

November 5, 2020

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Via e-mail – director@fasb.org

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

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We support the efforts of the Financial Accounting Standards Board (“Board”) to ease the burden of adopting and applying the revenue recognition guidance in ASC 606 for private companies. However, we have the following concerns with the proposed practical expedient:

1. One of the primary objectives of ASC 606 was to increase comparability of revenue recognition across industries by replacing industry specific revenue recognition guidance with a comprehensive revenue recognition framework followed by all industries. The proposed practical expedient would contradict this objective.
2. We do not believe the proposed amendments constitute a practical expedient as defined in the *Private Company Decision-Making Framework* (the “Framework”) because the proposed alternative will not achieve “the same or similar accounting and reporting objective” as application of ASC 606. Rather, we believe the proposed guidance would constitute a private company accounting alternative based on the Framework. If viewed as an accounting alternative rather than a practical expedient, we believe the Framework would require additional outreach to users of private company franchisor financial statements to determine if the proposed alternative provides relevant information to these users.

Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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 1: As stated above, we suggest the Board perform additional outreach to users of private company franchisor financial statements to determine if the proposed alternative would provide those users with relevant information. If the users indicate the information provided by the proposed alternative would meet their needs, we would support providing a private company accounting alternative for private company franchisors.

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 2: Yes, we believe the proposed amendments should be limited to franchisors that are not public business entities. We do not believe it would be appropriate for entities in other industries to analogize to this guidance. One of the drivers behind creating the new revenue recognition framework in ASU 2014-09 was to eliminate industry guidance and create a comprehensive revenue recognition framework to increase comparability across industries when there are similar contracts. We believe allowing entities in other industries to analogize to this guidance would reduce comparability across industries.

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 3: Yes, we believe the proposed amendments would simplify the process of identifying performance obligations in franchisor agreements. However, we believe there would still be significant complexities involved in determining the standalone selling price. As a result, we believe the reduction in cost and complexity from applying to practical expedient will not be significant.

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 4: Yes, we believe this guidance is would be operable as franchisors have historically applied this guidance.

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

Response 5: Yes, we believe the scope of the proposed 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?

Response 6: Yes, we believe additional guidance on applying Topic 606 to pre-opening services would be needed for the proposes amendments to be operable. In particular, we believe implementation guidance and examples on determining the appropriate measure of progress for recognizing revenue for the pre-opening services will be needed to help entities consistently apply this guidance.

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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 7: Yes, consistent with requirements to disclose application of private company accounting alternatives, we believe entities that apply the practical expedient should be required to disclose that fact.

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 8: Yes, we believe entities that have not yet adopted Topic 606 should apply the transition provision and effective date in paragraph 606-10-65-1.

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 9: Yes, we believe entities that have already adopted Topic 606 should be required to apply the proposed amendments on a full retrospective basis.

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 10: Yes, we agree with the proposed effective dates and that early application should be permitted.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plantemoran.com or at (248) 223-3745 or Curt Hurd at curt.hurd@plantemoran.com or at (248) 223-3946.

Very truly yours,

PLANTE & MORAN, PLLC