



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

October 9, 2015

Technical Director
File Ref: 2015-290
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Comment Letter on Proposed FASB Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

We appreciate the opportunity to comment on the Board's proposed ASU, *Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. We support the FASB's objective to clarify the principal-agent guidance and we believe that the proposed ASU would improve the operability and understandability of that guidance. We also continue to support maintaining convergence between FASB ASU No. 2014-09, *Revenue from Contracts with Customers*, and IFRS 15, *Revenue from Contracts with Customers*.

While we generally support the proposed ASU, we believe credit risk should not be an indicator of whether a principal obtains control of a good or service. In addition, we are concerned with the discussion in the Basis for Conclusions (BC33 – BC38) about estimating gross revenue as a principal. The FASB's and IASB's Bases are not converged in this area, which we believe could lead to unintended and unnecessary diversity in practice. We also believe that issues related to estimating gross revenue as a principal may exist in a broader array of circumstances than the Boards appear to be contemplating. Our views are more fully described in our responses to the Board's questions in Appendix I to this letter.

* * * * *

We look forward to working with the FASB as it continues to improve the principal-agent guidance of the new revenue standard. If you have questions about our comments or wish to discuss the matters addressed herein, please contact Brian Allen at (212) 954-3621 (ballen@kpmg.com) or Prabhakar Kalavacherla at (415) 963-8657 (pkalavacherla@kpmg.com).

Sincerely,

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are bold and slightly slanted, with a casual, professional appearance.

KPMG LLP

Appendix 1 – Responses to the Board’s questions

Question 1 – Unit of account

The proposed amendments to paragraph 606-10-55-36 clarify the unit of account (the “specified good or service”) at which an entity would determine whether it is a principal or an agent and clarify that an entity can be both a principal and an agent in a single contract. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

We believe this proposal addresses a key area of concern discussed at the Transition Resource Group (TRG) meeting on July 18, 2014, and agree with the proposed clarification.

Question 2 – Application of the control principle

Paragraph 606-10-55-37A clarifies application of the control principle to certain types of arrangements by explaining what a principal controls before the specified good or service is transferred to the customer. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

The proposed amendment is helpful in clarifying what an entity controls when the entity is the principal in an arrangement in which another party is involved in providing the specified goods or services to a customer. We believe paragraph 606-10-55-37A could be further clarified by indicating that an entity is a principal when it obtains control of *either* of the items listed.

Question 3 – Indicators of control

The proposed amendments to paragraph 606-10-55-39 provide indicators of when an entity controls the specified good or service before it is transferred to the customer and, therefore, would be a principal. The amendments also clarify the relationship of each indicator to the control principle in paragraph 606-10-55-37. Paragraph 606-10-55-39A was added to explain that the indicators may be more or less relevant to the principal versus agent assessment depending on the nature of the arrangement and that different indicators may provide more or less persuasive evidence about whether the entity controls the specified good or service before it is transferred to the customer in different contracts. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

We support the proposal to reframe principal versus agent considerations by replacing indicators that an entity is an agent with indicators that an entity controls a specified good or service as a principal before it transfers the good or service to its customer. We believe this is an improvement to the guidance in the revenue standard, and responds to a key area of concern discussed at the TRG meeting on July 18, 2014.

However, we do not believe that credit risk is an appropriate indicator of whether an entity controls a specified good or service because:

- An entity assesses whether it is a principal or an agent *after* it concludes that a contract exists and that collectability of the amount to which it is entitled from its customer is probable. As a result, credit risk appears to be a remote risk.

- The proposed guidance for this indicator also states that an agent may choose to accept credit risk as part of its overall service of arranging to provide the specified good or service. Even if the agent does not accept credit risk from the end customer, it generally would have credit risk from the principal. We believe credit risk is factored into the pricing between parties and is not relevant to evaluating whether an entity controls the economic benefits of a specified good or service.

Question 4 – Examples on principal versus agent

Would the revisions to the principal versus agent illustrative examples (Examples 45 through 48) and the added illustrative examples (Examples 46A and 48A) improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

We believe that the new and revised illustrative examples align with the proposed amendments to the principal versus agent guidance, which generally will improve the operability and understandability of the guidance. However, we note that Example 46A points to credit risk as an indicator of control and we do not believe it is a necessary indicator to conclude the entity is the principal. The examples support the view that a credit risk indicator does not contribute to the analysis of whether an entity obtains control of a specified good or service.

Other Matters – Basis of Conclusions (BC33 – BC38)

The Basis for Conclusions addresses transactions in which an entity is a principal in a transaction but is (and expects to remain) unaware of the price charged to the end customer. In transactions in which an entity is entitled to a fixed amount (e.g., \$1 per unit sold) but does not know the price that the intermediary charges the end customer, the entity should record the net amount received from the intermediary as revenue. In transactions in which an entity is entitled to a fixed percentage of a contractually agreed list price from an intermediary, the entity reports the gross revenue (i.e., list price). In each example, the entity is unaware of the price charged to the end customer. Preparers may find it challenging to align their specific facts and circumstances with the examples provided in the Basis. There may be different interpretations of what is considered a list price and whether its presence should, by itself, determine whether revenue is reported gross at the list price. Diversity in practice could arise for economically similar transactions based on these interpretations and how a contract is structured. Also, the FASB's and IASB's Bases for Conclusions are not converged and we believe this could further contribute to diversity in practice.

We believe that transactions in which an entity is a principal but is unaware of the price charged to the customer for its goods or services by an intermediary are more prevalent than the Board appears to be contemplating. In addition to virtual gaming and social media platforms, this situation can exist, for example, for gift cards and merchant discount offerings sold through third parties and extended warranty and other product offerings sold through distributor networks.

Because of that potentially broader applicability, we propose that the FASB incorporate *into its guidance* the same language that the IASB included in its Basis for Conclusions (BC55 of IFRS 15). Even when an entity that is a principal is unaware of amounts that are being charged to customers, the entity generally would be able to apply judgment and estimate the consideration to which it is entitled.