



May 6, 2020

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: April 21, 2020 Proposed Accounting Standards Update, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842): Effective Dates for Certain Entities [Project No. 2020-300]

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's efforts to assist stakeholders during these challenging times. Among the many consequences of COVID-19, entities may face financial reporting implications and challenges. Impacts such as business and production disruptions, supply chain interruptions, negative impacts on customers, volatility in the equity and debt markets, reduced revenue and cash flows, and other operational and economic issues may occur. As such, TIC supports any financial reporting relief that will help private companies through these uncertain times.

TIC believes that any private company (beyond just a franchisor) that has not yet issued its financial statements should be given the option to have one additional year to adopt ASC 606.

TIC agrees with permitting one additional year for private companies and not-for-profit (NFP) entities that are not conduit debt obligors to adopt the new lease standard. TIC's responses to the specific questions in the ED are noted below, and we have an additional comment for consideration related to use of the term "public NFP" in this ED.

Question 1: Should the effective date of Revenue for franchisors that are not public business entities be optionally deferred to annual reporting periods beginning after December 15, 2019,

and interim reporting periods within annual reporting periods beginning after December 15, 2020? Please explain why or why not.

TIC agrees that adoption of ASC 606 poses some unique challenges to franchisors. TIC is aware of issues with timing and recognition of up-front fees in other industries, such as country clubs and membership organizations as well.

TIC is also aware that entities other than franchisors that are not public business entities (e.g., smaller private companies or entities with fiscal year-ends beginning after December 15, 2018), may not have issued full GAAP financial statements reflecting the adoption of ASC 606 yet. For many private companies, the most significant impact of adopting ASC 606 may be note disclosure which is generally addressed after year-end in preparation for the financial statement audit or review versus the beginning of the year upon adoption. Some companies have put financial reporting on hold due to the COVID-19 pandemic. In particular, many healthcare and NFP entities have fiscal year-ends other than December 31, and these entities have been significantly impacted by COVID-19.

The stay at home orders in each of the states have many companies that are not deemed essential, remotely working. This remote work environment makes even the routine day-to-day financial accounting tasks extremely challenging. In addition, TIC's experience with their own clients has been that nearly all attention is focused on addressing entities' survival through the months of decreased or non-existent operations. Management has had to turn all energy to understanding the various Federal relief packages offered and identifying the best options for their business. Rather than GAAP based financial reporting, many private entities are focused on 13-week cash flow analysis and projections based on various economic scenarios related to the pandemic. In addition, companies are devoting significant time and energy to develop safety plans for employees once they can return to work. The ability for businesses to devote their attention and resources to adopting accounting standards is extremely limited at this time.

The time and effort required to adopt the necessary controls over contracting and collection of data to support required disclosures under ASC 606 can be extensive. Entities that are dealing with cash flow and other issues related to the effects of COVID-19 would likely appreciate some relief with regard to adoption of ASC 606 in cases where they have not yet incurred the time and costs to fully adopt the standard.

Therefore, in addition to the relief being considered for franchisors to address specific accounting issues, TIC would ask the Board to consider allowing any private company that has not yet issued financial statements reflecting the adoption of ASC 606 an additional year to adopt.

While TIC understands that broader relief will result in additional diversity in reporting among private companies for a period of one year as it relates to revenue recognition and disclosures, we believe that in these unprecedented times, the benefit of allowing any relief possible to those entities outweighs the comparability issue.

Question 2: *Is the scope of the Revenue deferral (franchisors that are not public business entities) clear? If not, please explain why.*

TIC believes that the scope of the deferral is clear. However, TIC asks that the extension be granted to all private companies that have not yet issued financial statements due to the unforeseen consequences of COVID-19 on many entities as noted in our response to question 1 above.

Question 3: *Should Leases be effective for entities in the “all other” category (such as private companies and private NFP entities) for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022? Please explain why or why not.*

TIC agrees that the cost and additional controls required to adopt ASC 842 can be onerous and an additional one year for private companies to adopt would be appreciated. In addition, the FASB has had to delay the leases roundtable where lessons learned from public companies were expected to be discussed and TIC believes these discussions will be important in determining how private companies should approach adoption.

Question 4: *Should Leases be effective for NFP entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market that have not yet issued financial statements for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years? Please explain why or why not.*

TIC believes that for purposes of adoption of ASC 842, NFP entities that have issued or are conduit bond obligors should be afforded the same delay as private companies in that they should be granted one additional year to adopt. While TIC is aware that some of the larger NFP conduit bond obligors may have sufficient resources and systems in place to adopt new accounting standards, many operate more like private companies and lack the resources and sophistication to adopt complex new accounting standards at the same time as public business entities.

Additional Comment

While not part of the proposed changes to the Codification, the exposure draft utilizes a new term in the background and introductory material, “public NFPs”. This term is not defined in the ASC Master Glossary (or proposed to be added in this ED) nor is TIC aware of its use in any existing standards.

Significant confusion already exists among some stakeholders regarding the multiple definitions of public entity and nonpublic entity within the Codification. TIC respectfully suggests revising the ED to use terms and language consistent with existing standards without introducing a new term.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee