



October 22, 2020

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

Re: File Reference No. 2020-600

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)*. We support the FASB's ongoing efforts to monitor the implementation of new standards, including Topic 606, and assess whether additional guidance is warranted, particularly for private companies.

Recognizing that one of Topic 606's stated objectives was to improve comparability across industries, we generally do not support introducing industry-specific revenue guidance. However, if the FASB concludes an exception is warranted for the transactions discussed in the proposed Update, we support limiting the scope in this case to franchisors that are not public business entities. This approach would minimize disruption in other industries where similar upfront activities may exist and limit the number of situations when applying the proposed guidance results in a different financial reporting outcome as compared to applying the general model in Topic 606.

The Appendix contains our detailed responses to the Questions for Respondents and other comments on the proposed Update.

If you have any questions regarding our comments, please contact Heather Horn at (310) 874-5449, Pat Durbin at (848) 228-0340, or Angela Ferguson at (408) 679-1672.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers LLP



Appendix

Question 1: Do you support introducing guidance for franchisors that are not public business entities to account for pre-opening services provided to a franchisee? Please explain why or why not.

We agree with the Alternative Views provided in BC43 of the proposed Update that the proposed amendments provide an exception to Topic 606 rather than a practical expedient. Generally, we do not support introducing industry-specific exceptions to the revenue guidance as it is inconsistent with the stated objectives of Topic 606. We recommend the FASB limit such exceptions to situations when it is clear the application of the model has produced undue complexity or produces outcomes that are inconsistent with the economics of specific types of arrangements. In our judgment, based on the experience in our practice, it is not clear that this threshold has been met.

We are concerned that the FASB's conclusions in the proposed Update are based on an assumption that applying the practical expedient will provide "financial reporting results that are more consistent with the intent of Topic 606," as stated in BC10 and elsewhere in the proposed Update. The proposed guidance allows for upfront recognition of revenue without assessing whether certain pre-opening services transfer a distinct service to the customer, which would otherwise be a required assessment under Topic 606. Whether pre-opening services transfer a distinct service to the customer depends on a contract's specific facts and circumstances. We do not believe Topic 606 reflects an intent or bias that pre-opening services would be distinct. We are aware of multiple franchisors that have adopted Topic 606 and concluded that some or all of the pre-opening services are not distinct from the franchise rights granted to a customer. As a result, we expect applying the proposed guidance could result in a different financial reporting outcome as compared to applying the general model in Topic 606. Thus, if the FASB moves forward with the proposed guidance, we recommend acknowledging that the guidance represents an exception to Topic 606 to avoid confusion, especially for those who have already adopted Topic 606 and concluded pre-opening services are not distinct.

Question 2: Should the scope of the amendments in this proposed Update be limited to franchisors that are not public business entities? Alternatively, would it be appropriate for entities in other industries with comparable arrangements that are not within the scope of the proposed Update to analogize to the amendments? Please explain why.

If the FASB concludes an exception is warranted for the transactions discussed in the proposed Update, we believe the scope of the amendments should be limited to franchisors that are not public business entities. As we note in our response to Question 3, we expect private companies that have not yet adopted Topic 606 to benefit the most from the proposed amendments. Limiting the scope of the amendments will minimize disruptions to the application of Topic 606 in other industries where similar upfront activities may exist.

As we note in our response in Question 1, we believe the proposed amendments provide an exception to Topic 606 and therefore, it would not be appropriate for entities in other industries to analogize to these amendments. We agree with including guidance that explicitly prohibits application by analogy. We are concerned, however, that statements within the proposed Update asserting the practical expedient will provide "financial reporting results that are more consistent with the intent of Topic 606," may be misconstrued by preparers in other industries as a presumption or bias in Topic 606 that upfront activities are distinct in similar fact patterns. Therefore, we recommend removing or clarifying these statements.



Question 3: Would the proposed amendments to simplify Step 2—identify the performance obligations—reduce the cost and complexity of applying Topic 606 to pre-opening services? Please explain why or why not.

We expect the amendments in the proposed Update would reduce cost and complexity of applying Topic 606 for some franchisors, as it would eliminate the need to apply judgment to assess whether certain services are distinct from franchise rights granted to a customer. The complexity of this assessment, and accordingly the amount of cost reduction and benefit from applying the expedient, will vary from entity to entity depending on the terms of an entity's franchise arrangements and the nature of the pre-opening services.

We observe that the majority of costs related to this issue are likely to be incurred as part of a franchisor's initial implementation of Topic 606. We believe ongoing costs of applying this aspect of the standard will often not be significant unless the terms of an entity's franchise arrangements subsequently change. Therefore, we expect private companies that have not yet adopted Topic 606 to benefit the most from the proposed amendments.

Question 4: In paragraph 952-606-25-3, the proposed amendments would reinstate superseded guidance from paragraph 952-605-25-4 as a required criterion for applying the practical expedient. Is this guidance operable? Please explain why or why not.

We believe the superseded guidance from paragraph 952-605-25-4 is not necessary because Topic 606 provides guidance on the allocation of transaction price that addresses the concerns outlined in BC20. For example, if a contract requires a large initial franchise fee while the continuing franchise fee is small, the allocation guidance in Topic 606 would require allocation of the total transaction price (both the initial fee and continuing fee) to the performance obligations in the contract based on standalone selling price and prevent inappropriate frontloading of revenue. Therefore, we recommend removing paragraph 952-606-25-3.

If the FASB decides to retain paragraph 952-606-25-3, we believe it is generally operable; however, preparers could incur additional costs to comply with the requirement. Additionally, it may be complex to determine the cost of providing a right to access symbolic intellectual property (the franchise license) to a specific franchisee, which is likely the most common "continuing service" in these arrangements. We also anticipate questions could arise regarding the meaning of "continuing services" in the context of Topic 606. If the FASB decides to retain this requirement, we recommend replacing "continuing services" with "unsatisfied performance obligations" to be more consistent with Topic 606 terminology.

Question 5: Should the scope of the proposed amendments be limited to pre-opening services? If not, please explain why.

Yes. If the FASB concludes an exception is warranted for the transactions discussed in the proposed Update, we believe the scope of the amendments should be limited to pre-opening services.

Question 6: Is additional guidance about other aspects of applying Topic 606 to pre-opening services needed for the proposed amendments to be operable? If so, what specific guidance is needed?

We do not believe additional guidance is needed for the proposed amendments to be operable. Refer to our response to Question 4 and our Other comments below for recommendations to improve the clarity and operability of the proposed amendments.



Question 7: Should entities that elect to apply the practical expedient be required to disclose that fact? Do the proposed amendments provide decision-useful information for users of financial statements? If not, please explain why.

Yes. We believe entities should be required to disclose use of the proposed guidance because it could result in a different accounting outcome as compared to applying Topic 606 without the expedient. We defer to financial statement users' input on the decision-usefulness of the proposed amendments on the financial statements.

Question 8: Should entities that have not yet adopted Topic 606 be required to apply the transition provisions and effective date in paragraph 606-10-65-1 to the proposed amendments? If not, please explain why.

Yes. We believe entities that have not yet adopted Topic 606 should be required to apply the transition provisions and effective date in paragraph 606-10-65-1 to the amendments in this proposed Update.

Question 9: Should entities that have already adopted Topic 606 be required to apply the proposed amendments on a full retrospective basis, including an entity's first reporting period under Topic 606? If not, please explain why.

Yes. We believe entities that have already adopted Topic 606 should be required to apply the amendments in this proposed Update on a full retrospective basis for consistency and comparability purposes.

Question 10: For entities that have already adopted Topic 606, should the proposed amendments be effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within that period, with early application permitted? If not, please explain why.

We defer to financial statement preparers' input on the practicability of the effective date of the amendments in this proposed Update based on the period of time necessary to adopt the proposed amendments.

Other comments

In addition to our responses on the FASB's specific questions, we have the following additional comments and recommendations on the proposed Update:

1. We recommend removing Example 1, Case A, as it does not illustrate the application of the amendments in the proposed Update. Instead, the example illustrates the application of guidance in Topic 606, which is already addressed by the examples provided in Topic 606.
2. If Example 1, Case A, is retained, we recommend expanding and clarifying the analysis of whether the pre-opening services are distinct in accordance with ASC 606-10-25-19, similar to the approach used in Example 57 of Topic 606. At a minimum, the example should state that none of the factors in ASC 606-10-25-21 indicating that the services are not separately identifiable are present.
3. We recommend clarifying how the allocation of transaction price in Example 1 complies with the guidance in Topic 606. The example appears to apply a "residual approach" when allocating a



portion of the fixed fee to the franchise license, which is inconsistent with the guidance in ASC 606-10-32-31 through 32-35. As an alternative, we suggest modifying the facts in the example so that the fixed fee is equal to the standalone selling price of the pre-opening services.

4. We recommend amending paragraph 952-606-25-2 to allow a franchisor electing the practical expedient to account for each type of initial service listed in paragraph 952-606-25-2 as a separate performance obligation rather than accounting for all initial services as a single performance obligation. In BC17, the Board states it believes it will be simpler to account for the initial services as a bundle. We are concerned that this approach would not be simpler in situations when different types of initial services are not completed in the same reporting period or have differing patterns of performance. Specifically, it may be difficult to determine whether the single performance obligation is satisfied at a point in time or over time, and to determine an appropriate measure of progress.

Practically, if the services are separate performance obligations but are performed in the same reporting period, it will not be necessary to separate them (including determining a separate standalone selling price for each service) as the outcome of accounting for them separately will not differ from accounting for them as a bundle. The FASB could also reiterate this concept in the Basis for Conclusions for clarity.