

October 13, 2015

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

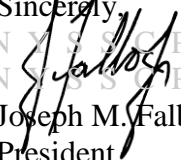
**Re: Proposed Accounting Standards Update – Revenue from Contracts with Customers
(Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)**

(File Reference No. 2015-290)

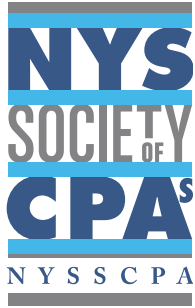
Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee at (212) 303-1058, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED ACCOUNTING STANDARDS UPDATE – REVENUE FROM
CONTRACTS WITH CUSTOMERS (TOPIC 606): PRINCIPAL VERSUS AGENT
CONSIDERATIONS (REPORTING REVENUE GROSS VERSUS NET)**

(File Reference No. 2015-290)

October 13, 2015

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update – Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

(File Reference No. 2015-290)

General Comments

We are pleased to respond to the Financial Accounting Standards Board’s (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update (ASU), *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (Proposed Update). The stated purpose of the Proposed Update is to clarify the implementation guidance on principal versus agent considerations that was raised by the Transition Resource Group for Revenue Recognition (TRG) regarding the existing guidance in ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

We appreciate the Board’s efforts to clarify its guidance on this very complex topic while maintaining its goal to utilize a principles-based approach. We support the Board and the TRG in their efforts to identify issues that could be troublesome for organizations as they seek to implement the guidance of FASB ASU No. 2014-09. We believe it is essential that the Board seek to issue guidance that promotes greater consistency in application, thereby avoiding diversity in practice.

In general, we believe the proposed guidance and examples clarify the principal versus agent considerations. We also believe the proposed guidance could be enhanced. For example, the section “Principal versus Agent Considerations” (proposed paragraph 606-10-55-36 to 55-40) could be interpreted in ways different from that presented in the examples. The Proposed Update would be improved if the guidance in the “Principal versus Agent Considerations” section was cross referenced (and linked) to the applicable examples. Additional commentary is presented in our responses to the questions below.

Specific Comments

Question 1: 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.

Response: We agree that the requirement to consider each distinct good or service concept enhances the guidance in determining whether the reporting entity is a principal or agent.

Question 2: 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.

Response: In general, the proposed amendments improve the operability and understandability of the principal versus agent guidance. The proposed guidance could be enhanced in the examples regarding the reliance on an unrelated third party to provide the specified services. Example 48 concludes that the entity is an agent based, in part, on the fact that the entity is not engaging the restaurants to provide a meal to the customer (proposed paragraph 606-10-55-333B(c)). However, the Proposed Update does not address how that differs from a similar circumstance in Example 47, which concludes that the entity is a principal despite the fact that the airline provides the actual transportation (proposed paragraph 606-10-55-327). This possible inconsistency could be resolved by a clear statement in paragraph 606-10-55-39 that the principal/agent decisions are based on the preponderance of evidence. This statement should be reiterated in each example.

We believe confusion could arise in practice in those situations in which either the legal name or the common identity of the “entity” contains the word agent. Example 47 concludes that the entity purchasing and selling the airline tickets is acting as a principal. However, the thought that comes to mind from the description is that the entity is engaged in the business commonly referred to as a “travel agent.” We recommend the Proposed Update emphasize that the principal versus agent evaluation for GAAP reporting purposes needs to be performed separate and apart from the legal or common name or definition of the entity being assessed.

Question 3: 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.

Response: The proposed paragraph 606-10-55-39 generally provides understandable principal versus agent guidance. The guidance could be enhanced by identifying circumstances when the indicators need not be considered when the initial evaluation is conclusive, as permitted by Example 46A, proposed paragraph 606-10-55-324. This approach would be in conjunction with

the consideration of the preponderance of evidence, as discussed in our response to Question 2 above.

Question 4: 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.

Response: The examples provide clear guidance in applying the principal versus agent considerations. However, the fact pattern presented in Example 48A may not be the best in evaluating when an entity is a principal and agent in the same contract. In the circumstances described in Example 48A, the customer arranges directly with the database operator and directly pays that operator for such access. Typically, contracts of this nature are reliant on that database to satisfy the applicable performance obligation. If the database is integral to the contract, it would not be deemed distinct (as discussed in paragraphs 606-10-25-18 to 25-22). Although the proposed paragraph 606-10-55-334C assumes the services are distinct, the fact pattern of Example 48A deviates from common practice and should be revised to avoid confusion.