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Via email to director@fasb.org

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

Re: Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (File Reference No. 2015-320) ("the ED")

Dear Ms. Cosper:

We are pleased to provide comments on the Board's proposal to provide practical expedients and additional improvements on certain narrow aspects of Topic 606.

In that context, we support most of the changes in the ED. However, we question whether the proposed amendments to the collectibility threshold for identifying a contract and the guidance for measuring noncash consideration will successfully resolve implementation questions in those areas. Specifically, we find it inconsistent to assess collectibility for part of a contract, while the rest of the revenue recognition model applies to the entire contract.

With respect to noncash consideration, measuring equity instruments at inception raises questions as to how Topic 606 interacts with other GAAP for those same instruments, particularly Topic 815 on derivatives. If the Board intends for a financial instrument to be within the scope of different Topics at the same time, we believe this will create additional complexities for practitioners.

Toward that end, we have several suggestions for improving the final amendments. These points are included in our responses to the Board's specific questions in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Ken Gee at (415) 490-3230.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

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 are concerned the proposed amendments may introduce conceptual and practical challenges for practitioners. We note that the proposed amendments to paragraph 606-10-25-3 indicate that one would evaluate whether a contract exists based on only certain promises in the contract, versus looking at the entire contract.

> 606-10-25-3 …"In evaluating the criterion in paragraph 606-10-25-1(e), an entity shall assess the collectibility of the consideration promised in a contract for the goods or services that will be transferred to the customer rather than assessing the collectibility of the consideration promised in the contract for all of the promised goods or services (see paragraphs 606-10-55-3A through 55-3C)."

We believe that this basic disconnect between the overall principle of the revenue recognition standard (which looks to the entire contract) and the proposed amendments (which focus on a subset of the entire contract), is problematic. Conceptually, it begs the question why would a vendor and a customer sign a contract with multiple promises such as two goods and one service, while at the same time expect only the first good to actually transfer?

With respect to practical concerns, the proposed amendments to paragraph 606-10-25-1(e) introduce the notion of "substantially all." The Board should consider indicating whether it expects that notion to be interpreted consistent with current practice. Specifically, how does the Board intend that term to compare with the "substantial completion" concept in ASC 605-35[1] or the "substantially complete" language in SAB Topic 13.A.3.c? Without clarification, the amendments may be interpreted differently in practice.

Further, the proposed examples are not entirely clear. For instance, Example 1, Case B indicates if a customer is expected to pay at least six months out of a 36 month contract, it represents a "substantial period of time." [2] Another example (Example 1, Case E) concludes that a 6% underpayment is insubstantial and therefore does not fail the collectibility criterion.[3] As such, we believe additional clarity in the basis for conclusions might enhance comparability. On this point, please refer to our response to Question 8; perhaps some of the language in BC45 can be expanded to further explain the Board's intent.

These challenges lead us to question whether retaining current practice under US GAAP when the collectibility threshold is not met might be a more effective approach, similar to the alternative views expressed in BC54.

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?

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[1] Formerly, Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contacts*
[2] 606-10-55-98G
[3] 606-10-55-98S

If the Board finalizes the proposed amendments related to collectibility, we agree that the changes to paragraph 25-7 clarify the guidance on the timing of revenue recognition for contracts that are outside the revenue recognition model in Topic 606.

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 do not support lowering the threshold for the collectibility criterion from "likely to occur" (i.e., "probable" under US GAAP) to "more likely than not." We believe a change to this effect would reintroduce some of the concern about revenue reversals that the Board sought to address by including a collectibility test to identify a contract, as well as the constraint on variable consideration.

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 providing a policy election for excluding sales (and other similar) taxes from the transaction price would reduce the cost and complexity of applying Topic 606.

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 agree the amendments clarify when to measure noncash consideration, i.e., at contract inception. However, this approach raises additional concerns, as discussed in the next paragraph and our response to Question 6.

We believe that the standard should define the term "contract inception." This would address situations like those in 606-10-25-4, in which a contract does not exist because both parties have a unilateral right to terminate, even though the criteria in paragraph 25-1 are otherwise met. For instance, entities may sign a contract on January 30, even though neither party performs for another two months. If payment is in the form of equity instruments, a question arises as to whether they should be measured on January 30 or March 31.

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 the amendments clarify that variability due to form is excluded from the transaction price, this decision will create other challenges. Specifically, it is unclear how the amendments would interact with other Topics that address variability due to the instrument's form, such as Topic 815, *Derivatives and Hedging*.

For example, assume an entity receives a warrant as noncash consideration. The value of the warrant may fluctuate because of market price changes in the underlying stock and changes in strike price due to the entity's performance. The instrument would appear to fall within two Topics at the same time (ASC 606 and ASC 815). In that situation, entities may effectively be required to perform "with and without" calculations of the derivative's fair value in an attempt to isolate changes due to form, vs. all other changes. Assuming the option meets the definition of a derivative (which is common), a portion of changes in the derivative's fair value will flow through revenue, while another portion must be recorded in a different line item on the income statement. This does not appear to be a desirable outcome.

Separately, we note the decision to measure noncash consideration at contract inception is a significant change compared to existing U.S. GAAP. Currently, vendors and customers often determine the final measurement of noncash consideration using the same date (performance completion). While the Board has apparently concluded a similar measurement date would create difficulties in the context of the new revenue standard (BC33), we recommend acknowledging that this decision will frequently result in different measurements of the same transaction for the buyer and seller.

Given these practical difficulties and changes, we believe additional outreach and deliberations may be needed before finalizing the proposed amendments.

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 agree that providing a practical expedient for contract modifications at transition would reduce cost and complexity in applying Topic 606.

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?

Directionally, we support this clarification. However, including the notion of "substantially all" in the completed contract definition underscores the need for clarifying how it compares with the concept of "substantial completion" in ASC 605-35, as noted in our response to Question 1.

Language to that effect would also complement the Board's intent to use sales returns as only one example with respect of whether a contract is complete or not, as noted in BC45:

> The Board decided to include the phrase *substantially all* in the practical expedient because it did not intend to preclude an entity from applying the practical expedient in all circumstances in which less than 100 percent of the revenue from a contract was recognized under legacy GAAP because of, for example, a sales returns reserve. In those circumstances, an entity would recognize any remaining revenue (for example, an adjustment to the sales returns reserve) in accordance with legacy GAAP.