

July 1, 2015

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: May 12, 2015 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* [File Reference No. 2015-250]

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the work of the FASB-IASB Joint Transition Resource Group for Revenue Recognition in bringing a number of important issues to the attention of the Board. TIC is supportive of the Board's decisions in the ED and believes the amendments will provide much needed clarity to the revenue recognition standard. TIC has provided its perspective on the accounting for a series of distinct goods or services and has offered a revision to one of the paragraphs on licensing for the Board's consideration.

SPECIFIC COMMENTS

Question 1: Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

TIC understands that the 2011 revised exposure draft of the proposed ASU on *Revenue from Contracts with Customers* had offered a similar practical expedient. Although TIC is not fully certain why the practical expedient has been removed from the 2015 ED, TIC believes the practical expedient could have some merit, as long as additional accounting policy disclosures are provided to inform financial statement users of the alternative.

It appears the potential consequences of adopting the proposed practical expedient could be favorable or unfavorable, depending on the specific circumstances. Although lack of comparability could be one outcome, this may not be a significant concern if preparers would have to incur excessive costs to account for a series of distinct goods or services as a single performance obligation or if factors such as contract modifications or variable consideration elements created added complexity in the accounting that yielded no added benefit to financial statement users. When those elements are present, it may be more logical to recognize revenue at specific points in time v. over the term of the contract.

Therefore, TIC recommends that the series provision in the revenue standard be an option, rather than a requirement. TIC believes preparers should have the option to apply the appropriate guidance based on the respective facts and circumstances, since this approach that would be consistent with a principles-based standard. If two different accounting models have equal merit, then optionality may be warranted, much the same as the two different viewpoints on the accounting for shipping and handling activities led to an optional practical expedient.

Question 2: Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

TIC agrees that the proposed clarification is theoretically appropriate. The materiality of promised goods and services should be measured in the context of the contract, not in relation to the entity's financial statements. TIC also agrees that requiring the entity to aggregate the immaterial items at the contract level and determine the effect of those items on its financial statements would have been unduly burdensome, as discussed in paragraph BC11 of the ED.

TIC also believes that the last two sentences of paragraph BC11 will be very helpful and may reduce the time and effort needed to identify performance obligations:

As it is used in paragraph 606-10-25-16A, the term immaterial refers to the general notion of materiality. That is, an entity would consider the relative significance or importance of a particular promised good or service in the contract to the arrangement as a whole. In applying this notion, an entity would consider both the quantitative and the qualitative nature of the promised goods or services in the contract.

This guidance is particularly helpful since it reminds preparers to evaluate the qualitative importance of a promise, not just its quantitative significance.

Question 3: Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

Although there could be some incremental cost savings as a result of the proposed amendment, TIC believes the savings would be immaterial in the context of the contract. However, TIC supports the proposed election because it will improve transparency and promote comparability among entities' financial statements.

Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

Yes, TIC believes this proposal could reduce the cost and complexity of applying Topic 606.

Question 5: Would the revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples, improve the operability of the implementation guidance about determining the nature of an entity's promise in granting a license? That is, would the revisions clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property or to provide a right to use the entity's intellectual property as it exists at the point in time the license is granted? If not, what alternatives do you suggest and why?

Yes, TIC believes that the revisions to this section improve the guidance related to licenses and the timing of the recognition of revenue.

Question 6: The revisions to paragraph 606-10-55-57 that state an entity should consider the nature of its promise in granting a license of intellectual property when accounting for a single performance obligation. Does this revision clarify the scope and applicability of the licensing implementation guidance? If not, why?

TIC did not initially understand that this paragraph is trying to clarify when the licensing guidance would be applicable and to eliminate the misconception that the licensing guidance only applies if the license is distinct from other promised goods or services in the contract. Determining whether the license grants a right to use or a right to access is a necessary consideration in understanding how to recognize revenue when a contract includes a license and the transfer of other goods or services. Although this point is made in the Basis for Conclusions (paragraph BC53), TIC suggests the following revisions to paragraph 57 to clarify this point:

606-10-55-57 *An entity should consider the nature of its promise in granting a license (see paragraphs 606-10-55-59 through 55-64) when accounting for a single performance obligation that includes a license of intellectual property and one or more other goods or services (that is, to apply paragraphs 606-10-25-23 through 25-37). That is, the licensing guidance applies even if the promise to grant a license is not distinct from other promised goods or services in the contract. [Suggested revisions have been underlined.]*

Question 7: Would the revisions to paragraph 606-10-55-64 adequately communicate the Board's intent (a) that restrictions of time, geographical region, or use in a license of intellectual property are attributes of the license (and, therefore, do not affect the nature of an entity's promise in granting a license or its assessment of the goods or services promised in a contract with a customer) and (b) about determining when a contractual provision is a restriction of the customer's right to use or right to access the entity's intellectual property? If not, what alternatives do you suggest and why?

Yes, TIC believes the revisions to paragraph 606-10-55-64 adequately communicate the Board's intent.

Question 8: Would paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property? If not, what alternatives do you suggest and why?

Yes, these paragraphs and Example 60 clarify the scope and applicability of the guidance when a license of intellectual property is the predominant item in the royalty agreement when the royalty relates to a license and another good or service that is not a license.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees