June 30, 2015

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

Re: File Reference No. 2015-250

Dear Ms. Cosper:

We appreciate the opportunity to respond to the FASB's Exposure Draft, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarizes the views of those member firms who commented on the exposure draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the FASB and IASB's (the boards') efforts to respond to concerns raised by constituents about the revenue standard. We commend the boards for their ongoing collaboration, and encourage the boards to continue to work toward converged solutions to implementation issues related to the revenue standard whenever possible.

We believe the converged revenue standard is a significant achievement for financial reporting that will provide substantial benefits to both preparers and users over the long run. We are concerned that those benefits may be eroded if the boards decide to adopt different solutions to implementation issues. We acknowledge that the financial reporting outcomes might not be significantly different, even if the boards pursue different approaches. However, we believe that the outcomes will not be the same in all cases and the risk of divergence over time is much greater. We are also concerned that using different words to clarify or amend the standard will introduce additional complexity, particularly for those organizations that have reporting obligations under both U.S. GAAP and IFRS. In our view, if the boards agree on the underlying principles and intend the financial reporting outcomes to be the same, they should make the same amendments to maintain a converged standard.

Detailed responses to the FASB's questions are included in the Appendix attached to this letter. Our key observations on the Exposure Draft include:

Identifying performance obligations
We support the FASB's objective to better articulate the guidance on whether goods and services are "separately identifiable." We encourage both boards to adopt amendments to clarify this guidance, and to consider our specific recommendations noted in the Appendix to this letter. We observe that this area of the guidance will continue to require significant judgment.

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Licensing
We believe that both the FASB's and IASB's proposed approaches to clarify the licensing guidance would be an important improvement to the standard. We encourage the boards to agree on one alternative and make consistent amendments to the guidance to avoid the risk of divergence on this topic.

If you have any questions, please contact Patrick Durbin (+1 973 236 5152), Paul Fitzsimon (+1 416 869 2322), Brett Cohen (+1 973 236 7201), or Tony de Bell (+44 207 213 5336).

Very truly yours,

PricewaterhouseCoopers LLP

cc: International Accounting Standards Board

Appendix

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 proposal to make the series guidance in paragraphs 606-10-25-14(b) through 25-15 an optional practical expedient, and recommend that both boards make this amendment.

We acknowledge that different accounting outcomes could result from applying this guidance. For example, it could result in different allocations of transaction price and timing of revenue recognition in certain fact patterns.

However, we believe that assessing whether an arrangement meets the series criteria has created unintended complexity. The types of contracts that appear to meet the criteria extend beyond repetitive services. The FASB staff noted in the Transition Resource Group (TRG) agenda paper 27 that it believes goods and services do not have to be delivered consecutively in order to qualify as a series. We also note that promises to transfer goods that meet the criteria for recognition over time (for example, certain customized goods) could meet the series criteria. However, similar contracts to transfer goods that are *not* recognized over time will *not* meet the series criteria. For these reasons, we've observed that it can be difficult to navigate whether a contract meets the series criteria. We believe the time spent assessing whether contracts meet the criteria is not cost effective in many cases.

Making the series guidance optional would appear to be consistent with the boards' intention that the guidance should simplify application of the revenue model. It would also allow entities to choose to instead follow the principles in the standard.

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 believe specifying that an entity is not required to identify promised goods or services that are immaterial in the context of the contract would reduce the cost and complexity of applying the standard, without changing its principle. We support the objective of not requiring entities to incur time and cost to identify and track items that are unlikely to materially impact the financial statements. We believe the amendments are particularly helpful from a U.S. GAAP perspective in light of existing U.S. GAAP guidance on inconsequential or perfunctory obligations, the U.S. regulatory environment, and the language in BC90 (in the original standard), which states that an entity is not exempted from accounting for performance obligations that are inconsequential or perfunctory.

We do not believe this amendment will result in unintended outcomes if entities use reasonable judgment and appropriately apply the concept of materiality. We understand that outside of the U.S. regulatory environment, it is generally viewed that this amendment is not necessary. We also acknowledge that similar guidance is not used in any other context in the IFRS Framework and that "materiality" is typically assessed in the context of the financial statements as a whole, as opposed to a lower level (such as the contract level). We encourage the boards to agree to an approach that does not result in entities being required to identify and track items that are unlikely to be material, but also limits the risk of stakeholders interpreting that different guidance results in different outcomes under U.S. GAAP and IFRS.

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 related to shipping and handling activities would reduce the cost and complexity of applying the revenue standard for some entities. We also believe the requirement to identify and account for promises to ship goods creates additional complexity and will not necessarily provide useful information when the revenue allocated to shipping and handling is not significant and the shipping time is relatively short. We acknowledge that the introduction of this election may result in diversity in practice that could, in some instances, have a material impact to the financial statements. Although not our understanding of the FASB's intent, if the primary objective is to address situations in which the impact of accounting for shipping services is immaterial, this could be achieved through the proposed amendment on immaterial goods or services.

Should the FASB decide to make this amendment, we recommend that the amendments specify that the costs of shipping and handling be accrued when the related revenue is recognized, if an entity makes the election to account for shipping and handling as a fulfillment cost. We note that the election provides an exception to the accounting for revenue and therefore, we believe a corresponding exception should be provided for the accounting for costs (that is, a requirement to accrue costs that might not otherwise result in a liability based on other existing guidance).

We also recommend that the amendments clarify whether an entity is required to assess if it is the principal or an agent with respect to the shipping and handling service when it makes this election. We believe application of the election would result in recognition of revenue on a "gross" basis, even if the entity is an agent (that is, it is only arranging for another party to provide shipping). In other words, reported revenue would include the gross consideration received from customers for shipping. If that is the intended outcome, we recommend clarifying that entities making the election are not required to assess whether they are the principal or agent for shipping and handling.

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 proposed revisions to paragraph 606-10-25-21 and the related examples clarify and improve the operability of the revenue standard. We recommend both boards make the same amendments to the standard and the examples to clarify the principle and indicators.

We question whether the "highly interdependent or highly interrelated" indicator in paragraph 606-10-25-21(c) is necessary in light of the clarified principle and the other indicators. In our view, the revised principle and indicators in paragraphs 606-10-25-21(a) and 25-21(b) provide sufficient guidance to draw an appropriate conclusion. We believe the "highly interdependent or highly interrelated" indicator may continue to create confusion, and the analysis of this factor in certain of the revised examples appears unnecessarily complex. We acknowledge that there are two examples (Example 10, Case C, and Example 55), with similar fact patterns, that reference the "highly interdependent or highly interrelated" indicator as the basis for the conclusion that the license and updates are not separately identifiable. We believe the same conclusion could also be reached based on the principle of "separately identifiable" and the indicator in 606-10-25-21(b), which refers to whether one or more of the goods or services significantly modifies one or more of the other goods in the contract.

Additionally, we have the following observations and recommendations on the new examples:

Example 10, Case B—Significant integration service (multiple items)

We agree that multiple units could represent a single performance obligation in certain fact patterns. Judgment will be required in making this determination. We believe it would be helpful to better articulate the factors in Example 10, Case B that lead to a conclusion that the multiple units are a single performance obligation as compared to another contract where the multiple units are separate performance obligations (due to, for example, the absence of a significant integration service). We also recommend either clarifying or removing the last sentence of the example (the last sentence of paragraph 606-10-55-140C). We believe the sentence, which references the "highly interdependent or highly interrelated" indicator, is not necessary (since the example is focused on there being a significant integration service) and creates a risk that the conclusion in the example might be applied more broadly than we believe the FASB intended.

Example 11, Case E—Promises are separately identifiable (consumables):

We note that in Example 11, Case E, the conclusion is that the equipment and consumables are not highly interdependent or highly interrelated, in part because "the customer can readily obtain the consumables in the contract from other entities." We are concerned that this example implies that the consumables *must* be readily available from other entities in order to reach a conclusion that the equipment and consumables are distinct. We understand that this may not be the FASB's intent; therefore, we recommend clarifying the example to remove the reference to obtaining the consumables from other entities.

Example 61A, Case B—Contract includes two promises

We note that in Example 61A, Case B, the analysis of whether the promises are distinct refers to "viewers' desire to watch Seasons 1-4 on the customer's network" (606-10-55-399H(b)). We recommend removing the reference to the "viewers' desire" as this does not appear consistent with the principles in the standard, and may be difficult to assess in many cases.

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 believe that both the approach proposed by the FASB and the approach the IASB has agreed to pursue would clarify and improve the operability of the licensing implementation guidance. Both alternatives clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property (IP) or to provide a right to use the entity's IP as it exists at the point in time the license is granted.

Each alternative has its own merits and disadvantages. We believe that the FASB's proposed approach of classifying licenses as either functional or symbolic appears easier to apply and will reduce the possibility of different accounting for similar fact patterns. However, this model is rules-based and varies from the principles in the standard, which increases the risk of unintended consequences. We also observe that there is a subset of arrangements (specifically, symbolic licenses for which the entity has no ongoing obligations) for which the FASB's proposed approach will result in an outcome (over time recognition)

that is not consistent with the principle. We are also aware that there may be certain licenses of IP for which the distinction between functional and symbolic will still require significant judgment (for example, a license to broadcast a movie together with the rights to display the related character images on the licensee's website) and that a more principles-based approach might be easier to apply in those circumstances.

We acknowledge that, in many cases, both proposed licensing models may result in similar accounting, but we are concerned that if the boards use different models, the outcomes will not be the same in all cases. We therefore recommend that the boards select one alternative and make the same amendments to both standards.

In the event the boards do not agree on a single approach, the FASB might consider requiring immediate recognition of revenue associated with a symbolic license in situations where the licensor is clearly performing no activities associated with the IP. This would narrow the potential for significantly different outcomes under the two approaches. Aside from licenses of "historic" brands, we believe this could occur in situations where a business is sold, but the seller decides to license, rather than sell, the related brand.

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 do not believe the revision clarifies the scope and applicability of the licensing implementation guidance. The TRG discussions suggested that it is clear how to apply the guidance when the license is predominant, based on language in the basis for conclusions, and how to apply the guidance when the license is insignificant. However, it is unclear how to apply the guidance in situations in which the license is neither predominant nor insignificant. We do not think the revision addresses the concerns raised by the TRG, and we are concerned the revision could create additional confusion and complexity.

For example, in Example 56, Case A, in the revenue standard, the arrangement consists of a ten-year license to a mature drug product and manufacturing services. The example concludes that the license and services are not distinct. It is unclear whether the entity would evaluate the combined performance obligation under the licensing implementation guidance or evaluate it as a service arrangement. The licensing guidance would indicate that the license is functional IP and thus, revenue should be recognized at a point in time. The general principles in the standard would indicate that revenue from a service arrangement should be recognized over time.

We recommend that the boards consider specifying that the licensing guidance should be applied only when the license is the predominant component of the performance obligation (as opposed to including this concept only in the basis for conclusions).

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 agree that the revisions clarify that restrictions of time, geographical region, or use in a license do not affect the number of promises in a contract.

Example 61B provides an example of a license that appears, on its face, to contain a restriction of time as referred to in 606-10-55-64 (restricting the customer's rights to broadcast the movie to Years 1-3 and Years 8-10). We observe that the example does not explain how the conclusion (that the provision is not a restriction) is consistent with the principle on restrictions within a license. We recommend clarifying the guidance or the example to explain the factors that lead to the conclusion that the contractual provision in this example is not a restriction in a single license, but instead a separate performance obligation.

We are concerned that lack of clarity regarding when a contractual provision is or is not a restriction will create additional complexity and diversity in practice. For example, some have questioned whether a license to functional IP should be separated into multiple promises if the geographical restrictions in the license change during the license term.

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 believe the proposed amendments clarify when to apply the sales- and usage-based royalties exception if a license is not distinct, and we encourage both boards to make the same amendments. We believe other questions remain related to the scope of the sales- and usage-based royalties exception that could result in diversity in practice. For example, it is unclear whether an "in-substance" sale (such as an exclusive perpetual license) would qualify for the exception. However, we believe the proposed amendment does resolve a significant implementation issue related to the exception.

We also note that the revisions to Example 60 state that it is not necessary to determine the nature of the license because the consideration is in the form of a sales-based royalty. We believe it would be necessary to determine the nature of a license in order to apply the guidance in 606-10-55-65, which states that recognition of the royalty is at the later of when the subsequent sale occurs and the performance obligation has been satisfied. In order to determine whether the performance obligation has been satisfied, we believe it is necessary to first determine the nature of the license (that is, whether it is the right to use or the right to access IP). We also recommend clarifying how the guidance in 606-10-55-65 (the "later of" timing) should be applied when the license is a right to access intellectual property. For example, an entity could license symbolic IP in exchange for a royalty that is only earned during a portion of the total license period.