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July 7, 2016

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

File Reference No. 2016-240

Re: Proposed Accounting Standards Update, *Technical Corrections and Improvements to Update No. 2014-09, Revenue From Contracts With Customers (Topic 606)*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) *Technical Corrections and Improvements to Update No. 2014-09, Revenue From Contracts With Customers (Topic 606)*.

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 its application. The proposed amendments will help ensure that entities apply ASC 606 consistently and implement it practically. Appendix A below contains our responses to the proposed ASU's questions for respondents and suggests certain improvements to the proposed amendments. Appendix B proposes additional technical corrections for the Board's consideration.

We encourage the FASB to continue to work with the IASB to converge, to the extent possible, these and other amendments to ASC 606.

Further, 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, and assist entities and auditors during transition.

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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 A
Deloitte & Touche LLP
Responses to Questions for Respondents

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. (Issue 1)

We believe that the proposed amendments would clarify that preproduction costs related to contracts with customers are within the scope of ASC 340-40 unless the costs are within the scope of another ASC topic or subtopic (e.g., ASC 730). However, we believe that there may be an unintended consequence of the proposed amendments. Specifically, ASC 340-10 permits the capitalization of certain costs related to molds, dies, and other tools that an entity will not own (customer-owned tooling) if the entity has a noncancelable right to use the assets during the supply arrangement. It is not clear how these costs and any related reimbursements for such costs would be accounted for under ASC 340-40 (or potentially other ASC 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. (Issue 2 and Issue 3)

We believe that the proposed amendments would improve the clarity of the impairment testing requirements in ASC 340-40.

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. (Issue 4)

We believe that allowing an accounting policy election about the level at which a provision for loss contracts is determined would improve the operability of applying such guidance in ASC 605.

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. (Issue 5 and Issue 8)

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We believe that the proposed amendments would clarify the guidance in ASC 606 on contracts within the scope of ASC 944.

The proposed amendments to clarify the guidance on fixed-odds wagering contracts appear to result in a two-step approach to determining whether such contracts are within the scope of ASC 606; namely, whether (1) the arrangement represents a fixed-odds wagering contract and (2) the entity is operating as a casino. It is unclear whether fixed-odds wagering contracts are within the scope of ASC 606 for entities that are not operating as casinos. We encourage the Board to clarify whether fixed-odds wagering contracts for all entities are within the scope of ASC 606 or whether only fixed-odds wagering contracts for entities operating as casinos are within the scope of the guidance.

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? (Issue 6)

We do not believe that the proposed amendments to provide a practical expedient to the disclosure requirements in ASC 606 would diminish the usefulness of an entity's disclosures. We believe that the proposed guidance aligns with the Board's original decision to include in the proposed ASU practical expedients related to sales-based or usage-based royalties and that the amendments would significantly reduce the costs and complexity of applying ASC 606.

We encourage the Board and staff to continue their outreach related to practical expedients to identify other circumstances in which they may be warranted.

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? (Issue 6)

We agree with the proposed amendments to the disclosure requirements in ASC 606-10-50-15.

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 that

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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)? (Issue 6)

We believe that the expanded information required to be disclosed under the proposed amendments to ASC 606-10-50-15 is sufficient to enable financial statement users to understand the arrangements subject to the practical expedients. Further, we encourage the Board to avoid redundancy in its disclosure requirements for segments and other information required under ASC 606.

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. (Issue 7)

We believe that the proposed amendments more closely align the analysis in Example 7 and the guidance in ASC 606-10-25-12.

However, we recommend that the Board make further amendments that permit an entity to more clearly conclude (1) that the contract modification does not meet the requirements in ASC 606-10-25-12 and (2) why the contract must be accounted for under ASC 606-10-25-13(a) rather than under the other guidance in ASC 606-10-25-13. We suggest the following additions to Example 7 (for ease of readability, the Board's proposed amendments are already reflected below; our recommended additions are underlined):

606-10-55-127 At the date of the modification, the entity assesses the additional services to be provided and concludes that they are distinct. However, the price change does not reflect the standalone selling price; therefore, the criterion in paragraph 606-10-25-12(b) is not met, and the modification should not be accounted for as a separate contract.

606-10-55-128 Consequently, because the remaining services are distinct from the services transferred before the date of contract modification, the entity accounts for the modification in accordance with paragraph 606-10-25-13(a) as if it were a termination of the original contract and the creation of a new contract with consideration of \$280,000 for 4 years of cleaning service. The entity recognizes revenue of \$70,000 per year ($\$280,000 \div 4$ years) as the services are provided over the remaining 4 years.

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. (Issue 9)

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We believe that the proposed amendments align (1) the guidance on the capitalization of direct incremental costs for investment companies within the scope of ASC 946 for advisers to public funds with (2) such guidance for advisers to private funds.

Appendix B
Deloitte & Touche LLP
Additional Proposed Technical Corrections

Capitalized Advertising Costs

ASC 340-20 is superseded by ASU 2014-09. The guidance in Statement of Position 93-7, *Reporting on Advertising Costs* (superseded), was codified in ASC 720-35 and ASC 340-20. ASC 340-20-25-2 discusses the timing of accrual of advertising costs when expenditures are made after the recognition of revenues related to those costs. It states that in instances in which revenues related to the transactions creating those advertising obligations are earned and recognized before the expenditures are made, the obligations should be accrued, and the advertising costs expensed, when the related revenues are recognized. While we understand the rationale for the Board's decision to remove the majority of the guidance in ASC 340-20 on direct response advertising for all transactions other than insurance contracts within the scope of ASC 944, we do not believe that the Board intended to remove this particular aspect of the advertising guidance from the Codification. We therefore suggest that the FASB reinstate it in ASC 720-35 (proposed additions are underlined):

720-35-05-1 This Subtopic provides guidance for annual financial statements on the following:

- a. Reporting the costs of advertising, which shall be expensed either as incurred or the first time the advertising takes place, except for expenditures for advertising costs that are made subsequent to recognizing revenues related to those costs, as discussed in paragraph 720-35-25-1A.
- b. The financial statement disclosures that shall be made about advertising.

720-35-25-1A Expenditures for some advertising costs are made subsequent to recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers' advertising costs (cooperative advertising). Generally, revenues related to the transactions creating those obligations are earned and recognized before the expenditures are made. For purposes of applying the guidance in this Subtopic, those obligations shall be accrued and the advertising costs expensed when the related revenues are recognized.

Recognition of a Receivable

We also remind the Board that the FASB staff noted that it has received questions about the point in time at which a receivable should be recorded under a contract with a customer (including when contract assets would be reclassified as accounts receivable). The FASB staff agreed that some confusion may result from the wording of Example 38B in ASC 606, which some believe is not aligned with the guidance that identifies a receivable as a right to

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consideration that is unconditional other than for the passage of time. The staff noted that it would ask the Board to consider a technical correction to clarify the wording in the example.

In addition, the staff noted that it has received other questions, including inquiries about situations in which performance occurs over time and whether receivables should be recorded as performance occurs or when amounts are invoiced and due. The staff noted that there is diversity in practice today regarding how and when receivables are recorded and that such diversity is not likely to be eliminated under ASC 606. However, the staff reiterated that these questions do not affect revenue recognition but rather the presentation of assets on an entity's balance sheet.

We recommend that the Board move forward with the technical correction to Example 38B and indicate in the related Basis for Conclusions of the final standard that diversity in practice is likely to continue notwithstanding the amended guidance.