

June 29, 2015

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

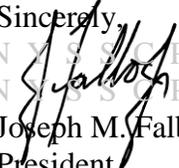
**Re: Proposed Accounting Standards Update – Revenue from Contracts with Customers
(Topic 606): Identifying Performance Obligations and Licensing**

(File Reference No. 2015-250)

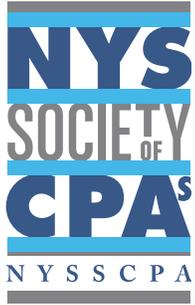
Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee at (212) 303-1058, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED ACCOUNTING STANDARDS UPDATE – REVENUE FROM CONTRACTS
WITH CUSTOMERS (TOPIC 606): IDENTIFYING PERFORMANCE OBLIGATIONS AND
LICENSING**

(File Reference No. 2015-250)

June 29, 2015

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update – Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing

(File Reference No. 2015-250)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (the Board) invitation to comment on the Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* (Proposed Update).

The stated purpose of the Proposed Update is to address issues raised by the Transition Resource Group for Revenue Recognition (TRG) regarding the existing guidance in ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("FASB ASU No. 2014-09"), on identifying performance obligations and licensing. While we support the Board's intent to reduce the complexity of the guidance related to entities entering into contracts with customers to transfer goods or services (which are an output of the entity's ordinary activities) in exchange for consideration, we have three concerns regarding the exposure draft process itself, as well as the guidance therein contained.

First, we are concerned that the June 30th comment period deadline is too short (just over 45 days) to allow interested individuals and organizations, including state CPA societies like ours, sufficient time to respond to the Proposed Update. The Board's website recognizes that "revenue is one of the most important measures used by investors in assessing a company's performance and prospects" and that the guidance in FASB ASU No. 2014-09 is "a major achievement in the ... efforts to improve this important area of financial reporting." Further, as recently as April 29, 2015, the Board issued for public comment the proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, that would defer the effective date of FASB ASU No. 2014-09 by one year. In the "Background Information" and "Basis for Conclusions" of that proposed ASU, the Board recognized the transition difficulties encountered by preparers (including availability of information technology solutions and the design and implementation of internal control processes). Considering the major paradigm shift that FASB ASU No. 2014-09 represents and the impact that the guidance in this Proposed Update could have on the implementation of FASB ASU No. 2014-09 (even if deferred for one year), we request that the Board consider extending the comment period 30 days to allow constituents additional time to respond.

Second, we are concerned that the Proposed Update may not achieve the Board's stated intent not to change the core principles of the guidance in FASB ASU No. 2014-09. For example, the Proposed Update introduces new terminology with respect to licensing transactions (*i.e.*, functional intellectual property and symbolic intellectual property) and includes new concepts to determine whether to recognize revenue related to such transactions over time or at a specified point in time. It further introduces a new approach with respect to shipping and handling activities and provides significant new guidance on determining whether promised goods and services are separately identifiable. While we understand that the complexity of these issues requires clarity, we believe that the Proposed Update goes beyond mere clarification and creates new guidance – an additional reason why the Board should consider extending the comment period.

Third and finally, we are concerned that the amplification of concepts, the modification of existing examples, and the addition of new examples are insufficiently clear to avoid diversity in practice. For example, the Proposed Update distinguishes between promising to directly support a contract or license and those activities that maintain or enhance the value of the contract or license. As discussed in our response to Question 5, we believe that customers consider both direct support and value enhancement in deciding whether or not to enter into a contract. Sellers' efforts in maintaining or enhancing contractual values are a consideration in contract pricing (which is an important ingredient in each contract). All of these factors affect the identification of the performance obligation, the satisfaction of which affects revenue recognition. We anticipate that the guidance in the Proposed Update would cause reporting entities to spend considerable time and effort justifying whether or not to include certain activities from the assessment of contracts, which may result in an increased diversity of practice.

We appreciate the Board's efforts to clarify its guidance on this very complex topic while maintaining its goal to utilize a principles-based approach. We support the Board and the TRG in their efforts to identify issues that could be troublesome for organizations as they seek to implement the guidance of FASB ASU No. 2014-09. We believe it is essential that the Board seek to issue guidance that promotes greater consistency in application and avoids diversity in practice.

Please see our responses to the Board's questions for respondents for additional explanation of our views.

Questions for Respondents

Question 1: Paragraphs 606-10-25-14(b) through 25-15 includes 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?

Response: The exact impact of changing the requirement to an optional practical expedient is uncertain because the Board has not provided guidance on how this would be accomplished in the Proposed Update. The Proposed Update does not indicate whether such an option should be

applied by the entire reporting entity, on a case-by-case basis for individual contracts, or for individual (but not necessarily all) subsidiaries consolidated into the reporting entity's financial statements. This proposed change may result in diversity in practice over the goods or services to be included in a bundle which could affect the timing of revenue recognition.

We request that the Board provide clear guidance on the application of the optional practical expedient approach.

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.

Response: We agree with this change, and believe it will assist entities in determining their performance obligations (particularly when certain promises to a customer are immaterial in the context of a contract).

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.

Response: This election could result in two accounting treatments for the same shipping and handling transaction to a customer. In addition, this approach would be inconsistent with the overarching theme of accounting for transactions based on their substance and not their legal form. We are also concerned that the proposed change could result in a lack of comparability between entities. Accordingly, we concur with the "Alternative Views," as expressed in paragraph BC68.

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?

Response: Paragraph 606-10-25-21 currently presents factors that make two or more promises identifiable in accordance with paragraph 606-10-25-19b. The proposed revisions present factors that do not make two or more promises identifiable in accordance with paragraph 606-10-25-19b. We believe that the proposed changes are somewhat counterintuitive and difficult to understand.

In addition, we suggest that the reasoning presented in paragraphs BC30 and BC31 be incorporated into the Proposed Update to provide useful guidance to financial preparers and auditors in making judgments regarding separately identifiable promises. Paragraph BC30 explains that the separately identifiable principle is intended to consider the level of integration, interrelation or interdependence among promises to transfer goods and services and paragraph

BC31b elaborates on this consideration. This useful guidance will not be included in the final accounting standards codification and will not be readily available for use in applying the final standard. We believe that this guidance is sufficiently useful and that it should be incorporated into the final standard.

In Example 10, *Identifying Performance Obligations*, we believe that the last sentence of paragraph 606-10-55-140F should read as follows: “Therefore, in this Example, the *entity* accounts for its promise ...”

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?

Response: The revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples, are very unclear. The Proposed Update distinguishes between direct support of a contract or license and activities that maintain or enhance the value of the contract or license or fulfillment. Distinguishing between each of these activities in practice is likely to be difficult and could result in diversity of practice. Customers consider direct support, value enhancement, and fulfillment activities in deciding whether to enter into a contract. The sellers’ efforts in maintaining or enhancing contractual values are a consideration in contract pricing, which is an important factor in each contract and the related revenue recognition. All of these factors affect the identification of the performance obligation – the satisfaction of which affects revenue recognition.

We anticipate that the guidance would cause reporting entities to spend considerable time and effort attempting to justify whether to include or exclude certain activities from the assessment of customer contracts; this may result in an increased diversity of practice. For example, Example 61, *Access to Intellectual Property*, considers entities that play games and provide a competitive team that do not transfer a good or service to the customer at a point in time. However, customers would be unlikely to consider circumstances under which the team would stop competing; rather, customers would assess a higher value to the license if the team were winning championships as opposed to having mediocre seasons. The Board eventually concluded to recognize the revenue from this license over time because the customer has the right to access the entity’s intellectual property throughout the license period. However, the rationale presented here could affect the decision to recognize revenue at a point in time as opposed to over a period of time.

The Proposed Update also distinguishes between activities engaged in satisfying a performance obligation and fulfillment which it defines as providing no value to the customer. As with the above activities, this may result in an increased diversity of practice.

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?

Response: As stated in our "General Comments," the Proposed Update introduces new terminology: functional intellectual property and symbolic intellectual property. Given the use of these terms in the Proposed Update, the Board should amend the "Master Glossary" with exact definitions. It is unclear whether these new terms provide the amplification, simplification, or clarification objectives of the Proposed Update. We believe these additions may cause more confusion.

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?

Response: We concur that the revisions adequately communicate the Board's intent in this regard.

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?

Response: We believe that the proposed guidance should have greater clarity. As discussed in paragraph BC60, the Board appears to be addressing instances in which two or more arrangements result in royalty payments. In these instances, the Board is attempting to identify the performance obligation that is satisfied in order to trigger the recognition of the royalty income. We recommend that, in these instances, the Board consider the royalty payments as a single arrangement, and that the related revenue be recognized when the provisions of the various contracts are satisfied.