November 12, 2015

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2015-320

Dear Ms. Cosper:

We appreciate the opportunity to respond to the FASB's Exposure Draft, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarizes the views of those member firms who commented on the exposure draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the FASB and IASB's (the boards') efforts to respond to concerns raised by constituents about the revenue standard. We commend the boards for their ongoing collaboration, and encourage the boards to continue to work toward converged solutions to implementation issues related to the revenue standard whenever possible.

We believe the converged revenue standard is a significant achievement for financial reporting that will provide substantial benefits to both preparers and users over the long run. We are concerned that those benefits may be eroded if the boards decide to adopt different solutions to implementation issues. We acknowledge that the financial reporting outcomes might not be significantly different, even if the boards pursue different approaches. However, we believe that the outcomes will not be the same in all cases and the risk of divergence over time is much greater. We are also concerned that using different words to clarify or amend the standard will introduce additional complexity, particularly for those organizations that will have reporting obligations under both U.S. GAAP and IFRS. In our view, if the boards agree on the underlying principles and intend the financial reporting outcomes to be the same, they should make the same amendments to maintain a converged standard.

Detailed responses to the FASB's questions are included in the Appendix to this letter. Our key observations on the Exposure Draft include:

Collectibility
We believe it is helpful to clarify that an entity can consider its ability to mitigate its exposure to credit risk in assessing whether collection is probable. We suggest that both boards amend the standard to include this clarification, or alternatively, that both boards include the clarification in the basis for conclusions, using the same words. We also encourage the boards to include the same examples to illustrate this issue. We have specific recommendations and concerns regarding the proposed and revised examples, which are detailed in the Appendix.

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Measuring noncash consideration
We recommend that both boards clarify the measurement date for noncash consideration. We are concerned that the FASB's decision to use the inception date fair value to measure noncash consideration will create unintended consequences and could cause conflicts with other accounting standards. We therefore suggest a measurement date that is the earlier of when the consideration is "received or receivable" or when the performance obligation is satisfied. As an alternative, and if the FASB decides not to make the change we have suggested, we would support indicating that this is an area where there may be diversity and that further standard setting will be necessary, similar to the IASB's proposed approach.

Presentation of sales taxes
We support the proposed election for the presentation of sales taxes. We recommend that both boards provide this election, which should be supplemented by required disclosure that makes it clear the entity has elected the policy and its impact.

Practical expedients on transition
We support providing entities with transition options and practical expedients to reduce the cost and complexity of transitioning to the new standard. We encourage the boards to adopt a consistent approach to transition options and the related practical expedients. This will reduce complexity and minimize inconsistencies between the accounting applied by different entities.

If you have any questions, please contact Patrick Durbin (+1 973 236 5152), Paul Fitzsimon (+1 416 869 2322), Brett Cohen (+1 973 236 7201), or Tony de Bell (+44 207 213 5336).

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

cc: International Accounting Standards Board

Appendix

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 believe it is helpful to clarify that an entity can consider its ability to mitigate its exposure to credit risk in assessing whether collection is probable. We expect that this clarification will reduce the number of fact patterns in which an entity is unable to conclude whether a contract meets the criteria in ASC 606-10-25-1. Similarly, we believe the discussion regarding collectibility in the basis for conclusions in the IASB's Exposure Draft is helpful in addressing the concerns raised by constituents and discussed by the Transition Resource Group. We encourage both boards to amend the standard to include this clarification, or alternatively, that both boards include the clarification in the basis for conclusions, using the same words.

While we support this clarification, we are concerned that the new and revised examples may raise additional implementation questions. We are also concerned that the examples will differ from those included in IFRS 15. We therefore recommend that the FASB limit the number of examples on this topic, and minimize the amendments to the existing example. We also strongly suggest that the FASB and IASB include the same examples with the same wording. Additionally, we have the following specific recommendations.

Example 1, Case A – Real Estate Developer
We observe that the proposed changes to this example primarily address whether the entity has transferred control of the building to the customer, which should not have been impacted by the clarifications to the collectibility guidance. Given that this example is meant to illustrate the collectibility assessment, we recommend simplifying the discussion to focus on the conclusions regarding collectibility. We are particularly concerned that if the FASB amends the guidance to state that control of the building has <u>not</u> transferred, this statement will directly conflict with the IASB's standard, which states that control of the building <u>has</u> transferred. If the FASB and IASB are unable to resolve this inconsistency, it is not clear how the boards' constituents will be able to determine when control transfers in this fact pattern.

We are aware that some have expressed concerns with the original conclusion in the example that the real estate asset remains on the balance sheet of the seller notwithstanding the fact that control has transferred to the customer. We do not share these concerns and believe similar accounting would occur in any scenario in which a vendor has temporarily transferred control, but nevertheless expects the good to be returned (for example, product returns, trial versions, and certain repurchase rights). We therefore support leaving the example as written in the original standard. We suggest removing the example in its entirety if the board concludes it should not remain as written as we believe the modified example raises additional questions that extend beyond the collectibility assessment.

Example 1, Case B – Service Provider 1 and Case C – Service Provider 2
We observe that a key difference between these two cases is the number of payments expected from the customer. We believe that Case B introduces a new concept that payments must be expected for a "substantial period of time," but it is unclear why meeting this threshold is necessary. We understand that the intent may be to illustrate that a transaction must have substance. Specifically, a transaction would not have substance, and would not meet the requirements in ASC 606-10-25-1, if a vendor entered into an arrangement with a customer and did not expect that customer to pay <u>any</u> consideration. If this is the FASB's intent and the FASB decides to retain Case C, we suggest more explicitly explaining this distinction between Case B and Case C.

We also believe that the fact pattern in Case C is not a realistic scenario, as a vendor would not typically enter into a contract if it did not expect any payment from the customer. We therefore suggest removing the example, as we believe it is a highly unusual fact pattern.

Additionally, we observe that the facts in Case B and Case C include grace periods of differing lengths. We understand it is not the FASB's intent that the conclusions in those examples be driven by the differences in the grace periods. To avoid confusion, if the FASB decides to retain both examples, we suggest aligning the grace periods.

Example 1, Case D – Health Club Membership and Case E – Manufacturer
We do not have significant concerns regarding these cases; however, we do not believe they are necessary to illustrate the clarified guidance. We therefore recommend removing them.

We also recommend removing the references to "a valid and genuine transaction" in all of the examples, which is language used in the basis for conclusions, but not in the guidance. We suggest using language similar to the statement in ASC 606-10-55-3A that "the objective of this assessment is to evaluate whether there is a substantive transaction between the entity and the customer."

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?*

We acknowledge that there are certain industries (for example, health care and utilities) and other circumstances in which an entity may not be able to stop performing due to nonpayment. Therefore, we support clarifying in ASC 606-10-25-7(c) when revenue should be recognized. However, we recommend removing the requirement that the entity "has stopped transferring goods and services to the customer." We believe that if an entity has transferred control of goods or services and received a nonrefundable payment from a customer, the entity should recognize revenue for the goods or services transferred, regardless of whether it continues to transfer additional goods or services to the customer. However, revenue should be limited to the amount that would be recognized if the entity applied the revenue model to the entire contract.

Question 3 *– The collectibility criterion in paragraph 606-10-25-1(e) 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.*

We would not object to this change as it would result in alignment with IFRS. We believe there are only limited situations in which a contract would pass the "likely to occur" criterion, but fail the "probable" threshold; therefore, we would not expect this change to have a significant impact.

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 believe this proposed policy election would reduce the cost and complexity of applying Topic 606. The analysis required to assess the substance of each sales tax can be extensive and it is not clear that the cost of doing this work outweighs the financial reporting benefit if the alternative approach is supplemented by transparent disclosure. We therefore encourage both boards to include this election in the amended standard. We recommend requiring disclosure that makes it clear the entity has elected the policy and the impact of that policy (for example, the total amount presented on a net basis).

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?*

We support an amendment to clarify the measurement date of noncash consideration and encourage both boards to do so using the same words, to reduce diversity in practice. However, we have significant concerns regarding the FASB's proposal. Additionally, we believe if the FASB and IASB take different approaches, it will create further divergence between the standards. We are particularly concerned that Example 31 will yield a different conclusion under each standard.

We acknowledge the FASB's rationale for its decision to propose measurement at contract inception. However, we believe this approach could have unintended consequences and could raise additional implementation issues. If an arrangement with a right to noncash consideration constitutes an embedded derivative (for example, a right to receive publicly traded shares), the embedded derivative would be separated from the revenue contract and accounted for under ASC 815, *Derivatives and Hedging*. In that case, revenue would ultimately be recognized at the inception date fair value of the noncash consideration received (which we believe is the forward price). However, if there is not an embedded derivative (for example, a right to receive nonmarketable shares or other goods or services that are not readily convertible to cash), we believe it is unclear how to account for the changes in fair value of the noncash consideration after contract inception, but prior to the company's performance or receipt of the noncash consideration.

Additionally, it may not be clear whether fair value is intended to be the inception date forward price or the spot price. For example, the noncash consideration may be the right to receive something in the future, which we believe should reflect the forward price if measured at contract inception. We observe that in the case of a contract that contains an embedded derivative requiring separate accounting, revenue would have to be measured at the inception date forward price in order to comply with the measurement requirements of ASC 815. Example 31, however, appears to refer to measuring the spot price of the shares on the contract inception date, even though the shares will be obtained at a future date. The term "fair value" in the guidance should be clarified and/or linked to the appropriate definition within the Master Glossary.

We further observe that the proposed guidance could raise questions about how to identify the contract inception date due to the potential implications of selecting one date over another. For example, two parties could enter into a master services agreement and lock in pricing for a product; however, the customer may submit purchase orders on an as-needed basis. Questions may arise regarding whether measurement should be on the date of the master services agreement (since the parties agreed to the pricing on that date), or whether the contract inception date refers to the date of the subsequent purchase orders.

We recommend the boards define the measurement date as the earlier of when the consideration is "received or receivable" or when the performance obligation is satisfied (in situations where there is not an embedded derivative in the scope of ASC 815). We believe this approach is more consistent with the treatment of consideration denominated in a foreign currency, assuming there is no embedded derivative (for example, consideration denominated in the customer's functional currency). We also believe it is more consistent with current guidance and would minimize the risk of unintended consequences.

If the FASB decides not to make this change, we would support an alternative indicating that this is an area where there may be diversity and that further standard setting will be necessary, similar to the IASB's proposed approach. In that case, we would recommend that both boards remove Example 31 from the standard.

***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?*

We believe the revisions to paragraph 606-10-32-23 will clarify the application of the guidance. However, as noted by the Transition Resource Group on this topic, in instances where variability is due to the form of the consideration as well as other reasons, bifurcating this variability might be challenging.

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

We believe the proposed expedient for contract modifications at transition will reduce the cost and complexity of applying the transition guidance. We encourage both boards to align the date at which this expedient could be applied under each transition method.

***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 revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?*

We believe the proposed revisions to the definition of a "completed contract" would help clarify the transition guidance. Given the importance of revenue to an entity's financial reporting, we support an approach that results in similar accounting after transition, regardless of the transition approach an entity selects. The current definition of a completed contract might mean that an entity would recognize revenue under its previous accounting policies for several years post transition. This would result in a lack of comparability between similar transactions, and could require an entity to maintain two systems after adoption until all revenue for legacy contracts has been recognized. We believe that the proposed revisions would help an entity achieve consistent accounting once the new revenue standard has been adopted. We encourage the IASB to consider similar revisions.

Other observations -- Transition guidance

We support providing entities with transition options and practical expedients to reduce the cost and complexity of transitioning to the new standard. However, we believe that the differing transition options currently proposed by the boards will create additional complexity, for example, when a group includes entities that are required to report under both IFRS 15 and ASC 606. It will also increase the likelihood that entities will choose different transition approaches and expedients, reducing comparability. This lack of comparability might not be resolved for several years. We therefore encourage the boards to provide the same transition options and expedients.

Modified retrospective transition approach: We do not object to the proposed revisions to paragraph 606-10-65-1(h), which would allow an entity to apply the modified retrospective transition method to all contracts. However, we note that this would create an additional transition option and could lead to differences between U.S. GAAP and IFRS reporters. We encourage both boards to either include or exclude this proposed change to the application of the modified retrospective transition approach.

Full retrospective transition approach: We encourage the FASB to consider allowing entities applying the full retrospective method to elect not to restate contracts that are completed as of the earliest period presented, similar to the expedient proposed by the IASB.