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July 1, 2016

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

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

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, *Technical Corrections and Improvements to Update 2014-09, Revenue from Contracts with Customers (Topic 606)*. We support the Board's standing project to continually improve the *FASB Accounting Standards Codification®*.

Our responses to the Questions for Respondents are included in the Appendix to this letter. This letter summarizes our key comments.

Disclosure of Remaining Performance Obligations

We understand the Board's reasons for providing disclosure relief. We generally support having a practical expedient as opposed to a specific principle, as a principle may not meet the overall disclosure objective, and may not respond to the feedback that the Board received from the user community throughout the development of this revenue recognition standard.

While we understand the Board's desire to limit the situations in which a company can apply a practical expedient, we believe that it would be difficult in some circumstances to assess when the conditions in 606-10-50-14A(b) would be met and how far the practical expedient extends. With the early adoption date rapidly approaching, we believe it is vitally important that the scope of any additional practical expedient be made crystal clear. We have provided several examples in the Appendix to this letter to illustrate our concern.

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The Technical Director
Financial Accounting Standards Board
July 1, 2016

If you have questions about our comments or wish to discuss the matters addressed herein, please contact Brian Allen at (212) 954-3621 or ballen@kpmg.com, or Prabhakar Kalavacherla at (415) 963-8657 or pkalavacherla@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to the Board’s Questions

Preproduction Costs Related to Long-Term Supply Arrangements

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 believe that the proposed amendments would resolve the scope issue. However, we noticed that the Board proposes deleting the guidance in paragraph 340-10-25-1 that relates to design and development costs for molds, dies, and other tools that a supplier will own and use in producing the products under a long-term supply arrangement (i.e., not design, development and tools that are a performance obligation and transferred to a customer). We believe that the Board should retain a portion of the guidance from paragraph 340-10-25-1 and include it in Topic 360:

Design and development costs for molds, dies, and other tools that a supplier will own and that will be used in producing the products under a long-term supply arrangement shall be capitalized as part of the molds, dies, and other tools (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10) unless the design and development is for molds, dies, and other tools involving new technology, in which case, the costs shall be expensed as incurred in accordance with Subtopic 730-10.

We do not believe that the Board intended to delete this guidance, as there is no other guidance that preparers may refer to when accounting for design and development costs for molds, dies, and other tools that a supplier will own and use in production under long-term supply arrangements.

Contract Costs-Impairment Testing / Contract Costs-Interaction of Impairment Testing with Guidance in Other Topics

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 support the proposed amendments to paragraph 340-40-35-4 which clarify that “an entity shall consider expected contract renewals and extensions (with the same customer)” when determining the amount of consideration for purposes of calculating an impairment loss, if any. It may be helpful to clarify that an entity must not only consider the revenue associated with expected contract renewals and extensions but also whether there are additional costs to obtain those contract renewals and extensions (e.g., additional commissions paid on subsequent renewals).

Provisions for Losses on Construction-Type and Production-Type Contracts

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.

The proposed amendments would require that the provision for losses be determined at the contract level. However, an entity would be allowed to determine the provision for losses at the performance obligation level as an accounting policy election. It is our understanding that the proposed amendments were to reflect the Board's intent to not change the current practice in this area. However, the proposed amendments would change practice as the concept of an individual segment is not equivalent to the concept of a performance obligation. In addition, an accounting policy election may lead to non-comparability, as some entities may determine the provision for losses at the contract level and some at the performance obligation level for similar type of contracts. Since current practice is changing under ASC 606 regardless of the proposed amendments, it may be best to have change that does not also introduce optionality that reduces comparability.

Scope of Topic 606 / Fixed-Odds Wagering Contracts in the Casino Industry

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 scoping guidance? If not, please explain why and suggest alternatives.

We believe that the proposed amendments would improve the clarity of the scoping guidance.

Disclosure of Remaining Performance Obligations

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?

We believe that the proposed amendments would reduce the cost and complexity of applying Topic 606. We also understand the Board's desire to limit the situations in which a practical expedient would apply. However, we believe that it would be difficult in some circumstances to assess when the conditions in 606-10-50-14A(b) would be met and how far the practical expedient extends.

For example, assume a 5-year contract for a series of distinct services that includes some tiered pricing elements that were determined to not meet the criteria in paragraph 606-10-32-40. Assume the entity must estimate transaction price but only for a portion of the contract (e.g. tiers within each year but tiers reset each year with no need to estimate transaction price across the five years). Some might conclude that the disclosure of remaining performance obligations is required only for the year in which the entity is required to estimate the transaction price (i.e. the current

year). Others may conclude that because the criteria in paragraph 606-10-32-40 are not met in future years, that the disclosure of transaction price for the remaining contractual term is required even though those estimates are not required to currently account for the contract.

It is not clear whether the language *the variable consideration is allocated entirely to a wholly unsatisfied performance obligation* will create unintended consequences in the application of this practical expedient. For example, if the only performance obligation is to build an aircraft carrier and the contract includes variable consideration, we believe some might interpret the disclosure expedient as being potentially applicable since the "whole" aircraft carrier performance obligation is "unsatisfied."

Question 6: The proposed amendments to the disclosure requirement in paragraph 606-10-50-15 are intended to expand the information disclosed when an entity applies one or more of the practical expedients in paragraphs 606-10-50-14 through 50-14A. Do you agree with the proposed amendments? If not, what information should an entity be required to disclose about its remaining performance obligations when one or more of the practical expedients are applied?

We are supportive of providing additional decision-useful information to investors that can be provided without undue cost.

Question 7: While not proposed in this Exposure Draft, should an entity that applies one or more of the practical expedients to the disclosure of remaining performance obligations be required to disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients? What would be the costs associated with including that disclosure? Would the disclosure provide useful information? Also, should an entity that applies one or more of the practical expedients be required to disclose information (for example, remaining contract duration) about each major customer as that term is used in Topic 280, Segment Reporting (that is, customers with revenue equal to or greater than 10 percent of total revenue)?

We believe that disclosing qualitative information about each major customer and the amounts of variable and fixed consideration recognized in current-period revenue may provide useful information to some users of financial statements. However, we do not believe that these disclosures would always provide meaningful information considering diverse contract terms. An entity may have revenue that is not subject to the disclosure for reasons other than the application of one of the practical expedients (e.g. customers are economically incented but not contractually obligated to stay in the contract). In those cases, it could be misleading to an investor if the Board requires disclosure about each major customer or current period revenue only for those situations in which an entity uses a practical expedient.

Contract Modifications Example

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.

We believe that the proposed amendments would align the analysis in the example with the guidance in paragraph 606-10-25-12.

Cost Capitalization for Advisors to Private and Public Funds

Question 9: The proposed amendments are intended to align the cost capitalization guidance for the capitalization of direct incremental costs for investment companies with the scope of Topic 946, Financial Service-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 agree that the proposed amendments in paragraph 946-720-25-3 would align the cost capitalization guidance for advisers to public and private funds. However, we believe that the Board should make additional amendments and changes to the proposed ASU to further clarify the guidance:

1. The language in paragraphs 946-720-25-3 and 946-720-25-4 is not clear about how to account for offering costs paid by an investment adviser in circumstances in which the investment adviser receives only 12b-1 fees. Distribution plans permitted under Rule 12b-1 may be imposed on various classes of shares. As an example, mutual funds generally offer three classes of shares with different fee structures. Class A shares generally have a front-end load and low 12b-1 fees. Class B shares generally have contingent-deferred sales fees and 12b-1 fees. Class C shares may have higher 12b-1 fees, but no front-end load or contingent-deferred sales fees.

Paragraph 946-720-25-3 states, “the guidance in paragraph 946-720-25-2 applies also to distribution plans of open-end investment companies permitted under Rule 12b-1.” Paragraph 946-720-25-2 requires offering costs paid by the investment adviser to be expensed as incurred. Paragraph 946-720-25-3 refers to “distribution-related fees (similar to 12b-1)” imposed by closed-end funds and other funds and states, “an entity shall defer and amortize direct costs.”

Paragraph 946-720-25-4 discusses distribution of mutual funds that do not have a front-end load. It is not clear whether this paragraph refers to Class B shares only or also to Class C shares in our example.

We recommend that the Board edit and clarify the references to 12b-1 fees in paragraphs 946-720-25-3 and 946-720-25-4.

2. Move paragraph 946-720-25-3 to subsection “Distribution Costs for Mutual Funds with No Front-End Sales Fee.” This paragraph is included under subsection “Investment Adviser’s Offering Costs When Both 12b-1 Fees and Contingent-Deferred Sales Fees Are Not Received.” As this paragraph discusses distribution fees and early withdrawal charges (similar to contingent deferred sales fees) that may be imposed by closed-end funds and certain other funds, it appears that this paragraph is misplaced.
3. Delete “Mutual” from the subsection “Distribution Costs for Mutual Funds with No Front-End Sales Fee” to refer to all private and public funds. This subsection will include paragraph 946-720-25-3 and 946-720-25-4.