



November 20, 2017

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

Delivered Electronically

SUBJECT: Revenue Allocation in Cable Operator Residential and Commercial Customer Arrangements under ASC 606 and ASC 842

Dear Ms. Cospers:

The purpose of this letter is to provide our views for the Financial Accounting Standards Board's (the "FASB" or the "Board") consideration in response to recent unsolicited comment letters from lessors requesting a practical expedient with respect to the separation of lease from non-lease components of a contract.

Through our continued monitoring of unsolicited comment letters submitted to the FASB in relation to the implementation of ASC 842, we believe that the Board may be considering providing an ongoing practical expedient for commercial real estate lessors that would not require the bifurcation of common area maintenance on the face of the income statement or in the footnote disclosures required by ASC 606. Such an expedient would, in effect, provide for practical relief from the requirement for separate presentation and disclosure of lease and non-lease revenue components combined in a single arrangement for entities for whom the non-lease component is provided over the same period of time and has the same pattern of transfer to the customer as the provision of the lease component.

While we have not finalized our conclusion about whether our customer arrangements include leases of customer premise equipment ("CPE"), such as set-top boxes, modems, routers, switches and network terminating devices that are deployed at customers' residences or businesses, we note that an expedient such as that suggested in the recent unsolicited comment letters, if it is appropriately designed, may alleviate the significant judgment surrounding that ongoing debate, eliminate the potential for diversity in practice and significantly ease the burden of implementing and applying Topic 842 if those (or some of those) arrangements are concluded to contain leases of CPE.

Therefore, we support such an expedient directionally; however, we would like to offer suggestions on the design of such an expedient should the Board choose to provide one. This is because we believe the unsolicited comment letters submitted to-date have focused on scenarios in which the non-lease component is generally a minor element of the overall arrangement. We would like to ensure, when considering how a potential expedient should be designed, that the Board appropriately considers

scenarios in which the lease component may be only a minor element of the arrangement (which we believe would be the case for our customer arrangements if the deployment of CPE were determined to be a lease rather than a component of the service). We believe the application issues communicated by the real estate lessors with respect to separation and allocation, and also with respect to the usefulness of separate presentation and disclosure of lease and non-lease revenue to financial statement users, are no less acute for entities in which a non-lease service element represents the primary or predominant component of the customer arrangement. Accordingly, we believe that we and other members of our industry, and others in similar situations in other industries, would benefit from a practical expedient such as that suggested by the real estate industry if it is appropriately designed to address both scenarios where the lease is the primary or predominant element of the combined component, as well as the converse.

Primary or predominant component

If the Board adopts a practical expedient, we request that the Board consider permitting a reporting entity to consider the primary or predominant element (lease or non-lease) of a combined customer arrangement and apply the presentation and disclosure requirements from the appropriate standard based thereon (e.g., ASC 606 or ASC 842). We believe providing entities with the ability to make reasonable judgments about which standard's presentation and disclosure requirements provide *more useful* information to its financial statement users will benefit financial reporting, especially since we believe the disclosure requirements of each standard are robust. And specific to our industry, we believe our financial statement users would benefit more from us providing the disclosures required by ASC 606 because the predominant component of our customer arrangements remains a service, irrespective of whether CPE use is considered a lease. We do not believe that making this determination would be operationally burdensome for entities in that we believe in most cases it will be clear whether the lease or the non-lease element of the combined component is the primary or predominant element, and note that the notion of predominance was recently used in ASU 2016-10 with respect to application of the sales- and usage-based royalties exception for licenses of intellectual property.

Lease classification

The practical expedient described in the unsolicited comment letters submitted recently by commercial real estate lessors, if elected, would appear to require entities to combine the predominant element (the lease for real estate lessors) and the minor service element (common area maintenance for real estate lessors) into a combined *lease* element. If the practical expedient is developed in such a way that the combined lease and service payments are all accounted for as *lease payments* in order to utilize the practical expedient, it is possible that in arrangements that include a primary or predominant *service* component, the combined component would "fail" the present value (i.e., 90%) test in ASC 842-10-25-2(d). Accounting for those arrangements as sales-type leases would not reflect the economics of those arrangements that primarily relate to the provision of a significant service over time and would result in significantly accelerated recognition of service revenues that are typically recognized ratably over the customer service period.

We do not believe it would be the Board's intent to convert significant service revenues that would be recognized over time into upfront, sales-type lease revenue. That said, we do not believe we should be precluded from benefitting from this potential practical expedient because of this result. Rather, we believe the Board could preserve the viability of this potential expedient for entities in situations similar

to ours (if CPE use is determined to be a lease), as well as preserve financial reporting that is reflective of the substance of our customer arrangements, by preserving the effect of operating lease classification for the combined component. For example, this might be accomplished by the Board in one of the following ways:

- Refer entities with combined components that are primarily or predominantly services to the guidance in ASC 606-10-25-33, in accordance with which an entity evaluates the nature of the combined item when determining whether it is satisfied over time or at a point in time and, if satisfied over time, what is an appropriate pattern of transfer to the customer. That is, rather than rely upon lease classification to determine the upfront or over time nature of the revenue recognition, because the service component is the primary or predominant element of the contract, rely upon the guidance in Topic 606 to make that determination; and / or
- Stipulate that an embedded lease would default to operating lease classification when the lessor entity's right to consideration for the combined component is inseparably tied to (i.e., is contingent upon) performance of the predominant service over time.

Conclusion

Despite the guidance on leases and revenue recognition residing in two different ASC Topics, we do not believe the Board's rationale for not requiring separation of performance obligations that are delivered concurrently and have the same pattern of transfer to the customer (expressed in paragraph BC116 of ASU 2014-09) is any less applicable to lease and non-lease revenue components, particularly since the Board states multiple times in ASU 2016-02 its view that leasing is fundamentally a revenue-generating activity. Therefore, we believe the operational relief afforded to revenue contracts by BC116 should also be available to entities with lease and non-lease components that meet those same criteria, and should be available regardless of whether the potential lease component or the non-lease component represents the primary or predominant component to the overall contract. We believe an optional practical expedient codifying this relief is an appropriate means to achieve that end.

It is our view that a separation and allocation practical expedient designed with the features we are proposing would provide the greatest benefit to the broadest cross-section of entities (in our industry and in other industries) that are finding it difficult to operationalize the supplier separation and allocation guidance in the new standards, while not reducing in any measurable way the quality and usefulness of information that is reported to financial statement users if the entity's election of the practical expedient is adequately disclosed.

We greatly appreciate the time and effort the FASB has devoted, and continues to devote, to assisting with the implementation of ASC 606 and ASC 842 and thank the Board for the opportunity to provide input as it relates to this important issue of separation and allocation to lease and non-lease components of a contract.

Charter Comment Letter
November 20, 2017
Page 4

If useful to the Board or its staff, we would be willing to discuss these matters in further detail at your convenience.

Respectfully submitted,

/s/ Kevin Howard
Senior Vice President, Chief Accounting Officer and Controller
Charter Communications, Inc.

APPENDIX A**Company Overview, Condensed Financial Information and Background Information***Company Overview and Condensed Financial Data*

We are the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet and voice services to approximately 27 million residential and business customers at September 30, 2017. We are a public registrant whose common stock is listed for trading on the NASDAQ Global Select Market under the symbol: CHTR.

On May 18, 2016, we completed the TWC Transaction and the Bright House Transaction (collectively, the “Transactions”), as each is defined and described further in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following table presents selected condensed consolidated financial data for our most recently reported interim and annual periods (in millions):

	Nine Months Ended September 30, 2017	Twelve Months Ended December 31, 2016
Statement of Operations Data: ⁽¹⁾		
Revenues	\$ 30,979	\$ 40,023
Income from operations	2,902	4,801
Net income attributable to Charter shareholders	342	1,070
Balance Sheet Data (end of period):		
Investment in cable properties, net	\$ 142,759	\$ 144,396
Total assets	148,228	149,067
Total debt	68,132	61,747
Total shareholders' equity	42,578	50,366

⁽¹⁾ Data for the nine months ended September 30, 2017 is on an as-reported basis; statement of operations data for the twelve months ended December 31, 2016 is presented on a pro forma basis had the Transactions been completed as of January 1, 2015.

Customer Information

We offer our residential and commercial customers subscription-based video services, including video on demand, high definition television and digital video recorder service, Internet services and voice services. The table that follows summarizes our customer statistics for video, Internet and voice as of September 30, 2017 and December 31, 2016 (as reported in thousands).

	Approximate as of ⁽¹⁾	
	September 30, 2017	December 31, 2016
Customer Relationships ⁽²⁾		
Residential	25,470	24,801
Small and Medium Business ("SMB")	1,523	1,404
Total Customer Relationships	<u>26,993</u>	<u>26,205</u>
Residential Primary Service Units ("PSU")		
Video	16,542	16,836
Internet	22,282	21,374
Voice	10,405	10,327
Total Residential PSUs	<u>49,229</u>	<u>48,537</u>
SMB PSUs		
Video	440	400
Internet	1,321	1,219
Voice	881	778
Total SMB PSUs	<u>2,642</u>	<u>2,397</u>
Enterprise PSUs ⁽³⁾		
	<u>108</u>	<u>97</u>

⁽¹⁾ All reported statistics include the operations of Legacy Charter and the acquirees included in the Transactions based on individual legacy company reporting methodology. These methodologies differ and their differences may be material. Statistical reporting will be conformed over time to a single reporting methodology.

⁽²⁾ Customer relationships include the number of customers that receive one or more levels of service, encompassing video, Internet and voice services, without regard to which service(s) such customers receive. Customers who reside in residential multiple dwelling units ("MDUs") and that are billed under bulk contracts are counted based on the number of billed units within each bulk MDU. Total customer relationships excludes enterprise customer relationships.

⁽³⁾ Enterprise PSUs represent the aggregate number of fiber service offerings counting each separate service offering as an individual PSU.

Residential and Commercial Service Revenue Arrangements

Our residential and SMB video, Internet and voice services are offered on a monthly subscription basis, with prices and related charges based on the types of service selected, whether the services are sold as a "bundle" or on an individual basis, and the equipment necessary to receive our services (for example, set-top boxes, modems and Wi-Fi routers).

Enterprise services are generally offered on a multi-year subscription basis and include fiber Internet, voice trunking services, Ethernet services and video services provided to customers at contractual rates that can be a stated monthly fee, a variable usage-based fee or a combination of both. Similar to our residential and SMB arrangements, monthly charges include the equipment necessary to provide the service (e.g., terminating devices, modems, switches, routers and cable boxes), which is selected, installed, configured, operated and maintained by us throughout the service term.

The following table presents revenues by service offering for our most recently reported interim and annual periods (in millions):

	Nine Months Ended September 30, 2017		Twelve Months Ended December 31, 2016	
	\$	% Total	\$	% Total
Residential revenue				
Video	\$ 12,416	40%	\$ 16,390	41%
Internet	10,467	34%	12,688	32%
Voice	1,955	6%	2,905	7%
Total residential revenue	24,838	80%	31,983	80%
Commercial revenue				
SMB	2,755	9%	3,409	9%
Enterprise	1,640	5%	2,025	5%
Total commercial revenue	4,395	14%	5,434	14%
Advertising sales	1,091	4%	1,696	4%
Other revenues	655	2%	910	2%
Total revenues ⁽¹⁾	30,979		40,023	

⁽¹⁾ Data for the nine months ended September 30, 2017 is on an as-reported basis; data for the twelve months ended December 31, 2016 is presented on a pro forma basis had the Transactions been completed as of January 1, 2015.

Potential issues with the application of ASC 842 to customer arrangements¹

Allocating consideration to non-lease and potential lease components

Consistent with other entities that we are aware have reached out to the Board on this topic, we similarly have the issue that we do not sell rights to use CPE separately without our services that involve the CPE. Therefore, we do not have observable or estimated standalone selling prices for CPE.

Even though, in some cases, use of certain types of CPE results in discrete line-item charges on a customer bill, we do not believe the amount billed reflects the amount that should be allocated to that potential lease component. This is because:

- Such transactions do not occur without a predominant bundled element for the services to which the CPE use relates;
- Such charges are meant to reflect costs beyond the acquisition cost of the equipment, including network infrastructure and customer care costs; and
- Even if one were to conclude the stated line-item charge is directly attributable to the customer's right to use the CPE and that right of use were deemed to be a lease component, there would be a non-lease (maintenance and support) component that is part of that charge given that we promise to keep the CPE operational for the customer throughout the service period.

In other cases, there are not discrete line-item charges listed for the customer's use of CPE. Such charges are instead embedded in the price of the overall service. There are no cases in which we transact in a manner that would provide indicative standalone selling prices for use of CPE in our service arrangements. In other words, there is little precision available as to what amount would be allocable to a

¹ If CPE use is concluded to be a lease rather than as a service element.

potential lease component if CPE were evaluated as a separate lease component. However, we believe such an amount would be minor given that depreciation of the cost of the equipment is an insignificant portion of the corresponding revenues to which the CPE relates.

Cost versus Benefit

We believe that a requirement to account for CPE use separately from the video, Internet and voice services in our customer arrangements will require investments in technology modifications and the implementation of significant processes and internal controls. However, with respect to benefits, we do not believe that this level of disaggregation would provide additional information that would be useful to investors and other users of our financial statements.

With no meaningful benefit to financial statement users, we believe the value derived from separating these elements into separate scopes under ASC 606 and ASC 842 would not match the level of effort that would be required of us and our industry peers in order to do so. Accordingly, we would support codifying an optional practical expedient to make the operational relief afforded to revenue contracts by BC116 available to entities with lease and non-lease components that meet those same or similar criteria.