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November 16, 2015

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

File Reference No. 2015-320

Re: Proposed Accounting Standards Update, *Narrow-Scope Improvements and Practical Expedients*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) *Narrow-Scope Improvements and Practical Expedients*.

We support the Board's efforts to clarify and improve ASC 606 to help reduce potential diversity in practice and the initial and ongoing costs of applying the new revenue standard. We believe that most of the amendments in the proposed ASU are necessary to ensure that ASC 606 is understood and practical to implement. However, we believe that certain of the proposed amendments (1) do not sufficiently clarify how the principles in the standard should be applied and (2) will not achieve the Board's objectives. Most importantly, we continue to be concerned that an entity's failure to meet the collectibility criterion as part of step 1 of the new revenue model could result in accounting for nonrefundable consideration received from a customer in manner that is inconsistent with the underlying economics of the transaction.

We appreciate that the Board deliberated the merits of our suggestion to incorporate the collectibility criterion into step 5 of the new revenue standard (i.e., the determination of when to recognize revenue), and we acknowledge that the Board has decided that collectibility should be evaluated as part of the determination of whether a contract with a customer exists. However, in certain circumstances the proposed guidance may result in unintended consequences, including the recognition of a liability when there is neither a refund obligation for amounts received (i.e., when amounts received are nonrefundable) nor an unsatisfied performance obligation related to the liability (i.e., the entity's performance has already occurred, and there may be no future goods or service to be delivered). Further, there could be instances in which economically similar arrangements could be accounted for differently because of differences in a preparer's conclusion about the goods or services expected to transfer to the customer. We believe that incorporating the collectibility criterion into step 5 rather than step 1 of the new revenue model would alleviate these concerns and result in greater consistency and operability in the application of ASC 606.

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Further, we understand that some believe that moving the assessment of collectibility to step 5 could result in unintended consequences. For example, a contract between an entity and a customer that may not represent a substantive transaction would nevertheless be accounted for as a contract with a customer in accordance with ASC 606. However, under paragraph 606-10-25-1 of the proposal, a contract must have commercial substance, and both parties to the contract must be committed to perform their respective obligations, to be accounted for as a contract with a customer. Both of those requirements will ensure that entities confirm that a valid and genuine transaction exists before revenue can be recognized, which is the Board's objective.

In addition to our concern about collectibility, we believe that certain other improvements and clarifications must be made for the Board to achieve its objectives of reducing the risk of diversity in practice and the cost and complexity of applying the guidance. Such improvements and clarifications are described in the appendix to this letter.

We encourage the FASB to continue to work with the IASB to reach converged outcomes, to the extent possible, on these and other amendments to ASC 606.

We believe that transition resources such as the FASB-IASB joint revenue recognition transition resource group and the AICPA industry task forces have been an integral part of the implementation process and will remain so. We encourage the FASB to continue to support and monitor these groups. We also strongly support the FASB's efforts to monitor entities' implementation progress, publicly address implementation questions, assist entities and auditors during transition, and continue its dialogue with the IASB.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl
cc: Eric Knachel

Appendix
Deloitte & Touche LLP
Responses to Questions

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 do not believe that the proposed guidance in paragraphs 606-10-55-3A through 55-3C would achieve the Board's objective of clarifying the collectibility guidance. As stated in the body of this letter, we recommend removing the collectibility criterion from paragraph 606-10-25-1 and incorporating its principle into the determination of when to recognize revenue (step 5).

However, if the Board finalizes the proposed amendments, we believe that the guidance in paragraphs 606-10-55-3A through 55-3C describing the objective of the collectibility assessment provides some clarity to stakeholders. Specifically, we believe that the amendments clarify that only the consideration attributed to goods or services that *will* transfer to a customer needs to be assessed for collectibility. However, we understand that some believe that the proposed guidance will allow entities to record revenue on a cash basis in certain circumstances. Such belief may be based on an assumption that an entity will normally be able to conclude that it is probable that it will collect substantially all consideration for the goods or services that *will* transfer to the customer and that any consideration received in addition to the amount initially deemed to be collectible is variable consideration. In these instances, the additional consideration received from the customer would be accounted for as an adjustment to the transaction price, and in some circumstances, the guidance would allow an entity to meet the allocation objective in ASC 606 by allocating such variability to a satisfied performance obligation. If the Board believes that the cash basis of accounting would be appropriate in certain circumstances in which the collectibility of all promised consideration in a contract is in doubt, we believe that the Board should include an example to illustrate this concept.

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 agree that the proposed amendment in paragraph 606-10-25-7(c) clarifies the accounting for contracts that do not meet the requirements in paragraph 606-10-25-1.

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.

While we acknowledge that there is some benefit to aligning the collectibility criterion with the IASB's, we do not support that path forward. We do not believe that amending paragraph 606-10-25-1(e) would improve the operability of the guidance, and there could be unintended consequences in U.S. GAAP as a result of changing the current established thresholds. Further, if the "more likely than not" requirement were added to the collectibility criterion, the accounting for the recognition of an asset under the new revenue model (e.g., a contract asset) may, in many circumstances, would conflict with impairment guidance.

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 with the proposed amendments in paragraph 606-10-32-2A that permit entities to exclude from the "transaction price all taxes that are assessed by a governmental authority that

are both imposed on and concurrent with specific revenue-producing” transactions collected by entities from their customers. However, we believe that the guidance should clarify that if an entity does not elect to exclude taxes from the transaction price, the entity would need to determine whether it is the principal or agent, for each tax jurisdiction, in determining whether to include taxes in the transaction price.

Further, we believe that the amended guidance should be characterized as a practical expedient rather than as an accounting policy election and that the applicable practical expedient disclosure requirements should be included in paragraph 606-10-50.

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 that the proposed amendments in paragraph 606-10-32-21 clarify how to determine the transaction price related to noncash consideration. However, we recommend that the Board clarify whether the “contract inception date” should be interpreted as the date of the legal contract (i.e., when the rights and obligations are assigned to each party) or the date on which the contract meets all the requirements in paragraph 606-10-25-1. We acknowledge that the contract inception date is used for determining other aspects of the revenue model (e.g., the stand-alone selling price for promised goods or services, or the practical expedient for accounting for a significant financing component); however, we believe that those measurement estimates are less volatile than the fair value estimate of noncash consideration (e.g., common shares). Since the fair value of noncash consideration could change daily, we believe that a precise valuation date is important.

Further, for transactions in which noncash consideration will be received on a date after the contract inception date, we recommend that the Board clarify whether the fair value is based on the current spot price at contract inception or on a forward price at the time the entity is expected to be entitled to receive the noncash consideration. For example, as part of a contract with a customer for the delivery of goods, an entity may be entitled to receive 500 shares of its customer’s common stock when the goods are transferred to the customer on June 30, 20X1. All the requirements in paragraph 606-10-25-1 would be met when the contract is signed on January 1, 20X1. In determining the transaction price at contract inception, would the entity include the fair value of the common stock as of January 1, 20X1 (i.e., the spot price), or the forward price of the common stock when the entity is entitled to receive it on June 30, 20X1?

We believe that the fair value of the noncash consideration should take into account any restrictions associated with the noncash consideration, including timing of anticipated receipt, which means that the fair value would be based on the forward price at the time the entity expects to be entitled to the noncash consideration. Since that point is not clear in the proposed ASU, we believe the Board should explain it.

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 that the proposed amendments in paragraph 606-10-32-23 clarify when the variable consideration constraint would apply in the determination of the transaction price related 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 support the Board’s efforts to increase the operability of the accounting for contract modifications upon an entity’s transition to ASC 606. We agree that entities that frequently modify a contract after its inception will incur costs that may not be justified by the proposed benefits. However, we believe that the proposed amendments in paragraph 606-10-65-1(f)(4) are

unclear and may result in diversity in practice upon the initial application of ASC 606. On the basis of our understanding of the Board's decisions, we believe that an entity would apply the practical expedient at transition by:

- Identifying performance obligations on the basis of the current contract in use, which includes all modifications since inception.
- Determining the transaction price, including variable consideration, on the basis of the current contract.
- Determining the stand-alone selling price for each performance obligation as of the contract inception date (although it remains unclear whether the stand-alone selling price would be based on its historical or current stand-alone selling price).
- Allocating the transaction price to the performance obligations on the basis of the above analysis.

If the intent of the Board was for entities to apply the practical expedient in such a manner, we do not believe the proposed ASU clearly articulates that fact. Further, if our understanding of the amendments in paragraph 606-10-65-1(f)(4) are correct, we believe that contract modifications that resulted in the addition of goods or services to the contract may create operational difficulties related to determining their stand-alone selling price at inception (i.e., the additional goods or services were not sold or did not exist at contract inception as a result of technological advances, for example).

We recommend that the Board articulate the objective of the contract modification transition guidance and provides examples illustrating how an entity would meet the proposed requirements. In addition, we recommend that the Board provide contract modification transition examples illustrating retrospective transition and modified retrospective transition to help stakeholders implement the contract modification transition guidance.

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 agree that the proposed amendment clarifies that, for transition purposes, a completed contract is a contract for which all (or substantially all) of the revenue was recognized under prior revenue guidance.