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2020-600  
Comment Letter No. 17

Ms. Hillary H. Salo  
Technical Director  
File Reference No. 2020-600  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

5 November 2020

**Re: Proposed Accounting Standards Update, Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient (File Reference No. 2020-600)**

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*, issued by the Financial Accounting Standards Board (Board).

We support the Board's proposal to provide a practical expedient in Subtopic 952-606 for franchisors that are not public business entities to account for pre-opening services provided to franchisees. We believe the proposed practical expedient would simplify the identification of performance obligations (i.e., Step 2 of the model in Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*) for entities in the scope of the proposed guidance and, therefore, would provide a cost-effective way for them to achieve a financial reporting outcome that would be similar to the one that would result from not using the proposed practical expedient. This would make the proposal consistent with the Private Company Decision Making Framework.

Our responses to certain questions in the proposal and other comments are in the attached Appendix.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

## Appendix – Responses to Questions to Respondents in the Board’s proposal and other comments

**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 support the narrow scope of the amendments in this proposed Update for franchisors that are not public business entities and believe the guidance in paragraph 952-606-15-3 prohibiting the application of the practical expedient by analogy is appropriate. Unless the Board performs a comprehensive assessment of comparable arrangements in other industries, we do not believe it would be appropriate for entities that are not in the scope of the proposed Update to analogize to the 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 proposed guidance in paragraph 952-606-25-3 is operable because it is generally consistent with guidance that was historically applied by franchisors that were in the scope of Subtopic 952-605, *Franchisors – Revenue Recognition*.

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

We believe that the scope of the proposed amendments should be limited to pre-opening services, consistent with the feedback received from franchisors that are not public business entities related to the cost and complexity of accounting for pre-opening services under Topic 606. We are not aware of other significant practice issues in this area.

**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?

While we do not believe additional guidance in this area is required for the proposed amendments to be operable, we recommend that the Board consider addressing the reason for not including advertising assistance provided to franchisees (e.g., advertising associated with the grand opening of a new franchisee location) in the list of pre-opening services. Advertising assistance is currently included in the Master Glossary’s definition of the term Initial Services, but it is excluded from the proposed list of pre-opening services that would qualify for the practical expedient. Since the proposed guidance would supersede the definition of Initial Services, we believe that the Board should clarify why these services were excluded from the list of pre-opening services. This additional context would help franchisors that are not public business entities determine whether pre-opening services related to advertising assistance should be accounted for as a distinct performance obligation under Topic 606.

**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 franchisors in the scope of this proposed Update that elect to apply the practical expedient should be required to disclose this fact. The proposed disclosure requirement is consistent with the existing disclosure requirements for practical expedients and accounting policy elections that are included in Topic 606.

**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.

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 proposed amendments. However, we observe that some franchisors that are not public business entities have debt facilities that require them to submit audited financial statements no later than 120 days after the balance sheet date (e.g., 30 April for a calendar year-end entity). Therefore, depending on the timing of the final ASU, franchisors that are not public business entities and have not yet adopted Topic 606 might face time constraints when applying the guidance. For example, a calendar year-end entity with a deadline to submit audited financial statements by 30 April 2021 might not have enough time to apply the proposed guidance if the final ASU is issued too close to its reporting deadline.

**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 that an entity that has already adopted Topic 606 should be required to apply the proposed amendments on a full retrospective basis by recording a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity adopted Topic 606. Doing so would facilitate consistency across all reporting periods presented.

**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 Topic 606, we believe the proposed amendments should be effective for annual reporting periods beginning after 15 December 2020, including interim reporting periods within those periods, and early adoption should be permitted. However, depending on the timing of the final ASU, we observe that calendar year-end franchisors might be faced with time constraints similar to those described in our response to Question 8.

### **Other comments**

We recommend the Board clarify the application of Topic 606 to Example 1 – Case A in the proposed guidance. More specifically, we believe paragraph 952-606-55-2 should be expanded to further address whether the pre-opening services are separately identifiable in accordance with the principle and each of the factors in paragraphs 606-10-25-19 and 606-10-25-21.

We also recommend revising the fixed fee in Example 1 to equal the standalone selling price of the pre-opening services. As currently drafted, paragraphs 952-606-55-4 and 952-606-55-7 appear to illustrate the use of a residual approach, which is inconsistent with Topic 606 when each of the performance obligations have an observable standalone selling price.