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November 16, 2020

Technical Director, Financial Accounting Standards Board

File Reference No. 2020-600

Re: Proposed Accounting Standards Update: *Franchisors—Revenue from Contracts with Customers* (Subtopic 952-606) Practical Expedient

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 42,600 members. The Committee consists of 54 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

#### Committee's Views on the Proposed ASU

The Committee opposes the proposed guidance for franchisors that are not public business entities. We are not in favor of variances from a prescribed standard for a specific industry, and this proposal would permit a variance from the measurement requirements of Topic 606 for a specific industry. It may not lead to achieving the same or similar accounting or reporting objective as Topic 606, and as such in our opinion does not meet the definition of a practical expedient which is a more cost-effective way of achieving the same or a similar accounting or reporting objective. Further, it may not be really necessary. Franchisors usually use their own standard agreements for all franchisees, so the franchisor generally only needs to analyze the performance obligations under Topic 606 one time and then can apply the results of that analysis to all franchise agreements. With available interpretive materials included in various accounting literature on Topic 606<sup>1</sup>, this task may be no more difficult than applying the proposed practical expedient.

The following are our responses to the Questions in the proposal.

**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.

No, for the reasons expressed in the introductory paragraph above.

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<sup>1</sup> E.g. AICPA Revenue Recognition Guide, paragraphs 17.6.10-17.6.34; KPMG Revenue Recognition Handbook, Question 10.5.50 and Examples 10.5.30 and 10.5.40.

**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.

No. As stated above, we do not believe the Board should adopt the proposed amendments for franchisors, and this would extend to other 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.

There might be some reduction in the initial cost and complexity of applying Topic 606, but all industries are faced with costs and complexities in implementing Topic 606. It is feasible for franchisors to apply Topic 606, and their situation is not sufficiently unique to merit an exception to compliance with Topic 606.

**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 not believe the proposed amendments should be adopted, and therefore do not have a further response to this question.

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

Yes, but as explained above, the proposed amendments should not be adopted.

**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 believe there is sufficient existing guidance (as noted above) to address revenue accounting by franchisors. As such, there is no additional need for guidance.

**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.

If the proposal is adopted, disclosure of use of the practical expedient should be required. We do not believe the proposed amendments will serve the needs of the users of the financial statements, as they will create substantial diversity in practice and lack of comparability between both public and private, and among private companies.

**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.

No. We are already near the end of many annual reporting periods beginning after December 15, 2019, and if the proposal is adopted, more time is needed. A one-year deferral of the effective date is needed for entities who plan to adopt Topic 606 during the current reporting cycle, to allow time for implementation, for which retrospective calculations will be necessary. Earlier implementation should be permitted.

**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, if adopted it should be applied retroactively to the first period under Topic 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.

As we are near the commencement date of many of the annual reporting periods beginning after December 15, 2020, we recommend to provide a one-year deferral of the effective date if the proposal is adopted.

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We thank you for the opportunity to comment on these matters. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Rix".

Nancy A. Rix, Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants