

November 4, 2020

Director@fasb.org

File Reference No. 2020-600

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

Re: Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the questions included in the above referenced exposure draft.

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.

Response: In general, the Committee supports introducing guidance for private companies. However, we are concerned that if future guidance is provided for public companies, then many industries may request special consideration. While it is understandable that the new revenue recognition standard is not necessarily applicable to private companies as it should be to public entities, we are concerned that this slippery slope could result in revenue recognition rules too complicated to be consistently applied. The committee thinks that offering exceptions for private companies should be the extent of exceptions offered on this standard.

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.

Response: As stated earlier, the PSC thinks that the proposed amendments should be limited to private companies. Entities in other industries should not be allowed to analogize the amendments. This standard has not been in effect long enough to analyze the impact on financial reporting. It appears that FASB is anticipating requests from other entities. Those requests should be addressed individually and is not within the scope of this exposure draft.

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.

Response: The PSC believes that the proposed amendments would simplify Step 2 – identify performance obligations. The proposed guidance clarifies what is included and what is not, which will help private companies.

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.

Response: The reinstatement of the superseded guidance as a required criterion makes sense and is operable. Continuing franchise fees normally include ongoing license fees, royalties, and sale of equipment and/or products to the franchisees, etc. These services are normally considered as significant revenue streams and constantly monitoring and assessment of profitability of these services is generally expected and should not create additional burdens. The guidance would assure that there is not excessive difficulty in reporting ongoing services for private franchisors.

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

Response: The PSC thinks that the scope of the proposed amendments should be limited to preopening services. We are not aware of any other revenue items that should be included.

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?

Response: The PSC thinks that the guidance about other aspects of applying Topic 606 to pre-opening services appears adequate and 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.

Response: The PSC believe that entities that elect to apply the practical expedient should be required to disclose the adoption because the application deviates from the original standard. This disclosure would enable the users of these types of financial statements to obtain the information they need directly from the 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.

Response: The PSC thinks that entities that have not yet adopted Topic 606 should be required to apply the provisions to the proposed amendment. Keeping one effective date for the standard as whole would prevent confusion by financial statement preparers and users.

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.

Response: The PSC thinks that entities that have already adopted 606 should restate previous financial statements to reflect the proposed amendment in order to preserve consistency and comparability of the financial statements.

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.

Response: Since the proposed amendment provides for a practical expedient, implementation should not be difficult. Allowing early adoption of this revision to Topic 606 is important to avoid additional work after year end to include provisions of the amendment.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

A handwritten signature in black ink, appearing to read "Lyle C. Joiner". The signature is fluid and cursive, with a prominent initial "L" and a trailing flourish.

Lyle C. Joiner, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants