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Re: File reference numbers 2015-290

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. We support the Board's efforts to reduce complexity and cost in the application of the new revenue recognition standard. We also support the Boards' decision to maintain convergence on determining whether an entity is a principal or an agent.

Our answers to the questions for respondents follow.

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.

We agree that the proposed amendments represent an improvement in the operability and understandability of the guidance and agree with the Board's direction for an entity to determine first whether it controls a good or service before transferring it to the customer prior to considering indicators.

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.

We believe that the proposed amendments represent an improvement in the operability and understandability of the guidance; however, we believe that users would benefit from an expanded discussion about how to apply the control principle to service arrangements. We note

that the TRG discussed how an entity that is not the service provider could control a service before it transfers that service to the customer, since a service exists only at the moment of delivery. We recommend that the Board consider bringing forward to the final standard, perhaps as an addition to paragraph 606-10-55-37Ab., some of the explanatory language found in paragraphs BC24, BC30, and BC31. In particular, we find the explanations in BC24 helpful in clarifying that it is relevant to assess whether the right to goods or services exists only when it is obtained by the customer or before, and that the entity does not control the right before it is transferred if the right does not exist before the customer obtains it. Further, explanatory language in BC30 and BC31 is helpful in distinguishing outsourcing-type arrangements, which are equivalent to the entity fulfilling the contract using its own resources, and other arrangements in which the entity facilitates the provision of services by a service provider, rather than controlling the rights to those services that it then directs to the customer.

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.

We agree with the Board's decision to change the direction of the guidance from indicators of when an entity is an agent to indicators of when an entity controls the good or service before it is transferred to the customer; however, it is unclear to us how the indicators in paragraphs 606-10-55-39c. (pricing) and 55-39e. (credit risk) indicate that an entity controls the specified good or service before it is transferred to the customer. Specifically with regard to pricing, we see a potential benefit of establishing pricing; however, we question whether the entity's right to establish price indicates that the entity has "the ability to direct the use of that good or service." We also believe that the last two sentences of this indicator seem to give nearly equal weight to an agent's ability to establish prices. Therefore, we believe an entity might have difficulty concluding whether this indicator is helpful in deciding whether it is a principal. With regard to credit risk, we believe that the indicator similarly presents nearly equally weighted arguments for principal and agent, which would lead to difficulty in application. Additionally, it is unclear how an entity would assess credit risk as an indicator of control (the ability for an entity to derive all or substantially all of the benefits of an asset).

We suggest removing the indicators in paragraphs 606-10-55-39c. (pricing) and 55-39e. (credit risk) that are not about control, as this would further increase the operability of the guidance. We believe that the indicators in paragraphs 606-10-55-39a. and 55-39b., together with the language in the last sentence of paragraph 606-10-55-39A, which states that different indicators may provide more persuasive evidence in different contracts, would allow an entity to exercise

judgment by considering other pertinent indicators that more closely align with the principle of control.

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.

We believe that the revisions to the illustrative examples, coupled with the new examples, improve the operability and understandability of the principal versus agent guidance; however, in examples 45, 46A, 47, and 48A the text indicates that the entity has concluded it is a principal before it even evaluates the indicators, yet, the indicators are still referenced as additional evidence of the conclusion. If the Board intends the indicators to be used only in situations where the evaluation of control is inconclusive, we recommend that the indicators be removed from examples where they are not necessary to reach that conclusion. For example, paragraph 606-10-55-328B in Example 47 explains why the entity concluded that it controls the right to each flight before it transfers that right to its customers and it appears that the indicators are not needed to reach that conclusion. As such, we suggest adding a sentence to paragraph 606-10-55-328B stating that the indicators are not necessary and deleting paragraph 606-10-55-328C.

Further, we recommend revisions to those examples in which indicators are used to reach the control conclusion so that the text expressing the conclusion would appear after the assessment of the indicators. For example, paragraph 606-10-55-318B expresses the entity's conclusion that it does not control the specified goods before the transfer to customers and paragraph 606-10-55-318C proceeds through the indicators as support. We believe the order of these paragraphs should be reversed and editorially revised to more closely follow the sequence of judgments the entity would undertake: control considerations, indicators, and conclusion.

We expand on the comments in this letter and various other points in the Appendix including substantive comments and minor drafting points related to the proposed revisions.

We would be pleased to discuss our comments with you. If you have any questions, please contact Lynne Triplett, partner, 312-602-8060, lynne.triplett@us.gt.com or Doug Reynolds, partner, 617-848-4877, doug.reynolds@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix

Detailed comments and suggestions

In addition to our previous responses, we offer the following detailed comments and drafting suggestions.

Principal versus Agent Considerations

ASC 606-10-55-38: The last sentence in this paragraph states that the entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party. This implies that the sequencing of cash flows is important in applying this guidance. If, however, the Board does not intend sequencing to impact the decision, we suggest that the word "retains" be replaced with "is entitled to retain."

ASC 606-10-55-39a.: It is unclear how the last sentence in this paragraph indicates that the entity controls the promised good or service before it is transferred to the customer. Rather, it seems to provide an indicator that the other party is acting on the entity's behalf (by reference to the entity's responsibility to fulfill the promise to provide the specified good or service). We suggest deleting this last sentence or clarifying the first part of the sentence to expand on how the entity having primary responsibility for fulfilling the promise to provide the specified good or service supports the assessment of control, as that is the stated purpose of the additional language (BC17b.). If the last part of the sentence is retained in the guidance, we recommend that the text clearly state that because the other entity is acting on the entity's behalf, the other entity would not have control.

ASC 606-10-55-40: The final term "performance obligation" in the first sentence in this paragraph should be revised to "specified good or service" to conform to the other changes in this section.

Examples

ASC 606-10-55-319: This is the only example in the principal versus agent section that includes guidance on the timing of revenue recognition. While we acknowledge that the text is carried over from ASU 2014-09, we suggest that the guidance on timing be deleted from this example as the example is not about revenue timing and no such timing guidance is included in the newly added or revised principal versus agent examples.

ASC 606-10-55-323B: We suggest revising the parenthetical text in the fourth sentence as follows: “(that is, the terms of the contract preclude the supplier from using ~~cannot decide to use~~ the specialized equipment for another purpose or directing that equipment to another customer).”