



June 19, 2018

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2018-240

Dear Ms. Cospers:

The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on the April 26, 2018, Proposed Accounting Standards Update (ASU), *Collaborative Arrangements (Topic 808) – Targeted Improvements* from the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective to provide targeted improvements to ASC 808 to reduce diversity in practice by clarifying when certain transactions between participants in a collaborative arrangement should be accounted for as revenue under ASC 606, *Revenue from Contracts with Customers*. We believe the proposed changes to the scope of ASC 808 will clarify, in some instances, when transactions in a collaborative arrangement would be accounted for under ASC 606. However, in some situations, we believe that entities may continue to struggle with determining whether a collaborative partner is a customer for one or more transactions under a collaborative arrangement. To help entities with this key decision point, we suggest the Board consider adding guidance to further clarify when a collaborator can be viewed as a customer for one or more transactions.

We believe that the proposed changes to the presentation guidance are operable and fairly consistent with how many entities are presenting amounts from collaborative arrangements today. However, we disagree with the proposed restrictions on the classification of amounts as "revenue" in the last sentence of proposed paragraph 808-10-45-3. We believe that continuing to allow entities to apply judgment to determine the presentation of amounts received from a collaborative partner, along with the robust disclosures currently required by both ASC 808 and ASC 606, would provide adequate transparency to users of the financial statements about the amounts an entity has recorded.

With regard to transition, we support the Board's proposed requirements and suggest that entities are provided with at least one year (subsequent to the date of a final ASU) to implement the standard, with an additional one year delay for entities other than public business entities. We also believe that early adoption should be permitted.

Also, while we are supportive of the majority of the proposed amendments, we recommend that the Board consider further amendments to Examples 1 through 3 or the addition of new examples that depict realistic fact patterns of collaborative arrangements in the life sciences industry. We suggest that these examples include common terms such as licenses of intellectual property and upfront fees paid to the licensor. We also suggest that the examples not have research and development (R&D) activities occurring at the same time as commercialization activities. It is our understanding that these two activities typically do not overlap in a specific territory because once regulatory approval is obtained, there are no further R&D activities of significance (and therefore no R&D reimbursements) that occur, and it is at this point that commercialization activities begin.

The attached appendix responds to the Board's questions and offers our additional suggestions for the Board's consideration.

We thank the Board for its consideration and welcome the opportunity to further discuss this matter with the Board members and their staff.

Sincerely,

James Dolinar, Chair
Financial Reporting Executive Committee

Rachel Simons
Collaborative Arrangements Task Force

Appendix — Responses to questions posed in the Proposed ASU, *Collaborative Arrangements (Topic 808)* — Targeted Improvements

Question 1: Would the amendments in this proposed Update clarify when a transaction between collaborative participants is within the scope of the revenue guidance in Topic 606? Would the proposed amendments reduce diversity in practice in this area? If not, please explain why.

Response:

Yes, we believe that the proposed amendments to the scoping guidance in ASC 808 will clarify, in some instances, when transactions in a collaborative arrangement should be accounted for under ASC 606 (i.e., when the counterparty is a customer in the context of a promised good or service that is distinct, as assessed under ASC 606 separation principles).

We also believe that the proposed amendments will reduce *some* of the current diversity in practice by providing a framework for how entities should evaluate the scope of transactions in collaborative arrangements and, specifically, how to separate elements of the arrangement that are in the scope of ASC 606 (even though many collaborative partners are not viewed as customers). However, we anticipate that diversity in practice will continue, in part because of the difficulties involved in determining whether a collaborative partner is a customer. Please refer to Question 2 for further discussion on this point.

Question 2: Is additional guidance necessary to determine whether a collaborative participant is a customer? If so, please provide suggestions.

Response:

Entities may enter into arrangements with collaborative partners for various reasons, such as to diversify risks or to partner with organizations having unique skills or assets. In some industries, entering into collaborative arrangements is a common occurrence and may be considered “ordinary” to an entity’s operations. The Master Glossary of the Accounting Standards Codification (as modified by ASC 606) defines a customer as “a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.” Although the underlying activities in a collaborative arrangement may occur frequently, those activities may not produce outputs that the entity would consider “ordinary activities.” It may be difficult for entities to determine whether a collaborative partner is also a customer in these situations. Therefore, we believe it would be helpful for the Board to provide guidance indicating when a partner in a collaborative arrangement is or is not a customer.

Question 3: Are the proposed amendments on presentation in paragraph 808-10-45-3 operable? Would the proposed amendments reduce diversity in practice in this area?

Response:

We believe the proposed amendments are operable and fairly consistent with how entities are presenting transactions in collaboration arrangements today (e.g., either in accordance with applicable revenue guidance or by analogy to or informed by revenue or other applicable guidance). However, we disagree with the proposed restrictions on the classification of amounts as “revenue” in the last sentence of paragraph 808-10-45-3 for transactions that are not within the scope of ASC 606 or are not directly related to third-party sales.

Amounts received under collaborative arrangements may be the only or a significant source of revenue/income for some entities. Under existing guidance in ASC 808, an entity might classify amounts received from its collaboration partner as “collaboration revenue” or “collaboration income” on the statement of comprehensive income even though these amounts are not considered payments for goods or services in the scope of revenue guidance (or are not directly related to third-party sales). Requiring these amounts to be presented below gross profit (e.g., as contra R&D expense, other income, contra SG&A) on the statement of comprehensive income could lead to a significant change in practice for these entities and eliminate meaningful presentation of financial information. We believe that continuing to allow entities to apply judgment when determining the presentation of amounts received from collaboration partners, along with the robust disclosures currently required by both ASC 808 and ASC 606, will provide adequate transparency to users of the financial statements about the amounts an entity has recorded and the related accounting policies for transactions within the scope of ASC 606 and those under ASC 808.

We believe the proposed amendments will reduce some diversity in practice by eliminating an entity’s ability to present amounts received as revenue if the related transactions are not in the scope of ASC 606 or directly related to third-party sales. However, the proposed amendments may not reduce diversity in many instances and the benefits of the proposed amendments may not outweigh the consequences of providing a less meaningful presentation of financial information about an entity’s collaborative arrangements. In addition, if a transaction is not within the scope of ASC 606, entities may make different judgments about the nature of their transactions under ASC 808 resulting in different accounting for and presentation of the transactions absent any additional recognition, measurement and presentation guidance in ASC 808.

Question 4: Would the proposed amendments on the unit of account clarify that the unit-of-account guidance in Topic 606 should be applied for determining if a transaction is within the scope of Topic 606? If not, please explain why.

Response:

We believe the amendments in the proposed ASU clarify that entities should apply the unit-of-account guidance in ASC 606 to determine whether a transaction from a collaborative arrangement is in the scope of ASC 606. However, we believe the Board should provide additional clarifications to assist entities in applying the proposed guidance to a combined unit of account (identified using the unit-of-account guidance in ASC 606) if it includes both transactions with a customer and transactions that are not with a customer. Absent further clarification, entities could reach different conclusions about which accounting guidance to apply to some collaborative arrangement transactions (i.e., whether a combined unit of account that has transactions with a customer and transactions that are not with a customer is in or out of the scope of ASC 606).

Further, we note that the amendments in paragraph 808-10-15-5B of the proposed ASU do not change an entity's ability to apply judgment to determine units of account for transactions within the scope of ASC 808 that are not in the scope of ASC 606. For example, entities would not be required to apply the unit-of-account guidance in ASC 606 to determine whether transactions that are in the scope of ASC 808 (and are not with a customer) are distinct. However, an entity may elect to apply the unit-of-account guidance in ASC 606 to transactions that are not with a customer based on an analogy to the relevant provisions of ASC 606, if more relevant authoritative guidance does not exist.

Expanding on this latter point, we appreciate the discussion in the Background Information and Basis for Conclusions paragraph BC21 regarding the Board's decision to permit an entity to apply the revenue guidance in ASC 606 by analogy or as a policy election to nonrevenue transactions, without requiring the entity to apply all of the guidance in ASC 606 to those transactions. This decision will enable many entities to account for transactions within a collaboration arrangement based on the nature and contractual terms of the arrangement to provide meaningful information to the users of their financial statements.

Question 5: Should a reporting entity be required to provide additional recurring disclosures (that is, incremental disclosures to those required in Topic 808 and Topic 606) because of the proposed amendments? If so, what additional recurring disclosures should be required?

Response:

No, we do not believe that recurring disclosures in addition to those already required by ASC 808 and ASC 606 are necessary for collaborative arrangements. We believe ASC 808 and ASC 606 already require robust disclosure about transactions within each standard's respective scope.

Question 6: Do you agree with the proposed transition requirements, including the retrospective application to the adoption date of Topic 606? If not, what transition method would be more appropriate and why?

Response:

We are supportive of the proposed transition requirements, including the requirement that entities apply the proposed amendments retrospectively to the date of initial application of ASC 606. However, we understand that preparers may prefer prospective transition in which the amendments are required to be applied to contracts entered into after the effective date of the standard. We are supportive of the Board exploring a prospective transition approach.

Question 7: How much time is needed to implement the proposed amendments? Should early adoption be permitted?

Response:

Many public business entities should be able to implement the proposed amendments in a reasonably short timeframe because the assessments needed to implement the ASU will be consistent with some of the procedures and assessments entities performed to adopt ASC 606. Therefore, we believe the Board should allow entities to early adopt the ASU.

However, considering the volume of accounting and systems changes that may be required of entities in the coming years (e.g., to implement the leases and credit losses standards), we recommend allowing at least one year for entities to adopt the standard (depending on when the final ASU is issued).

Question 8: Should entities other than public business entities be provided with more time to implement the proposed amendments? If so, how much more time?

Response:

We believe that the effective date should be delayed one year for entities other than public business entities to enable them to observe best practices and also to manage the volume of accounting and systems change.