



April 24, 2018

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: January 23, 2018 GASB Invitation to Comment (ITC) on *Major Issues Related to Revenue and Expense Recognition* (Project No. 4-6I)

Dear Mr. Bean:

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 Private Company Practice Section (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.

GENERAL COMMENTS

TIC appreciates the Board's work in developing a comprehensive revenue and expense model based on principles that would establish guidance that different types of governments would be able to apply to a wide range of transactions.

TIC took a survey of our members that deal with GASB clients and all of our governmental members voted for the exchange/nonexchange model. Based on the results of that survey, TIC has developed this response to favor the exchange/nonexchange model.

SPECIFIC COMMENTS

Question 2.1: *Do you believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?*

TIC believes that the exchange/non-exchange model, while not a perfect solution, can be improved to reduce current inconsistencies in practice. GASB could improve guidance for exchange transactions by reviewing the most frequent types of transactions and looking for

patterns. The issue of classifying a transaction as exchange or nonexchange is consistent with the FASB grants project. Grantors and grantees would benefit from a review from both sides of this topic for clarification and consistency. The Post Implementation Review (PIR) performed on Statement 33 determined that, generally, the statement was effective. TIC believes that it would be easier to address the issues identified than to create a new unfamiliar methodology that really doesn't appear to be consistent with governmental transactions. While the concept of value is subjective, indicators can be used to assist entities with the determination of whether something is more an exchange or more a nonexchange transaction. While there are lots of shades of gray, a more example-based methodology with indicators could assist entities to achieve appropriate classification. The fact that the methodology is something governments are familiar with can also make the transition to a new standard easier to understand and apply and, therefore, achieve the goal of consistency more easily.

In terms of recognition, this model uses the concept of control which may be difficult for a governmental entity to apply to certain transactions. This aspect of the model may require some additional research and clarification. The concept of point in time verses over time is not new to recognition. Establishing guidance as to when an entity should recognize revenue and expense items could be easily provided using examples and indicators.

Many of the issues that TIC has raised regarding legally enforceable contracts in the FASB language that is currently in FASB ASC 606 also would be found in the GASB proposed definition of a "binding arrangement." TIC has expressed concerns to the FASB in a comment letter dated January 17, 2018, with regard to a similar term in the FASB Codification regarding use of the term "enforceable agreement." In that letter, TIC raised concerns with the following language in FASB ASC 606:

"ASC 606-10-25-2 indicates that [emphasis added], "[a] contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is **a matter of law.**"

TIC expressed concern that the rigidity may cause unnecessary burdens. GASB uses similar language in this ITC when defining a "binding arrangement." The ITC indicates the following:

"A binding arrangement represents a **legally enforceable** mutual understanding between two or more parties regarding their identifiable rights and obligations. Those rights and obligations would articulate in equivalent terms."

As TIC noted in our letter to the FASB, making a legal determination may require the use of a lawyer to determine whether an agreement is enforceable which will be costly and not add much value. The ITC further indicates that even informal arrangements would need to be legally enforceable. "Regardless of the level of formality in the arrangement, it would be necessary that the binding arrangement be legally enforceable; that is, an arrangement that has standing in a court of law and can be enforced through legal procedures." TIC has concerns over the cost and

complexity that this language adds to the process. In addition, the concept of a “another party” and “specific beneficiaries” further muddies the water of a binding arrangement.

TIC does believe that exchange and nonexchange transactions also more easily mirror the expense classification which might make this model easier to apply.

Question 3.1: *Do you believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?*

TIC has concerns with the concept of trying to apply a performance obligation approach to a governmental transaction. As we have seen with the FASB implementation, there are significant difficulties with properly identifying performance obligations. The learning curve required for governmental entities would be steep with little benefit. This approach likely would lead to inconsistencies which is exactly what the ITC is trying to reduce. The approach seems to be an imperfect fit for governments and may end up leading to more questions than answers.

TIC has expressed implementation issues regarding the performance obligation approach through comment letters to the FASB. Defining performance obligations, assessing consideration etc., has led to numerous memorandums by the Transition Resource Group that were needed to address a variety of issues. Memos have addressed issues like identifying a performance obligation, evaluating how control transfers, consideration payable to the customer, and allocation of discounts have all shown the difficulty that the performance obligation approach can bring when bringing in new terms that are conceptually difficult to apply to a multitude of transactions. We believe if GASB were to continue down the purchase obligations path, similar issues would arise and governments that, typically, have fewer resources in finance and accounting roles for governments would be unable to keep up with the changes.

Question 4.1: *Do you believe that the alternative model presented as an example in Chapter 4 could provide a suitable basis for classifying transactions and recognizing revenue and expense? If so, what are the potential benefits and challenges of that model?*

No. TIC does not believe that the alternative model presented could provide a suitable basis for classifying transactions and recognizing revenue and expense for reasons similar to those pointed out in TIC’s preceding response to Question 3.1. TIC believes the same difficulties with identifying a performance obligation and interpreting contracts at that level would be present in this model as well.

Question 4.2: *The models distinguish transactions on the basis of (a) exchange or nonexchange or (b) a performance obligation. Do you believe there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe it would be suitable?*

No. At this time, TIC is unable to propose an alternative method that would work better than a clarified exchange/nonexchange model.

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, slightly slanted style.

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