appreciate that retrospective application is theoretically preferable and provides consistency across periods presented, but we remain concerned over practical challenges, particularly for longer term contracts. We note the following challenges with the practicability of applying the proposed model retrospectively:

- The need to track and report under both current GAAP and the proposed model (to populate the Five Year Selected Financial Data) would likely lead to costly system adjustments, especially for complex contracts (e.g., construction-type and multiple element arrangements)
- The need to revisit tax calculations used to set up deferred tax assets and liabilities in all jurisdictions will be very complex
- The need to deal with costs that are linked to revenue transactions, such as bonuses, sales commissions, and other key ratios

- The potential impact of retrospective debt covenant violations and/or violations of debt covenants at the time of adoption of the Exposure Draft

We suggest the Boards consider the above practical challenges prior to requiring retrospective application. We understand a number of other Exposure Drafts have considered and rejected retrospective application as being unreliable. Several participants in those debates have indicated that the long-term nature of certain contracts, and the inability of preparers to accurately recall the inputs and information as of those prior dates, make such a requirement unreliable. Such factors are not unique to transactions within the scope of those Exposure Drafts and we believe those arguments hold true for the revenue Exposure Draft.

Finally, we recommend that the Boards allow private companies the option of deferring the effective date for two years after the effective date for public companies. We believe this will allow private companies enough time to put in place the necessary systems and processes to apply the guidance and also capitalize on the experience of public companies.