



**Association for
Financial Professionals**

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April 9, 2002

Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Proposal for a New Agenda Project, *Issues Related to the
Recognition of Revenues and Liabilities*

Dear Mr. Lucas:

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Proposal for a New Agenda Project *Issues Related to the Recognition of Revenues and Liabilities*. We commend the Financial Accounting Standards Board (FASB) for the thoughtfulness and attention to detail found throughout the proposal and appendix.

The membership of our Association currently includes approximately 15,000 financial executives employed by over 5,000 corporations and other organizations. Our members represent a broad spectrum of financial disciplines and their organizations are drawn generally from the Fortune 1000 and middle-market companies in a wide variety of industries, including manufacturing, retail, energy, financial services, and technology. AFP supports members throughout their careers with research, continuing education, career development, professional certifications, publications, representation to key legislators and regulators, and the development of industry standards.

AFP supports the proposal for the new agenda project. However, we strongly urge the Financial Accounting Standards Board not to issue a standard that will change revenue recognition practices that have been established and accepted for certain industries or transactions. In such cases, accounting practices have successfully evolved from existing generally accepted accounting principles (GAAP) or an analogy of GAAP. Further, AFP believes that the American Institute of Certified Public Accountants' Statement of Position (SOP) 97-2 *Software Revenue Recognition* provides a good basic accounting model applicable to many industries and transactions. We agree with the Securities and Exchange Commission (SEC) that the four basic criteria in that SOP should be a foundation for all revenue recognition principles.

AFP also strongly believes that the Board should consider issuing a broad standard based on conceptual principles rather than a prescriptive statement that attempts to define revenues and liabilities in every situation. A broad standard would reduce the complexity of accounting standards and would require financial reporting to reflect economic substance. Although there is a risk that divergent accounting could occur under broad conceptual standards, the greater risk is that detailed implementation guidance tends to draw “bright lines” suggesting that any practice is acceptable if it is not expressly prohibited. Applying good judgment with respect to underlying events should result in consistent accounting. We agree with SEC chief accountant Robert Herdman who testified that “similar transactions in this system of principle-based standards will not be reported in materially different ways, preserving comparability.”

Comments Addressing Major Questions in *Request for Comments*

- 1. Is there a need for the FASB or others to comprehensively address issues associated with the recognition of revenues and liabilities? If, yes, should the FASB take on such an effort or defer to others? If defer to others, to whom?*

AFP believes that there is the need to comprehensively address the issues associated with the recognition of revenues and liabilities. FASB should take on this project; however, it should seek the views of the International Accounting Standards Board (IASB). The ultimate goal would be harmonization between U.S. GAAP and that of IASB for the recognition of revenues and liabilities. In addition, FASB should share with IASB any decisions or information that IASB could use in its performance reporting project. We strongly support IASB’s mission to converge national and international accounting standards into one set of high quality standards.

- 2. Is the proposed scope of such a project as described in this proposal insufficient, appropriate, or too ambitious?*

In general, we believe that the proposed scope is appropriate and that the Board should clarify the definitions of revenues, gains, and comprehensive income, as described in the proposal. However, with regard to the inclusion of liabilities in the scope, we urge the Board to exercise restraint in this area as the Board already has a liabilities and equity project underway. We do not believe this revenue project should become excessively delayed or encumbered by the inclusion of liabilities in the scope. We agree with the iterative approach where the Board would test tentative conceptual conclusions for reasonableness and applicability against the inventory of accepted practices. However, we strongly urge the Board to think carefully about adopting any tentative conclusion that would change a current practice.

3. *Should specific issues identified above or in the appendix be excluded from the scope of the proposed project? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.*

As stated earlier, AFP urges the Board to consider issuing a broad standard based on conceptual principles rather than a prescriptive statement that attempts to define revenues and liabilities in every situation. In our opinion, SOP 97-2 *Software Revenue Recognition* provides a good basic accounting model applicable to many industries and transactions and, further, the four basic criteria specified in the statement should become a foundation for all revenue recognition principles.

A broad standard must be based on sound concepts. Therefore, we urge that the scope explicitly include amending Concepts Statement 5 to improve revenue recognition criteria and Concepts Statement 6 to refine the definitions of revenues and gains. The project also should amend the conceptual guidance for liabilities in Concepts Statements 5 and 6. The scope should not include a general standard on liability recognition because such a major undertaking would delay the issuance of this revenue recognition standard.

Also, as stated earlier, AFP urges the Board not to issue a standard that will change revenue recognition practices that have been established and accepted for certain industries or transactions. Questions five through nine and eleven in *Issues Primarily Related to Revenues* in the proposal's appendix deal with revenue recognition practices that have become GAAP. AFP encourages the Board to gain an understanding of the reasoning behind the practices and incorporate that reasoning into the conceptual guidance. Conversely, the Board should be wary of issuing conceptual guidance that will result in a change to an accepted method of accounting for revenue.

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On behalf of our 15,000 members, the AFP genuinely appreciates the opportunity to comment on the FASB proposal. If you have any questions, please contact Gregory Fletcher, AFP's Director of Financial Accounting and Reporting, at (301) 961-8869.

Sincerely,



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