

November 13, 2015

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2015-320

Dear Mr. Golden:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the proposed Accounting Standards Update: Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (the “proposed ASU” or “exposure draft”), issued by the Financial Accounting Standards Board (“FASB”).

Overall, we are in general agreement with the proposed changes in the exposure draft and are appreciative of the FASB’s continued willingness to revise the standard to provide greater clarity and allow for increased operability.

In response to question 3, we are in favor of converged collectibility guidance and, therefore, believe it is appropriate for the FASB to revise the definition of probable, for this Topic only, from “likely to occur” to “more likely than not.” For multinational corporations that have both U.S. GAAP and IFRS statutory reporting requirements, we believe having only one methodology for assessing collectibility will reduce cost and complexity. Additionally, we agree with the notion in BC17 “that a collectibility threshold set at that level might be more conceptually consistent with the objective of considering collectibility in Step 1 of the revenue model, that is, to identify nonsubstantive arrangements.”

While we agree with the other conceptual changes made to the collectibility guidance, we believe some additional revisions may improve the understandability of the guidance. In this regard, we believe someone who has not been following the FASB and Transition Resource Group discussions on this topic may not understand the intent of the new guidance added to paragraph 606-10-25-3. The distinction between “goods or services that will be transferred” versus “all the goods or services” may not be clear without referring to 606-10-55-3A to 3C. We think it would be helpful to provide further explanation within paragraph 606-10-25-3.

We also believe there is a lack of clarity regarding how to apply paragraph 606-10-25-7(c) in combination with collectibility example 1. Paragraph 606-10-25-7(c) indicates that if a contract does not meet the criteria in paragraph 606-10-25-1 (i.e., if a contract does not exist) and an entity receives consideration from the customer, the entity can recognize the consideration received as revenue if the entity has transferred control of the goods or services, the entity has stopped transferring goods and has no obligation to transfer additional goods, and the consideration is nonrefundable. However, paragraph 606-10-55-98A in example 1 indicates that control has not passed to the customer because, in part, “there is no contract between the parties in accordance with paragraph 606-10-25-1.” Since the premise of paragraph 606-10-25-7(c) is that a contract does not exist, we do not understand how you could ever meet the criteria in that paragraph (i.e., conclude that control has passed) if, as suggested in example 1, you cannot conclude control has been transferred when a contract does not exist. This results in a circular analysis. As such, we believe example 1 should be revised to remove reference to the conclusion that control has not transferred because there is no contract between the parties.

We agree with the proposed revisions related to the sales tax policy election, the definition of a completed contract and noncash consideration. However, with respect to noncash consideration example 31, we think one clarification may help a reader to better understand the example. In this regard, the intent of the following sentence may be unclear: “Rather, the entity references the GAAP related to the form of the noncash consideration received in order

to determine whether and how any subsequent changes in fair value should be recognized.” We believe it may be helpful to briefly explain how to recognize the subsequent changes in fair value for the 5200 shares used in the example.

Regarding the practical expedient for contract modifications at transition, we do not agree with and believe there is a lack of clarity in the standard regarding how to apply the proposed guidance in paragraph 606-10-65-1(f)(4), i.e., Alternative B, or the “use of hindsight” expedient, from FASB Agenda ref 1. In fact, we are highly supportive of Alternative A, or the “frozen balances” expedient, from that paper. In our industry, long term arrangements may be modified on a frequent basis and we believe it would be impractical and complex to apply the use of hindsight method. We believe this expedient provides little relief and would still require an entity to identify all contract modifications in an arrangement, all satisfied and unsatisfied performance obligations and the standalone selling prices for each. It is our belief that the frozen balances expedient would be much less costly and complex and we encourage both the FASB and International Accounting Standards Board (“IASB”) to adopt this approach. To the extent the expedient remains as is, we believe it is crucial for the FASB and IASB to be aligned on the date at which the expedient should be applied. We prefer the FASB recommended date versus the date proposed by the IASB. For a multinational corporation, it adds an unnecessary degree of difficulty to assess contract modifications at transition if the expedient differs under U.S GAAP and IFRS. Finally, we believe an illustrative example should be provided to make the expedient more understandable.

Thank you for the opportunity to comment on this proposed ASU. If you have any questions or wish to discuss our comments further, please do not hesitate to contact me at 914-766-2008.

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