



RSM US LLP

One South Wacker Drive  
Suite 500  
Chicago, IL 60606

[www.rsmus.com](http://www.rsmus.com)

November 2, 2020

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

## File Reference No. 2020-600

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*. We support the efforts that the Financial Accounting Standards Board is putting forth to address perceived issues within the revenue guidance.

### Responses to Questions for Respondents

**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 support introducing guidance for franchisors that are not public business entities to account for pre-opening services provided to a franchisee. As noted in the basis for conclusions, the issue seems to be pervasive among nonpublic franchisors and, despite the FASB's efforts to clarify the purpose of the guidance in ASC 606 and to reduce the cost and complexity associated with applying the guidance to initial franchise fees, the issue has not been resolved. Therefore, we believe the Board's proposal to resolve the issue through standard setting is appropriate.

**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.*

We believe that the scope of the amendments in this proposed Update should be limited to franchisors that are not public business entities and entities in other industries should not be permitted to analogize to the amendments. The expedient includes a predefined list of pre-opening services that are specific to a franchise environment. To allow other industries to analogize would significantly broaden the scope of the expedient and could impact the consistency of the application of ASC 606 in other industries and thereby reduce the comparability of financial information.

**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.*

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

Hillary H. Salo  
Financial Accounting Standards Board  
November 2, 2020  
Page 2

We believe the proposed amendments to simplify Step 2—identify the performance obligations—would reduce the cost and complexity of applying ASC 606 to an extent, because the amendments eliminate the need to evaluate whether the services are distinct. However, given the interconnected nature of the pre-opening services and the ongoing franchise services, we do not believe the amendments will reduce the cost and complexity of the analysis of standalone selling prices for the pre-opening services which may not have met the definition of distinct without the application of the expedient. To further reduce the cost and complexity of the analysis of standalone selling prices, we believe the proposed guidance in paragraph 952-606-25-3 would need to be expanded to provide an exception to requiring a franchisor to estimate standalone selling price, as discussed in our response to question 4.

**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 do believe the guidance is operable, as evidenced by historical application of the guidance under the revenue recognition framework in ASC 605. However, we do not believe that reinstating the guidance in paragraph 952-605-25-4 as a criterion to be met for applying the practical expedient is appropriate, as it could result in payment terms dictating the identification of performance obligations. If paragraph 952-605-25-4 is to be reinstated, we believe it should be as an exception to steps 3 and 4 of the five-step revenue recognition model—the estimation of standalone selling price and the allocation of the transaction price. We believe to further reduce cost and complexity, use of this paragraph as an exception to requiring a franchisor to estimate standalone selling price would accomplish that objective. If the Board does not intend to provide such an exception, we believe paragraph 952-606-25-3 should be removed.

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

We believe the scope of the proposed amendments should be limited to preopening 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?*

Except as outlined in our responses to questions 3 and 4 above, we do not believe additional guidance about other aspects of applying ASC 606 to pre-opening services is needed for the proposed amendments to be operable.

**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.*

We believe that entities that elect to apply the practical expedient should be required to disclose that fact and that the proposed amendments provide decision-useful information for users of 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.*

Hillary H. Salo  
Financial Accounting Standards Board  
November 2, 2020  
Page 3

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

**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.*

We believe entities that have already adopted ASC 606 and elect to apply this practical expedient should be required to apply the proposed amendments on a full retrospective basis, including an entity's first reporting period under ASC 606.

**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.*

For entities that have already adopted ASC 606, we believe the proposed amendments should be effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within that period, with early application permitted.

We appreciate the efforts the Board has put forth to reduce the cost and complexity associated with applying the guidance to initial franchise fees and the opportunity to provide feedback on this proposed ASU. We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Faye Miller at 410.246.9194 or Brian Marshall at 203.905.5014.

Sincerely,

*RSM US LLP*

RSM US LLP