



RSM US LLP

One South Wacker Drive, Suite 500  
Chicago, IL 60606

[www.rsmus.com](http://www.rsmus.com)

November 12, 2015

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

**File Reference No. 2015-320**

Dear Ms. Cospers:

RSM US LLP (formerly McGladrey LLP) appreciates the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (the “proposed Update”). Overall, we are supportive of the actions the Board has taken to address questions and issues arising in the implementation of the new revenue recognition model provided in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The work of the Joint Transition Resource Group for Revenue Recognition (TRG) has been valuable in understanding how certain aspects of Topic 606 should be applied in practice and in identifying those issues that warrant additional standard setting by the Board. The TRG’s discussions and the Board’s additional standard setting will significantly reduce the potential for diversity in practice as the new revenue recognition model is implemented.

As it relates to the proposed Update, we are generally supportive of the scope improvements and the addition of various practical expedients as we believe they will reduce diversity in practice upon adoption as well as complexity. However, we have significant concerns about both the existing collectibility assessment in Topic 606 and the proposed changes to the collectibility assessment. We believe that the application of this guidance could result in timing of revenue recognition that is inconsistent with the core principle of Topic 606, to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In our view, collectibility should not be assessed as part of Step 1 of the model in evaluating whether a contract exists. Rather, consistent with the alternative approach discussed in paragraph BC15 of the proposed Update and the Alternative View expressed in paragraphs BC53 and BC54, we believe collectibility should be considered when recognizing revenue. We believe this alternative approach is aligned with the core principle of Topic 606 and would not result in the deferral of all revenue in cases in which goods or services have been provided and nonrefundable consideration has been received.

Provided below for your consideration are our responses to the “Questions for Respondents” on which specific comment was requested, which include further comments on the collectibility assessment. In our responses to these questions, we highlight additional clarifications that we believe would further improve the operability and understandability of the proposed Update.

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

Susan M. Cospers  
Financial Accounting Standards Board  
File Reference No. 2015-320  
November 12, 2015  
Page 2

## Responses to Questions for Respondents

**Question 1:** *Does the proposed addition of paragraphs 606-10-55-3A through 55-3C, as well as the addition of new examples, clarify the objective of the collectibility threshold? If not, why?*

We have significant concerns about both the existing collectibility assessment in Topic 606 (which differs from that included in the last Revenue Recognition Exposure Draft issued in 2011) and the proposed changes, as well as the guidance on recognizing revenue when a contract does not meet the criteria to be within the scope of Topic 606. We believe that the application of this guidance could result in timing of revenue recognition that is inconsistent with the core principle of Topic 606, to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We think this inconsistency will occur in situations in which an entity has received nonrefundable consideration and transferred promised goods or services in a contract but cannot conclude that it is probable that the entity will collect substantially all of the consideration to which it will be entitled. In our view, recognizing no revenue when goods or services have been transferred and nonrefundable consideration has been received is inconsistent with the core principle of Topic 606. This seems to be an extremely conservative revenue recognition result embedded in a revenue model that is generally not conservative or aggressive, but appropriately neutral. In these situations, the entity's contract will not be within the scope of Topic 606. While we understand that if certain events have occurred, as noted in paragraph 606-10-25-7, revenue may still be recognized in these situations, we believe there may still be many instances in which revenue will be deferred for significant periods of time in spite of an entity already transferring promised goods or services and receiving nonrefundable consideration. A good illustration of this is Example 1, Case C in the proposed Update beginning at paragraph 606-10-55-98H. In this example, no revenue can be recognized even after certain promised services have been provided and nonrefundable consideration has been received because the entity determines it is not within the scope of Topic 606 as it is not probable that the customer will pay substantially all of the consideration to which it will be entitled in exchange for the services. Furthermore, revenue also can't be recognized under proposed paragraph 606-10-25-7 as the entity is continuing to provide services to the customer. It is unclear to us why the timing of revenue recognition should hinge on whether an entity plans to stop providing services to a customer. While we could conceptually understand a model consistent with the core principle of Topic 606 that would require revenue deferral for a portion of the nonrefundable consideration received in these situations due to the fact that this consideration may relate to future services to be provided for which the entity may not receive additional consideration, we struggle to reconcile the full deferral of revenue in these cases with the core principle of Topic 606.

In addition to our concerns above, we also believe that applying this proposed guidance could result in substantially different revenue recognition patterns for very similar economic situations. For example, assume that an entity enters into two separate one year contracts to provide cleaning services for two low-credit quality customers for consideration of \$1,200 each. Also assume that all of the criteria in paragraph 606-10-25-1(a) through (d) have been met for these customers. For Customer 1, the entity requires payment at the beginning of each month prior to performing services and will not perform any future services prior to receiving payment each month. In making its collectibility assessment at inception of the arrangement, the entity concludes that it is probable the customer will pay substantially all of the consideration to which it is entitled for the services it will provide since the entity will only perform these services if they are prepaid each month. Therefore, this contract is within the scope of Topic 606 and revenue of \$100 is recognized each month as services are performed after payment is received. For Customer 2, the entity only requires payment

Susan M. Cospier  
Financial Accounting Standards Board  
File Reference No. 2015-320  
November 12, 2015  
Page 3

at the end of each month and will not perform any future services in subsequent months prior to receiving payment for the prior month's services. In making its collectibility assessment at inception of the arrangement, the entity concludes that it is not probable the customer will pay substantially all of the consideration to which it is entitled for the services it will provide since the first month of services will not be paid until after they are performed and the customer is a significant credit risk. Therefore, this contract is not within the scope of Topic 606. The entity would then evaluate paragraph 606-10-25-7 in the first month and also conclude that revenue can't be recognized based on that guidance, since nonrefundable consideration has not been received and the entity has not stopped transferring services. For Customer 2, even after the first month of services has been performed and payment of \$100 has been received at the end of the month, revenue would still not be recognized under paragraph 606-10-25-7 since the entity has not stopped transferring services. We believe these two scenarios represent very similar fact patterns that would result in drastically different revenue recognition timing.

In our view, collectibility should not be assessed as part of Step 1 of the model in evaluating whether a contract exists. We believe the criteria in paragraph 606-10-25-1(a) through (d) are adequate to determine whether a contract is within the scope of Topic 606 and paragraph 606-10-25-1(e) on collectibility should be removed. In addition, consistent with the alternative approach discussed in paragraph BC15 of the proposed Update and the Alternative View expressed in paragraphs BC53 and BC54, we believe collectibility should instead be considered when recognizing revenue. We believe this alternative approach is aligned with the core principle of Topic 606 and would not result in the deferral of all revenue in cases in which goods or services have been provided and nonrefundable consideration has been received. Along with this approach being aligned with the core principle of Topic 606, it would also be much simpler to apply in practice and better understood as it would be similar to practice under previous GAAP. While we understand this approach would differ from that used in IFRS 15, we don't believe that lack of convergence with IFRS in and of itself is a valid reason to decide not to make an improvement to the guidance, especially in light of other changes being made to Topic 606 that will not be wholly consistent with IFRS 15.

However, if the collectibility assessment remains as part of Step 1 of the model, we have the following concerns that we believe should be addressed in the examples:

- Example 1 – Case A (beginning at paragraph 606-10-55-95)
  - In paragraph 606-10-55-98A, it is noted that control of the building has not transferred to the customer at the point in time the customer obtains legal title to, and physical possession of, the building on the basis of an evaluation of the indicators in paragraph 606-10-25-30. Further, it is noted that this is due to the entity's right to receive payments not being substantive and the customer not taking on the significant risks and rewards of ownership because there is no contract between the parties (which is due to the fact that it is not probable that the entity will collect substantially all of the consideration to which it is entitled). In reviewing this evaluation of the transfer of control of the building, it appears the basis for concluding that control has not transferred to the customer essentially rests on collectibility concerns and the entity not being able to collect substantially all of the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer, which is one of the criteria in paragraph 606-10-25-1(e) to determine whether a contract within the scope of Topic 606 exists. It is unclear to us why the evaluation of the transfer of control would rely so heavily on a collectibility assessment rather than on the other indicators of control transfer in paragraph 606-10-25-30, including paragraph 606-10-25-30(b) which states that "If an entity retains legal title solely as protection against the customer's

Susan M. Cospers  
Financial Accounting Standards Board  
File Reference No. 2015-320  
November 12, 2015  
Page 4

failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.”. Furthermore, this evaluation seems to be contradicted by paragraph BC24 in the proposed Update which states that the timing of derecognition of an asset (i.e.; transfer of control) should not be based on uncertainty about collectibility. Given that the conclusion in this Example regarding the timing of control transfer changed as a result of modification to the guidance on assessing collectibility, it is unclear to us whether the collectibility assessment should be considered when evaluating the transfer of control.

- Example 1 – Case B (beginning at paragraph 606-10-55-98C)
  - In paragraph 606-10-55-98G, it is concluded that the contract is valid because it is probable the customer will pay substantially all of the promised consideration to which the entity is entitled for the services it will provide to the customer. Our understanding is that when making this assessment in the Example, the entity should consider the amount of consideration they expect to receive for providing seven months of service, which is the six month period in which they expect to receive payments plus the additional grace period month for which they will continue providing services regardless of whether they are paid. If that view is accurate, we believe it should be clarified in the example that an expectation of collecting six months of payments for seven months of promised services would be considered payment of substantially all of the promised consideration. If that is not how the collectibility assessment should be performed, we would suggest more clearly laying out how the assessment should be performed.
  - In the same paragraph, the fact pattern notes that the entity expects the customer to make the required payments for a substantial period of time, being at least six months. We didn’t see the requirement elsewhere in the proposed Update to evaluate whether a customer is expected to make the required payments “for a substantial period of time”. As a result, it is unclear to us whether the period of time for which payments are expected to be made could impact the analysis or not. For example, if the entity only expected two months of payments rather than six months, would the answer be expected to change? Should the evaluation of an entity’s expectation that required payments will be made “for a substantial period of time” be compared to the period of time the entity will continue to perform without receiving payment or the contractual term? In any case, we believe the guidance should be clarified to address this issue.

**Question 2:** *Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?*

Refer to our response to Question 1 regarding our view that collectibility should not be assessed as part of Step 1 of the model in evaluating whether a contract exists. We believe that if the collectibility assessment were removed from Step 1 of the model, the need for the guidance in paragraph 606-10-25-7 would be significantly reduced if not eliminated.

However, if the collectibility assessment remains as part of Step 1 of the model, we think that paragraph 606-10-25-7(a) should be removed as that event would likely never occur before the event in proposed paragraph 606-10-25-7(c) as noted in paragraph BC23 of the proposed Update. We don’t believe that leaving paragraph 606-10-25-7(a) in the guidance simply to be consistent with IFRS 15 is appropriate as this could cause confusion.

Susan M. Cospers  
Financial Accounting Standards Board  
File Reference No. 2015-320  
November 12, 2015  
Page 5

**Question 3:** *The collectibility criterion in paragraph 606-10-25-1e refers to collectibility being probable, which is defined in Topic 606 as “likely to occur.” If the Board were, instead, to refer to collectibility being “more likely than not,” which would result in a converged collectibility criterion with IFRS, would the amendment improve the collectibility guidance in Topic 606? Explain your response.*

While we believe significant changes should be made to the collectibility guidance as discussed in our responses to Questions 1 and 2 above, absent those or similar changes being made, we think reducing the collectibility threshold from “probable” to “more likely than not” would improve the collectibility guidance consistent with the approach discussed in paragraph BC17 of the proposed Update. Our view is based on the fact that this change would result in fewer situations in which the collectibility threshold would not be met and hence fewer scenarios in which contracts would not be within the scope of Topic 606. As a result, scenarios in which no revenue would be recognized in spite of the fact that nonrefundable consideration has been received and goods or services have been transferred to the customer would be expected to decrease.

**Question 4:** *Paragraph 606-10-32-2A provides a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price. Does this proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?*

We agree that the proposed amendment to provide a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price would reduce the cost and complexity of applying Topic 606 if elected.

**Question 5:** *Revisions to paragraph 606-10-32-21 and the related example specify that noncash consideration should be measured at contract inception. Does this proposed amendment improve the clarity of applying the guidance? If not, why?*

While we agree that the revisions to paragraph 606-10-32-21 and Example 31 beginning at paragraph 606-10-55-248 improve the clarity of the noncash consideration measurement guidance, we believe further improvements could be made. Refer to our response to Question 6 below for a discussion of these improvements along with a discussions of other items relating to the amendments made to paragraph 606-10-32-23.

**Question 6:** *Revisions to paragraph 606-10-32-23 clarify that the guidance on variable consideration applies only to variability in noncash consideration resulting from reasons other than the form of the consideration. Would the proposed amendments improve the clarity of applying the guidance? If not, why?*

While we agree that the revisions to paragraph 606-10-32-23 and Example 31 beginning at paragraph 606-10-55-248 clarify that the guidance on variable consideration applies only to the variability in noncash consideration resulting from reasons other than the form of the consideration, we believe further improvements could be made as follows:

- In Example 31, it is clear that the fair value of the noncash consideration (5,200 shares) should be measured at contract inception, consistent with proposed paragraph 606-10-32-21. However, the Example also discusses the treatment of changes in the fair value of the shares after contract inception by noting “...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 this discussion of the treatment of changes in the fair value of noncash consideration related to the form of the noncash consideration should also be

Susan M. Cospers  
Financial Accounting Standards Board  
File Reference No. 2015-320  
November 12, 2015  
Page 6

included within the amendments to paragraph 606-10-32-23 rather than just included within this Example.

- We believe it would be helpful to add an example that includes noncash consideration that could vary both due to the form of the consideration as well as other than the form of the consideration. There may be some complexity in the application of Topic 606 in this type of scenario and we believe an example could help improve consistency in application. As an illustration of the complexity that may arise in this scenario, consider the scenario discussed in paragraph 606-10-32-23 in which the fair value of a share option changes due to other than the form of the consideration because the exercise price could change due to an entity's performance. It is unclear to us based on the proposed Update how the fair value of the share option should be measured for purposes of adjusting the variable consideration included in the transaction price if the exercise price changes subsequent to contract inception. For example, if the exercise price was reduced six months after contract inception based on the entity's performance, it is unclear to us whether variable consideration would be measured based on the fair value of the share option at contract inception as if the exercise price was lower at contract inception (a hypothetical measurement), the change in fair value of the share option at the date the exercise price was reduced or some other method.
- From an editorial standpoint, we believe it would be helpful to add the underlined wording to the following sentence in paragraph 606-10-55-250 to clearly note why those changes don't impact revenue... "The entity does not reflect any changes in the fair value of the shares after contract inception in revenue because all changes in fair value relate to the form of the consideration".

**Question 7:** Paragraph 606-10-65-1(f)(4) provides a practical expedient for contract modification at transition. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

We agree that the practical expedient for contract modification added in paragraph 606-10-65-1(f)(4) of the proposed Update would reduce the cost and complexity of applying Topic 606 on transition.

**Question 8:** Revisions to paragraph 606-10-65-1(c)(2) clarify that a completed contract is a contract for which all (or substantially all) of the revenue was recognized under the revenue guidance in effect before the date of initial application. Does the proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?

We agree that the proposed amendment to paragraph 606-10-65-1(c)(2) to change the definition of a completed contract clarifies the transition guidance.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Brian H. Marshall at 203.312.9329.

Sincerely,

*RSM US LLP*

RSM US LLP