

December 19, 2016

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB November 4, 2016 Proposed Accounting Standards Update *Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services*, a consensus of the FASB Emerging Issues Task Force [File Reference No. EITF-16C]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed Accounting Standards Update, *Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the main objective of this ED, which is to attempt to eliminate diversity in practice on how an operating entity determines the customer of the operation services for transactions within the scope of FASB ASC 853, *Service Concession Arrangements*. TIC agrees with the proposed changes to existing GAAP made by this ED, which clarify that the grantor (government) is the customer of the operation services in all cases for service concession arrangements within the scope of ASC 853. However, TIC does think that some additional implementation guidance should be added to FASB ASC 853 on how to apply this guidance in practice and when to follow the provisions of ASC 340-40-25 related to incremental costs of obtaining a contract and when to apply the provisions of ASC 606-10-32-25 related to consideration payable to a customer. TIC has outlined these concerns in the "additional comment" section in this letter.

SPECIFIC COMMENTS

Question 1: *Do you agree that the customer of the operation services is the grantor in all cases for service concession arrangements within the scope of Topic 853? Please explain why or why not. If you disagree, please provide any examples of transactions within the scope of Topic 853 for which the customer of the operation services would not be the grantor.*

TIC members agree that in situations they have encountered with their clients that enter in to service concession arrangements, the customer of the operations services was the grantor. TIC cannot point out any examples of situations where the customer was other than the grantor.

Question 2: *The Board decided not to require that operating entities provide disclosures, in addition to the existing GAAP disclosures, about how they determine the customer of the operation services. Are the disclosures required by Topic 606 sufficient for these types of arrangements? If not, please suggest other disclosures that would provide useful information.*

TIC believes that the existing GAAP disclosures are adequate and cannot identify any additional disclosures that might be required related to these arrangements.

Question 3: *Do you agree with the proposed effective date and the proposed transition requirements in paragraph 853-10-65-2 for entities that will not early adopt Topic 606? Should adoption of the proposed amendments be permitted before an entity's adoption of Topic 606? Please explain why or why not.*

TIC agrees that for an entity that has not adopted ASC 606, the effective date and transition requirements for the amendments in this proposed guidance should be the same as the effective date and transition requirements for ASC 606. TIC believes that adoption of these amendments prior to adoption of the guidance in ASC 606 could be problematic and then require a change in accounting for service concession arrangements again once the entity is required to adopt ASC 606. In particular, TIC feels that the accounting for the costs to obtain a contract using the current guidance in ASC 605 might result in a different accounting outcome than applying the new guidance in FASB ASC 606.

Question 4: *Do you agree with the proposed transition method and the proposed transition disclosures in paragraph 853-10-65-2 for entities that elect to early adopt Topic 606 before the finalization of the proposed amendments? Please explain why or why not.*

TIC agrees with the proposed transition method, which requires an entity that elects to early adopt ASC 606 before the finalization of the proposed amendments to apply the amendments in this proposed guidance using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the

annual reporting period of adoption or (2) a retrospective approach. The proposed transition-related disclosures also seem appropriate and adequate.

Question 5: *How much time would be needed to implement the proposed amendments for an entity that early adopts Topic 606 before the finalization of the proposed amendments? Should the proposed amendments be effective immediately upon issuance for such entities? Please explain your reasoning.*

TIC believes that entities that elect to early adopt ASC 606 before finalization of the proposed amendments should be given an additional year to adopt the amendments related to this ED. TIC notes that many private entities only prepare financial statements on an annual basis and should be given one reporting cycle to ensure they have implemented this guidance appropriately and made all necessary adjustments to, and disclosures in, their annual financial statements to reflect these proposed changes.

ADDITIONAL COMMENT

TIC believes the FASB should add additional guidance associated with contract-related payments in a service concession arrangement by an operating entity. Specifically, TIC believes it would be beneficial and avoid divergence in practice if the FASB clarified in the final standard that payments related to consideration payable to a customer (the grantor) should be accounted for under the provisions of ASC 606-10-32-25 and that other direct incremental contract costs should be accounted for under the provisions of ASC 340-40-25. It is important to distinguish the proper treatment, as under ASC 340-40-25-5, those costs would generally be recognized as an asset and amortized as an expense over the life of the contract if they meet certain criteria, whereas under ASC 606-10-32-25, consideration payable would be treated as a reduction of revenue over the life of the contract. Following one or the other could have a very different result on the financial statements and TIC did not feel that the ED as written clearly to distinguish what guidance should be followed in this situation.

TIC members believe that constituents would benefit from clear direction on how to account for these contract related payments. TIC discussed this issue with the FASB during our November 2016 meeting. TIC also suggested perhaps adding some additional examples or implementation guidance to ASC 853 to further illustrate how to apply this guidance in practice rather than simply pointing to the overall revenue recognition guidance in ASC 606, which is very lengthy and might be challenging to try to distinguish which sections of ASC 606 are applicable and which are not when it comes to service concession arrangements.

The FASB did note that the Transition Resource Group has recently discussed the accounting for upfront payments to customers and the applicability to service concession arrangements in their November 2016 meeting. TIC will be monitoring those developments to see if perhaps there is any clarification made to the guidance in ASC 606 and perhaps even ASC 853 to address some of these application issues.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive style with a large initial 'M'.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees