



November 16, 2015

Susan M. Cospers, Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Grant Thornton LLP**  
Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601-3370  
T +1 312 856 0200  
F +1 312 565 4719  
grantthornton.com

Via Email to [director@fasb.org](mailto:director@fasb.org)

**Re: File reference number 2015-320**

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. We support the Board's efforts to simplify implementation and reduce complexity and cost in the application of the new revenue recognition standard.

Our answers to the questions for respondents follow.

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

We support the proposal to clarify that when assessing whether a contract meets the criterion in paragraph 606-10-25-1(e), an entity should determine whether the entity's exposure to credit risk is less than the entire consideration promised in the contract, and we believe the proposed guidance in paragraphs 606-10-55-3A through 55-3C will assist in making that determination.

However, we are concerned that the impact of unintended consequences could exceed the potential benefits that might be achieved by the proposed changes to Example 1, Case A, as well as by the additional new examples.

The proposed guidance has five examples about assessing collectibility and this number seems disproportionately high given the relatively small number of contracts that are expected to fail to meet the criterion in paragraph 606-10-25-1(e), as noted in BC8. Many of the examples appear to introduce new concepts and/or bright lines to the guidance. For example, the discussion around control transfer in Example 1, Case A, could be read to imply that the Board intends for an entity to more heavily weight the risks and rewards of ownership as an indicator of control transfer than legal title and physical possession. Also, Example 1, Case B, introduces the concept of "substantial period" and indicates that a period of at least six months would be substantial. We believe this example could result in unnecessary complexity in applying the guidance and could result in a bright-line rule as opposed to principle-based guidance.

Therefore, unless the Board intends to introduce a threshold of at least six months of payments to be substantial (and presumably less than six months not to be substantial), regardless of the contract term, we recommend that this example be revised.

In addition, the conclusion regarding contract period in Case B appears to be inconsistent with the conclusion in Example 2 of Issue 3 in agenda paper 48, discussed at the November 9, 2015 meeting of the FASB/IASB Joint Transition Resource Group for Revenue Recognition. Based on the facts in Case B that the contract is cancellable and the payments are made monthly, applying the thought process outlined in TRG agenda paper 48 results in a conclusion that this is a month-to-month contract. Finally, we do not believe Example 1, Case E, provides sufficient incremental guidance to justify its inclusion in the final ASU as another example in this area.

**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 do not believe the proposal in paragraph 606-10-25-7(c) improves the clarity of applying the guidance in ASC 606 when a contract does not meet the criteria in paragraph 606-10-25-1. We acknowledge that constituents generally believe a relatively small population of contracts will not meet the criteria in paragraph 606-10-25-1, and we believe it is not clear as to which contracts the guidance in proposed paragraph 606-10-25-7(c) is intended to cover that are not already covered in paragraphs 606-10-25-7(a) and 25-7(b). We do not believe there should be standard setting for such a small subset of contracts. We believe the risk of unintended consequence outweighs the potential benefits related to the proposed change.

**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 answer.**

We believe lowering the threshold to “more likely than not” would more closely align with the objective of the Step 1 analysis of assessing whether a contract is substantive and would therefore result in a more converged application of ASC 606 with IFRS. Such a change would also reduce the overall number of contracts that do not meet the criteria in paragraph 606-10-25-1. When considering the five criteria in paragraph 606-10-25-1, we note that criterion e always has appeared to represent a much higher hurdle than criteria a through d. Therefore, changing the wording to “more likely than not” would be more practical in application and we believe would improve the guidance for determining whether a contract is substantive.

**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 providing this election will 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 proposed guidance on when to measure noncash consideration would improve the clarity of, and also reduce complexity and increase comparability in, the application of the guidance.

**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 agree the proposed amendments to paragraph 606-10-32-23 would improve the clarity and also reduce the cost and complexity of applying the guidance on variable consideration to noncash consideration.

**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 this practical expedient would simplify and, accordingly, reduce the cost and complexity of the transition process for entities with in-process contracts that are modified before the adoption of 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?**

We believe the proposed amendment to paragraph 606-10-65-1(c)(2) would clarify the transition guidance for completed contracts.

We expand on the comments in this letter and on various other points in the attached 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](mailto:lynne.triplett@us.gt.com) or Doug Reynolds, partner, 617-848-4877, [doug.reynolds@us.gt.com](mailto:doug.reynolds@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP

# Appendix

## Detailed comments and suggestions

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

### Collectibility

Paragraph 606-10-25-7(c): If the Board decides to retain this proposed change, we suggest that the text be modified similarly to the following excerpt to include the termination concept from paragraph 606-10-25-7(b) and that paragraphs 606-10-25-7(a) and (b) be deleted:

The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped transferring goods and services to the customer and has no obligation to transfer additional goods or services, or the contract has been terminated, and the consideration received from the customer is nonrefundable.

In addition, we believe that proposed paragraph 606-10-25-7(c) should be clarified to address other arrangements with a customer because, for example, an entity might stop transferring goods under one arrangement, but continue transferring under other arrangements with that customer.

### Noncash consideration

Paragraph 606-10-32-23: It is unclear why the two references in this paragraph to the variable consideration guidance are inconsistent. The second reference excludes paragraph 606-10-32-10.

### Contract modifications at transition

While we agree the proposed practical expedient would simplify the accounting for contract modifications at adoption, we believe the text of paragraph 606-10-65-1(f)(4) could be clarified. It is unclear to us whether a reader would understand that the second sentence refers to the contract as it exists, including all contract modifications, at adoption.