



The Association of
Accountants and
Financial Professionals
in Business

July 20, 2015

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

Re: File Reference No. 2015-250, Exposure Draft of Proposed Accounting Standards Update, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft of Proposed ASU, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing* (Proposed ASU).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

The FRC supports the FASB's objective to provide additional clarifications and examples to reduce diversity in practice when entities adopt the new revenue standard and reduce the costs and complexity of applying the new guidance. We believe the proposed amendments address many of the concerns raised by stakeholders about the new standard on accounting for licenses of intellectual property (IP) and identifying performance obligations.

We continue to support the convergence of Accounting Standards Codification (ASC) 606 with IFRS 15, *Revenue from Contracts with Customers*. We understand that differences in regulatory environments may require slight differences in language or the amount of guidance provided. However, we also believe it would be helpful for the Board to explain whether differences in the wording they are proposing for each topic could result in the same conclusions for entities applying ASC 606 and those applying IFRS 15 or, as appropriate, identifying circumstances in which the outcomes are expected to be different.



Identifying performance obligations

We are encouraged by the proposed revisions to paragraph 606-10-25-21 and believe that these revisions, together with the new examples, will result in more consistent application of the new standard to similar contracts with customers.

We support the proposal to clarify that an entity would not be required to identify goods or services that are immaterial in the context of the contract as a necessary interim step to address issues with the application of standards in the present reporting environment. We believe that the proposed amendment would reduce the cost by eliminating tracking and evaluation of immaterial, yet more than trivial, items. However, we do not believe that providing this level of specificity on how to address inconsequential matters is sustainable over the long term. Rather, that the underlying issues regarding materiality judgments need to be addressed to foster the application of principles-based standards in the US environment.

We support the proposed principle to allow an election on accounting for shipping and handling, as this would reduce administrative burden while not materially diminishing the value of the financial information communicated in accordance with ASC 606. The Board may also wish to consider whether this change could be addressed as another element of what has been proposed for immaterial performance obligations. We also support the opportunity for an entity to make an accounting policy election as whether to follow the guidance on accounting for a series of distinct goods or services as a single performance obligation.

Licensing

We support the Board's efforts to improve the operability of the implementation guidance for determining the nature of an entity's promise in granting a license. Overall, we agree with the proposed classification of licenses of IP as either functional or symbolic.

Our responses to the specific questions posed in the Proposed ASU are set out in the Appendix. We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com



APPENDIX

Responses to questions posed in the Proposed ASU, *Revenue from Contracts with Customers (Topic 606)* — *Identifying Performance Obligations and Licensing*

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?*

We support the Board’s proposal to provide companies a choice on accounting for a series of distinct goods or services as a single performance obligation.

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.*

We support the proposed amendment that an entity would not be required to identify goods or services promised to a customer that are immaterial in the context of the contract. As discussed further in our cover letter, we believe that this is a necessary change but also believe that this approach is unsustainable over the long term if the goal of moving to principles-based standards is to be achieved.

We also suggest that because the term “immaterial” is usually used in the context of financial statements taken as a whole, not individual contracts, the Board consider using the word “insignificant” in the final standard, similar to ASC 606-10-32-16 for financing components.

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.*

We believe the proposed amendment would reduce the cost and complexity of applying the new guidance for entities that choose to apply the election.

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?*

We believe the revisions to paragraph 606-10-25-21 in the Proposed ASU would improve the operability of the standard because the revisions would make it easier for entities to understand the separately identifiable principle.



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?*

We support the Board's efforts to improve the operability of the guidance on licenses of IP. We also support the proposed classification of licenses of IP as either functional or symbolic based on whether the underlying IP has significant standalone functionality.

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?*

We understand this proposed requirement. However, we understand that some entities/industries may conclude revenue should be recognized at a point in time and others over time based on whether multiple services are accounted for as single or multiple performance obligations. We expect that this will result in some level of diversity in practice.

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?*

We believe that the revisions to paragraph 606-10-55-64 would adequately communicate the Board's intent that restrictions of time, geographic region or use in a license of IP are attributes of a 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.

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?*

We support the Board's efforts to clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of IP. We think the revised guidance should help alleviate confusion over when the "royalty constraint" guidance should be applied and also should clarify that a royalty stream should not be accounted for partially under the variable consideration guidance and partially under the sales- and usage-based royalty guidance.