



Ernst & Young LLP  
5 Times Square  
New York, NY 10036

Tel: +1 212 773 3000  
ey.com

2016-240  
Comment Letter No. 6

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

29 June 2016

**Proposed Accounting Standards Update, Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (File Reference No. 2016-240)**

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)* (the Proposal), from the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective to address feedback received from stakeholders on the Accounting Standards Codification (ASC or Codification) and to make other improvements to US GAAP. We believe the proposed amendments would address many of the concerns raised by constituents about the new revenue recognition standard, provide additional clarity and improve consistency in application.

We continue to support the convergence of ASC 606 with IFRS 15 *Revenue from Contracts with Customers*. However, because the Proposal would create differences, we believe it would be helpful for the FASB to include in this update a section titled "How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?," as it has done in prior amendments. For example, IFRS will not provide for the accounting policy election to determine the provision for loss contracts at the performance obligation level.

\* \* \* \* \*

Our responses to certain questions in the Proposal are set out in the appendix to this letter.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

cc: International Accounting Standards Board

**Appendix – Responses to questions raised in the Proposed ASU, *Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)***

**Question 1:** The proposed amendments to Subtopic 340-10, Other Assets and Deferred Costs – Overall, would supersede the guidance on accounting for pre-production costs related to long-term supply arrangements. Consequently, an entity would apply the guidance in Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, if the costs relate to a contract with a customer. Do the proposed amendments resolve the scope issue? If not, please explain why and suggest alternatives.

We support the Board’s proposal to supersede the guidance in ASC 340-10 on accounting for preproduction costs related to long-term supply arrangements in response to questions raised by constituents that were discussed by the Joint Transition Resource Group for Revenue Recognition. We believe it is appropriate to apply the guidance in ASC 340-40 if costs relate to a contract with a customer and are not within the scope of other authoritative literature, such as ASC 730, *Research and Development*. We anticipate that significant judgment will still be required to determine whether certain preproduction costs are within the scope of ASC 340-40.

**Question 2:** The proposed amendments are intended to improve the clarity of the impairment testing requirements in Subtopic 340-40. Would the proposed amendments improve the clarity of these requirements? If not, please explain why and suggest alternatives.

We believe the proposed amendments improve the clarity of the requirements for impairment testing of capitalized contract costs. We agree that when performing impairment testing, entities should consider expected contract renewals and extensions and should include both the amount of consideration received but not recognized as revenue and the amount the entity expects to receive. We also agree with the amendments to clarify the order of asset impairment testing.

**Question 3:** The proposed amendments would provide an accounting policy election about the level at which the provision for loss contracts is determined. Would the proposed amendments improve the operability of applying the guidance on the provision for loss contracts in Topic 605, Revenue Recognition? If not, please explain why and suggest alternatives.

We believe the proposed amendments would improve the operability of the guidance on the provision for loss contracts by clarifying that the provision for losses must be determined at least at the contract level but that preparers can choose to determine the provision for losses at the performance obligation level by making an accounting policy election.

**Question 4:** The proposed amendments are intended to improve the clarity of the scope of Topic 606 for contracts within the scope of Topic 944, Financial Services–Insurance, and fixed-odds wagering contracts for an entity within the scope of Topic 924, Entertainment–Casinos. Would the proposed amendments improve the clarity of the scope guidance? If not, please explain why and suggest alternatives.

#### ***Scope of Topic 944, Financial Services – Insurance***

We support the FASB's proposal to clarify the scope of Topic 606 for contracts within the scope of Topic 944, *Financial Services – Insurance*. However, we believe further amendments to the Codification or the Background Information and Basis for Conclusions of this ASU would improve the clarity of the guidance for insurance entities.

In our view, further clarification about the application of the combination of contracts guidance to contracts in this industry would be helpful. For example, a health insurance entity may enter into an arrangement to provide insurance coverage in excess of a certain dollar threshold and, at the same time, enter into a separate arrangement to service the insured's obligation for self-insured claims below the threshold. Under current practice, health insurers generally do not combine these contracts for revenue recognition because they account for the insurance coverage under ASC 944 and the service arrangement under ASC 605. Paragraph 606-10-25-9 requires an entity to combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if certain criteria are met. We believe it would be helpful to clarify in paragraph BC11 that the application of paragraph 606-10-25-9 occurs after applying the scope guidance. That is, if a contract is scoped out because it is accounted for under ASC 944, an entity would not look to paragraph 606-10-25-9 to combine these contracts.

In addition, we have considered the amendments proposed by the Board in the context of investment contracts in the scope of ASC 944. We recommend that the Board consider the following clarifications to paragraph BC12 and ASC 944-605. Paragraph BC12 gives examples of activities in a contract within the scope of Topic 944 that relate to costs to fulfill the contract. These activities are considered part of the contract and therefore should be accounted for in accordance with ASC 944. We suggest that the Board include in this list of examples the activities relating to the management of assets backing the liabilities in ASC 944. Several life insurance products include a deduction of fees from the policyholder's account balance for the stated purpose of managing the assets backing the insurance account balance. Other life insurance products do not have explicit management fees; however, the insurance entity still incurs costs to manage the assets in the general portfolio. Either way, the management of the assets backing the liability for contracts in the scope of ASC 944 is part of the insurer's obligation to fulfill the contract (i.e., to manage the assets so that there are sufficient funds to pay the claims when they are due).

### **Scope of Topic 924, Entertainment – Casinos**

We believe the proposed guidance to include a scope exception from the derivative guidance for fixed-odds wagering contracts could be further improved by aligning the language in ASC 815-10-15-82A with the scoping language in ASC 924-10-15-2. Therefore, we propose amending paragraph 815-10-15-82A of the Proposal as follows (proposed text is underlined):

“Fixed-odds wagering contracts for an entity operating as a casino and for the casino operations of other entities are within the scope of Topic 606 on revenue from contracts with customers. See paragraph 924-815-15-1.”

**Question 5:** The proposed amendments would provide an additional practical expedient to the disclosure of remaining performance obligations in specific situations in which an entity need not estimate variable consideration to recognize revenue. Would the addition of this practical expedient diminish the usefulness of the disclosure information? If yes, please explain why. Would the proposed amendments reduce the cost and complexity of applying Topic 606? If not, why? Are there other situations in which an entity would be required to estimate variable consideration for disclosure but not for purposes of recognizing revenue?

In general, we believe that the addition of the practical expedient would reduce the cost and complexity of applying ASC 606. However, we are concerned that proposed paragraph 606-10-50-14B would restrict the use of the existing practical expedient to not disclose information about remaining performance obligations when an entity recognizes revenue based on the amount it has a right to invoice. We do not believe this was the Board’s intent. To clarify the Board’s intent, we propose amending paragraph 606-10-50-14B of the Proposal as follows (proposed text is underlined):

“The practical expedients in paragraphs 606-10-50-14(b) and 606-10-50-14A shall not be applied to fixed consideration or variable consideration that does not meet one of the conditions in paragraphs 606-10-50-14(b) or 606-10-50-14A.”

Alternatively, we recommend the following as a replacement to proposed paragraph 606-10-50-14B:

“Fixed consideration and variable consideration not meeting the conditions for the practical expedients in paragraphs 606-10-50-14(b) or 606-10-50-14A that are included in the transaction price for unsatisfied or partially unsatisfied performance obligations should be disclosed.”

Additionally, we believe it is unclear in paragraph 606-10-50-14A whether the Board intended for noncash consideration that varies for reasons other than the form to be eligible to meet the condition in 606-10-50-14A(b) to apply the newly proposed practical expedient. While noncash consideration is a separate topic from variable consideration in the standard, it can be variable for reasons other than the form (and, as stated in paragraph 606-10-32-23, it is subject to the constraint similar to variable consideration). We recommend that the Board clarify whether it intended for condition (b) to include or exclude noncash consideration that varies for reasons other than the form. We observe that if the Board did not intend for noncash consideration to be eligible for the practical expedient, an entity may be required to estimate consideration for disclosure but not for the purpose of recognizing revenue.

**Question 8:** The proposed amendments to Example 7 in Topic 606 are intended to improve the alignment of the analysis in the example and the guidance in paragraph 606-10-25-12. Do the proposed amendments align the example with the guidance in paragraph 606-10-25-12? If not, please explain why and suggest alternatives.

Yes, we believe the proposed amendments would align the rationale given in Example 7 of ASC 606 with the principles included in ASC 606.

**Question 9:** The proposed amendments are intended to align the cost capitalization guidance for the capitalization of direct incremental costs for investment companies within the scope of Topic 946, Financial Services–Investment Companies, for advisors to public and private funds. Do the proposed amendments align the accounting for advisors to both public funds and private funds? If not, please explain why and suggest alternatives.

We believe the proposed amendments appropriately align the accounting for advisors to public and private funds.