



June 26, 2015

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
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Norwalk, CT 06856-5116  
smcospers@fasb.org

Delivery via email

Re: Proposed Accounting Standards Update ASC 405-20 *Liabilities—Extinguishment of Liabilities; Recognition of Breakage for Certain Prepaid Stored-Value Cards*

Dear Ms. Cospers:

Blackhawk Network Holdings, Inc. (“Blackhawk” or “we”) appreciates the Board and the Emerging Issue Task Force’s consideration of our previous submission regarding EITF Issue No. 15-B, “Recognition of Breakage for No-Cash Prepaid Cards” and is very pleased that the Board has proposed the Exposure Draft, *Recognition of Breakage for Certain Prepaid Stored-Value Cards*. We believe that the resulting Exposure Draft addresses our concerns regarding derecognition of these liabilities. We concur with the derecognition principals in the Exposure Draft and believe that the Exposure Draft provides for a more faithful representation of the economic obligations of prepaid stored-value cards.

We thank the Board for the opportunity to provide comments on the Exposure Draft *Recognition of Breakage for Certain Prepaid Stored-Value Cards*.

**Question 1: Should the scope of the proposed amendments be limited to prepaid stored-value card liabilities resulting from the sale of cards with the characteristics specified in this proposed Update? If not, what other liabilities should be included in the scope of this proposed Update?**

We would like the Board to consider expanding the scope of the Accounting Standard Update to include prepaid stored-value cards that have expiration dates. While we understand that the existing guidance in ASC 405-20 provides for derecognition of the financial liability for such cards upon expiration, we believe that expanding the scope to allow for breakage recognition prior to expiration on similar prepaid stored-value cards that have expiration dates would provide for more consistency in the pattern of income statement recognition for breakage and balance sheet presentation of economically similar instruments.

We would like the Board to understand that while in the U.S., the Credit Card Accountability Responsibility and Disclosure Act of 2009 and other state laws substantially prohibit cards sold to consumers from expiring, cards sold in international jurisdictions generally may expire. For commercial reasons, companies choose a variety of card expiration date ranges. Additionally, in the US, cards may expire if purchased by a business and given to a consumer (for example, as a consumer incentive to purchase a product). Most entities make use of card expiration rules where legal, and when expiration is prohibited, entities may use monthly fees as a mechanism to legally remove its obligation, which start after a given length of time after activation, with one year being a typical timeframe. From experience, we know that consumers redeem cards very quickly after sale and that an entity would expect to be entitled to a breakage amount. Under the proposed ASU, an entity with cards outstanding in certain jurisdictions where expiration is prohibited could derecognize the financial liability for such cards and recognize the expected breakage amount in proportion to card redemption, whereas in other jurisdictions where cards have expiration dates the entity would be required to wait until the cards expire before they could derecognize the financial liability and recognize breakage.

By way of example, let's assume Company A sells cards in the US, UK and Australia and sold \$1,000 (ignoring foreign exchange) of cards in each jurisdiction on January 1, 20X1. From past experience based on a large pool of several years' worth of homogeneous transactions, Company A expects that consumers redeem 90% of the balance within one year of sale and that it will be entitled to the remaining 10% as breakage. The cards sold in the US have no expiration; the cards sold in the UK expire after two years; and the cards sold in Australia expire after three years. Under the proposed ASU, at December 31, 20X1, Company A would report a liability of \$200: Consumers have redeemed \$2,700 (\$3,000 x 90%), and Company A has also derecognized the financial liability and recognized breakage for \$100 for US cards, but still reports the remaining \$200 liability for cards sold in the UK and Australia even though Company A does not expect the consumers to redeem the cards. At December 31, 20X2, assuming no further redemptions, Company A reports a remaining liability of \$100 for the cards that were sold in Australia since Company A has derecognized the financial liability and recognized breakage for \$100 for the cards sold in the UK as the cards have now expired. Finally, on December 31, 20X3, Company A reports no remaining liability since Company A has derecognized the financial liability and recognized breakage for \$100 for the cards sold in Australia as the cards have expired. We believe that the users of financial statements would not find this pattern of derecognition to be useful since Company A reported liabilities in excess of what it expected to settle based on the breakage history of a large pool of similar homogenous transactions, nor find this pattern of recognition of breakage income to be useful since the timing of the recognition of breakage is not consistent with the underlying economic patterns. Instead, if the scope of the proposed amendments were expanded to include cards with expiration dates, Company A would report no liabilities at December 31, 20X1. Under this expanded scope approach, Company A would adjust the amount of expected breakage to reflect the amount of actual breakage upon card expiration.

We believe that there may be additional types of liabilities for which this derecognition guidance could be useful, and we suggest that the Board consider expanding the scope to include such liabilities as part of another project.

**Question 2: If an entity expects to be entitled to a breakage amount, should a prepaid stored-value card liability within the scope of the proposed amendments be derecognized in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur? If an entity does not expect to be entitled to a breakage amount, should the liability be derecognized when the likelihood of the customer exercising its remaining rights becomes remote? If not, what breakage model would be appropriate?**

We believe that the derecognition provisions presented in the proposed ASU represent the appropriate methodology since it is consistent with the guidance regarding customers' unexercised rights in ASC 606.

**Question 3: Should an entity be required to provide the disclosures specified in this proposed Update? Should any other disclosures be required? If yes, please explain what disclosures should be provided.**

We believe that the proposed disclosure requirements are appropriate.

**Question 4: Should the proposed amendments be applied using a modified retrospective transition method (requiring a cumulative-effect adjustment as of the beginning of the annual period in which the guidance is effective)? If not, please explain why.**

We believe that entities should have the option of using the complete or modified retrospective transition methods. The impact of the proposed guidance may vary significantly among entities. For those companies where the proposed guidance is more significant, particularly where the derecognition of the liability significantly impacts revenues, use of a complete retrospective transition would provide comparable financial statements, which we believe that the users of the financial statements would find useful. Additionally, as the FASB noted in BC2, diversity in practice currently exists and certain entities are already derecognizing these liabilities. As such, a complete retrospective adoption would provide those entities with a smoother transition approach.

**Question 5: How much time would be needed to implement the proposed amendments? Should early adoption be permitted?**

We believe that most entities would be able to implement the proposed amendments fairly quickly and that early adoption should be permitted. Early adoption would allow for quicker alignment between these prepaid cards which are considered financial liabilities and prepaid cards, which are considered deferred revenue obligations for which derecognition guidance already exists. We believe that alignment of these types of obligations is beneficial to the users of the financial statements. Additionally, early adoption would more quickly alleviate the diversity in practice issues noted by the Board.

We thank you for the opportunity to comment on this matter and welcome the opportunity to address and questions that you may have on our opinions or if you have any additional questions.

Sincerely yours,

A handwritten signature in cursive script that reads "Joan B. Lockie".

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