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November 16, 2015

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

RE: Exposure Draft, Proposed Accounting Standards Update—*Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (File Reference No. 2015-320)*

Dear Technical Director:

We appreciate the opportunity to comment on the Board's proposed Accounting Standards Update, *Narrow-Scope Improvements and Practical Expedients*. We support the FASB's efforts to respond to stakeholders to clarify certain aspects of ASC Topic 606, *Revenue from Contracts with Customers*, to reduce the risk of diversity in practice that would arise on adoption of ASC Topic 606.

We generally support the proposed guidance about transition options and noncash consideration. Importantly, we believe that the proposed amendments and new and revised examples about applying the collectibility threshold and recognizing revenue when an entity is applying the alternate recognition guidance may create unintended consequences, as explained further in Appendix I, and introduce unnecessary complexity and potential inconsistencies in practice. Further, we are concerned that the proposed revisions about collectibility are responsive to situations that are relatively uncommon in practice because, other than the sale of real estate, collectibility is likely to be an issue in limited circumstances. Nevertheless, the proposed guidance may raise broader implementation questions. Specifically, the revisions to 606-10-25-7 could be interpreted as supporting broad application of the cash basis of accounting in some circumstances. Consequently, we do not support these revisions and believe that the implementation issues that may arise when collectibility is not probable can be dealt with in practice without the need for additional standard-setting. We understand that the Board's intent in proposing these amendments is to ensure that transactions that have commercial substance make it into the 5-step model of ASC Topic 606. We agree with that objective and believe that it can be achieved, while converging with the IASB, by modifying the threshold for qualification.

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We continue to support maintaining convergence between ASC Topic 606 and IFRS 15, *Revenue from Contracts with Customers*. As a consequence, we are concerned that the Boards are proposing different amendments. We believe that the Boards should diverge only if there is a truly compelling reason to do so and, if so, believe that the Boards should be clear that they have reached different positions. In areas in which the Boards intend to remain converged, we believe that they should make the same amendments to their respective standards. Statements by the Boards that they expect similar outcomes in practice when they use different words seem unrealistic.

Our views are more fully described in the Appendix to this letter.

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We look forward to working with the FASB as it continues to improve the guidance about revenue recognition. If you have questions about our comments or wish to discuss the matters addressed herein, please contact Brian Allen at (212) 954-3621 (ballen@kpmg.com) or Prabhakar Kalavacherla at (415) 963-8657 (pkalavacherla@kpmg.com).

Sincerely,

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Appendix

Assessing Collectibility

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?

As stated in our introductory comments, we do not agree with the proposed revisions to the collectibility threshold. While the proposed guidance in 606-10-55-3A through 55-3C would be helpful in assessing the collectibility criteria in some limited circumstances, we believe the proposed amendments and examples may create unintended consequences that would increase complexity and could lead to diversity in practice. For example, it is unclear whether the proposed new language in 606-10-25-3 implies that the period assessed for collectibility should be the contract term (i.e., duration) when collectibility of future undelivered goods or services is in question. For example, in a 2-year non-cancellable contract in which a customer pays at the end of each month, an entity may need to assess collectibility for only the next 1-2 months if the entity can stop transferring services. Some in our firm interpreted the proposed guidance to say that the assessment of collectibility is separate from the assessment of the contract term in applying the 5-step model. Under that interpretation, the entity would conclude that a substantive contract exists and would account for the 2-year contract when identifying performance obligations, determining the transaction price and so forth. Others in our firm interpreted the proposed guidance to say that the period assessed for collectibility may establish an implied boundary for the contract. Under that interpretation, the enforceable rights and obligations are limited to 1-2 months and, therefore, an entity that had some concern about collectibility might account for this arrangement as a 1-2 month contract despite the non-cancellable 2-year term. We are concerned that the latter interpretation might produce an outcome similar to the cash basis of accounting, thereby undermining the application of the revenue model in some circumstances.

We also are concerned that the new and revised examples would create additional implementation questions that go beyond the collectibility assessment. For example, in the fact pattern described above, it is unclear what the accounting would be if the entity subsequently determines after the end of the second month that the customer has the ability to pay for another three months. In other words, it is unclear whether that assessment would be deemed to be a contract modification because the implied terms have changed and additional goods and services have been added to the arrangement, how the transaction price is allocated to various performance obligations, how to account for a material right in the arrangement, and a number of other downstream implications.

In addition, in paragraph 606-10-55-98G, it is not intuitive that receiving payments over only 6 months out of a 36-month contract term would be interpreted as representing *substantially all* of the consideration as described in 606-10-25-1(e) and 606-10-55-3B.

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 believe that while the proposed amendment in 606-10-25-7(c) helps clarify when an entity should recognize revenue in some circumstances, it creates other implementation questions. For example, this paragraph could be interpreted to support the cash basis of accounting for some transactions, which the

Board rejected in the basis for conclusions (BC15). For example, in a healthcare transaction with a self-pay patient in which collectibility is not probable but all services have been delivered and partial nonrefundable payments are subsequently received, our interpretation of 606-10-25-7(c) would be that revenue would be recognized on receipt of cash. Also, an entity that currently accounts for certain contracts on a cash basis because collectibility is not reasonably assured (i.e., contingent cash cap for telecom contracts), could interpret the proposed revision as supporting continuation of that accounting. Overall, we believe that those who are looking in the amendments for support for the simplicity of cash basis accounting may read that paragraph to permit an entity to avoid the 5-step model through a conservative judgment about the likelihood of collection. Ultimately, we believe this would be counterproductive and contrary to the fundamental principle of ASC Topic 606 since it results in revenue not being recognized when control transfers in an amount the entity truly believes it will be entitled to receive.

We believe that cash basis accounting in these situations is not the Board's intent, and recommend that the Board not make this proposed amendment. However, if the Board decides to make the amendment, the Board should consider revising the guidance to increase understandability and to retain the fundamental principle of the model.

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 believe that a change in the threshold to *more likely than not* would improve the collectibility guidance, although we acknowledge that in practice there are only limited situations in which collectibility falls between *more likely than not* and *probable*. However, we believe that the amendments and new and revised examples in the proposed ASU could result in more transactions meeting the collectibility threshold. We understand that the Board's intention in clarifying these amendments is to ensure that transactions that have commercial substance make it into the 5-step model of ASC Topic 606. We agree with that objective and believe that lowering the threshold to *more likely than not* would contribute to achieving that outcome in a straight-forward manner. Furthermore, lowering the threshold would align with the Board's objective to narrow the population of contracts that do not meet the collectibility criteria in Step 1. Finally, this change would increase convergence with IFRS by having the same collectibility threshold, an inherently desirable outcome.

Presentation of Sales Tax and Other Taxes

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 that permitting entities to exclude from the transaction price sales and other similar taxes that meet certain criteria would reduce somewhat the cost and complexity of applying the revenue standard, especially for entities that operate in a significant number of jurisdictions. However, certain preparers may be reluctant to elect this policy, as assessing whether the taxes fall into the scope of the practical

expedient likely will be as arduous as applying the original guidance because the proposal requires an entity to elect the policy for all in-scope sales taxes. Also, we believe that this practical expedient is more than a presentation issue because it also affects transaction price and allocation. Consequently, such a policy choice may reduce comparability. Furthermore, as the IASB did not propose a similar amendment, the Board's proposal would create yet another difference with IFRS that may be difficult to reconcile for reasons that seem dubiously supported.

Non-Cash Consideration

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 believe that the proposed amendment and revised examples would clarify the guidance about the measurement date for noncash consideration and would promote consistent application for those adopting ASC Topic 606.

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 that the proposed amendment clarifies that the guidance about variable consideration applies only to variability in noncash consideration that results from reasons other than the form of the consideration.

Contract Modification at Transition

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 that permitting entities to apply the practical expedient for contract modifications would reduce some cost and complexity, especially for entities that have many contracts that are modified. However, if the Board's intent is to further reduce cost and complexity at initial application, we would support a practical expedient under which an entity is permitted to use the most recent contract modification as the start of the contract (i.e., cancellation of old contract and entering into new contract) for purposes of transition. However, if the Board wants to retain its existing proposal, we believe that further clarification is needed to increase operability and understandability of the standard. The proposed language states that an entity "shall perform a single allocation of the transaction price to each identified performance obligation on the basis of an estimate of the relative standalone selling price of each performance obligation." It is unclear whether the standalone selling price should be based on historical prices or the entity's most recent estimates of selling prices.

Completed Contracts at 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 revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why?

We believe that the proposed amendment to redefine a completed contract for transition purposes would clarify the transition guidance and would prevent revenue from being *lost* at transition.

However, we are concerned that the proposed change to paragraph 606-10-65-1(h) would create an additional transition option, and this, coupled with the proliferation of practical expedients that the Board is proposing on adoption and in the application of ASC Topic 606, may decrease comparability. While we support the specific clarification to the definition of *completed contract* because we believe that it will be broadly applied, we recommend that the Board comprehensively review the number and necessity of all of the practical expedients, policy elections and transition options that it has proposed.

Other Observations – Editorial Comments

We propose adding to the standard an example in which a contract does not exist for collectibility reasons, all goods or services have been transferred, and partial nonrefundable payment is received to illustrate the application of 25-7(c). Furthermore, consider adding *if applicable* to the second condition in paragraph 25-7(c), (i.e., “the entity has stopped transferring goods or services to the customer”) for situations in which the entity already transferred control of all the goods or services under the contract to which the consideration relates, and there are no additional goods or services to transfer.

The terms *valid and genuine* and *substantive* are used interchangeably in the collectibility guidance. The objective in the summary of the document uses *valid and genuine* while the objective in the proposed amendments uses *substantive*. The examples use both terms. We suggest using *substantive* throughout the document.

Paragraphs 606-10-55-3B and 606-10-55-3C(b) include an identical last sentence. We recommend eliminating the repetition and clarifying the last sentence in 3B so that it reads: “In determining the amount to assess for collectibility, the entity excludes amounts that are not exposed to credit risk.” Also, we recommend changing the last sentence in 3C to read: “Examples of amounts that are not exposed to credit risk include.”

We propose an editorial change to the last sentence of 606-10-55-98A: “customer has not taken on the significant risks and rewards of ownership of the asset, because ~~there is no contract between the parties in accordance with paragraph 606-10-25-1~~ the customer has not made a sufficient investment to demonstrate a commitment to purchase the collateralized asset.” Also, as the example concludes that the entity would not derecognize the building, We recommend expanding the discussion about asset derecognition, including presentation and reminding preparers that the asset would be subject to the ASC’s impairment guidance.