Private Company Financial Reporting Committee
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Judith H. O'Dell CPA CVA
Chair

January 21, 2011

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Accounting Standards Update, *Revenue from Contracts with Customers* ("proposed ASU")

Supplemental Letter

Dear Ms. Seidman:

On October 29, 2010, the Private Company Financial Reporting Committee sent its recommendations and comments to the FASB on the proposed ASU. The PCFRC has continued discussing and evaluating the impact of the proposed ASU on the private company sector. Based on those discussions and evaluation, we offer the following supplemental recommendations and answers to respondent questions 8, 9, and 16 below.

Respondent Question 8: *Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, Topic 330 or IAS 2; Topic 360 or IAS 16; and Topic 985 on software or IAS 38, Intangible Assets), an entity should recognize an asset only if those costs meet specified criteria. Do you think that the proposed guidance on accounting for the costs of fulfilling a contract is operational and sufficient? If not, why?*

Respondent Question 9: *Paragraph 58 proposes the costs that relate directly to a contract for the purposes of*

> *(a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and*
> *(b) any additional liability recognized for an onerous performance obligation.*

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

PCFRC Response to Questions 8 and 9

The PCFRC is concerned that the proposed guidance on costs that relate directly to a contract and the recognition of those amounts as assets may lead to inconsistency in application and financial reporting. For example, in the construction industry most construction contracts utilize American Institute of Architects ("AIA") forms. These forms specify allowable job costs and include certain indirect costs. Contractors may require further clarification and guidance on how the proposed guidance differs from the manner in which they currently recognize costs related to contracts following these AIA forms. In addition, the Committee is concerned that the proposed guidance may lead to inconsistency in the reporting of cost of sales for long-term manufacturing contracts (job shop manufacturer versus a company that manufactures for inventory.) The PCFRC recommends that further clarification, application guidance, and more examples of costs that would be eligible for capitalization should be provided by the FASB.

Respondent Question 16: *The Boards propose the following if a license is not considered to be a sale of intellectual property:*

> *(a) if an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license; and*
> *(b) if an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.*

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?

PCFRC Response to Question 16

The PCFRC is uncertain as to why revenue recognition is dependent upon whether or not a license is exclusive or nonexclusive. Moreover, the Committee believes that the guidance on distinguishing between exclusive and nonexclusive licenses is ambiguous. As such, inconsistent application and diversity in financial reporting may result as well as an increased risk of structuring and manipulation. The PCFRC recommends that the FASB further clarify why revenue recognition is dependent upon the exclusivity or nonexclusivity of a license and provide additional guidance on how one differentiates between exclusive and nonexclusive licenses.

The PCFRC appreciates the FASB's consideration of these recommendations and comments. Please feel free to contact me if you have any questions or comments.

Sincerely,

Judith H. O'Dell
Chair
Private Company Financial Reporting Committee