



October 13, 2015

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

Re: File Reference No. 2015-290

Dear Ms. Cospers:

We appreciate the opportunity to respond to the FASB's Exposure Draft, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarizes the views of those member firms who commented on the exposure draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the FASB and IASB's (the boards') efforts to respond to concerns raised by constituents about the revenue standard. We commend the boards for their ongoing collaboration, including efforts to maintain converged principal versus agent guidance by proposing similar changes to both standards. We encourage the boards to continue to work toward converged solutions to implementation issues related to the revenue standard whenever possible.

We believe the converged revenue standard is a significant achievement for financial reporting that will provide substantial benefits to both preparers and users over the long run. We are concerned that those benefits may be eroded if the boards decide to adopt different solutions to implementation issues. We acknowledge that the financial reporting outcomes might not be significantly different, even if the boards pursue different approaches. However, we believe that the outcomes will not be the same in all cases and the risk of divergence over time is much greater. We are also concerned that using different words to clarify or amend the standard will introduce additional complexity, particularly for those organizations that will have reporting obligations under both U.S. GAAP and IFRS. In our view, if the boards agree on the underlying principles and intend the financial reporting outcomes to be the same, they should make the same amendments to maintain a converged standard.

We support the proposed amendments to the principal versus agent guidance. We believe the amendments will help clarify the guidance and promote consistency in its application. However, we have certain observations and recommendations for the boards' consideration, which are included in the Appendix to this letter, along with detailed answers to the FASB's questions.



* * * * *

If you have any questions, please contact Patrick Durbin (+1 973 236 5152), Paul Fitzsimon (+1 416 869 2322), Brett Cohen (+1 973 236 7201), or Tony de Bell (+44 207 213 5336).

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

cc: International Accounting Standards Board



Appendix

Question 1 – *The proposed amendments to paragraph 606-10-55-36 clarify the unit of account (the “specified good or service”) at which an entity would determine whether it is a principal or an agent and clarify that an entity can be both a principal and an agent in a single contract. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives?*

We believe that stating that the “unit of account” is a “distinct specified good or service (or distinct bundle of goods and services)” adds clarity to the principal versus agent assessment. We believe the proposed amendments will improve the operability and understandability of the principal versus agent guidance.

Question 2 – *Paragraph 606-10-55-37A clarifies application of the control principle to certain types of arrangements by explaining what a principal controls before the specified good or service is transferred to the customer. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.*

We believe the proposed amendments to paragraph 606-10-55-37A will clarify the application of the control principle to the principal versus agent assessment, and will improve the operability and understandability of the guidance.

Question 3 – *The proposed amendments to paragraph 606-10-55-39 provide indicators of when an entity controls the specified good or service before it is transferred to the customer and, therefore, would be a principal. The amendments also clarify the relationship of each indicator to the control principle in paragraph 606-10-55-37. Paragraph 606-10-55-39A was added to explain that the indicators may be more or less relevant to the principal versus agent assessment depending on the nature of the arrangement and that different indicators may provide more or less persuasive evidence about whether the entity controls the specified good or service before it is transferred to the customer in different contracts. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.*

We believe the proposed amendments improve the operability and understandability of the principal versus agent guidance. However, we have certain recommendations for further improvement to the indicators.

Primarily responsible for fulfilling the promise

We recommend providing further clarification of the indicator in paragraph 606-10-55-39(a) regarding which entity is “primarily responsible for fulfilling the promise.” The similar indicator in today’s guidance regarding which entity is the “primary obligor” is not always interpreted consistently. Inconsistent application of this indicator is likely to continue under the new standard unless further clarification is provided. Specifically, we have the following recommendations.

When the specified good or service is a right to a good or service (e.g., a voucher that is a “right to a meal”), it is unclear whether this indicator should be evaluated in the context of the “right” (the voucher) or the underlying good or service (the meal). For example, the “right to a meal” is the specified good or service in Example 48, which suggests that the indicator requires assessment of which entity is responsible for fulfilling the promise to provide the voucher. However, paragraph 606-10-55-333(c) appears to focus on fulfillment of the promise to provide the meal. We acknowledge that the assessment of which entity is “primarily responsible for fulfilling the promise” is not necessarily determinative in Example 48. However, we are concerned that the inconsistencies described above will result in confusion



regarding whether to assess which entity is responsible for fulfilling the promise to provide a “right” or to provide the underlying good or service. We recommend the boards clarify how this assessment should be done.

We note that the entity that is primarily responsible for fulfilling the promise might be different from the entity that is responsible for acceptability. For example, a retailer that sells a good is typically responsible for fulfillment by transferring the good to the customer; however, often the manufacturer is responsible for acceptability of the good. We suggest acknowledging that different parties might perform these functions and, as a result, the indicator might not be persuasive in some cases.

We also recommend incorporating the notion of “supplier discretion” in this indicator as we believe it will help entities determine if they are directing another entity to perform and therefore control the specified good or service. For example, we observe that the entity has supplier discretion in Example 46A, which supports the conclusion that the entity is directing the service provider to provide the specified services on the entity’s behalf.

Lastly, we recommend clarifying how this indicator relates to the definition of control, similar to the proposed amendments to paragraph 606-10-55-39(b) and (c).

Pricing discretion

We recommend moving the discussion in paragraph 606-10-55-39(c) regarding an agent’s discretion in establishing pricing into the basis for conclusions. We agree with the statement that an agent could have pricing discretion in some cases. However, we are concerned that this statement, which follows immediately after the description of why pricing discretion is an indicator that an entity is the principal, appears to contradict or “dilute” the indicator in general. We do not believe this is the boards’ intent. We therefore believe this discussion should be included in the basis for conclusions along with an example to provide the appropriate context.

Credit risk

We recommend removing “credit risk” as an indicator. This indicator is almost never persuasive and does not appear to directly relate to the control principle. However, if the boards decide to retain this indicator, we suggest moving the last sentence of paragraph 606-10-55-39(e) into the basis for conclusions, similar to our recommendation regarding the pricing discretion indicator.

Question 4 – *Would the revisions to the principal versus agent illustrative examples (Examples 45 through 48) and the added illustrative examples (Examples 46A and 48A) improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives?*

We believe the new and revised examples will improve the operability and understandability of the principal versus agent guidance. We have the following observations and recommendations on the examples.

Example 46 (specialized equipment)

We recommend removing the discussion about the activities being “highly interrelated” in paragraph 606-10-55-323A and the last three sentences in paragraph 606-10-55-323B. We believe this discussion is not necessary to the analysis and could be confusing. We also observe that the discussion in the basis for conclusions (BC26) states that the analysis may be “straightforward” when the entity provides a significant service of integrating two or more goods or services into the combined output that is the specific good or service for which the customer contracted. Our recommendation would result in a



simplified analysis in Example 46, which would better reflect the boards' intent that the analysis should be straightforward in this fact pattern.

Example 47 (airline tickets) and Example 48 (meal vouchers)

We recommend placing less focus on the timing of the creation of the "right" (the ticket or voucher) in these examples. We believe the key factor in these cases is whether the entity has committed to purchase the "right" before it is sold to the customer, not the timing of when the ticket or voucher is created.

Other observations—estimating gross revenue as a principal

We have the following additional observation regarding the discussion included in the basis for conclusions on estimating gross revenue as a principal (paragraphs BC33 through BC38).

We understand that this discussion is intended to address a narrow fact pattern; however, we are concerned that it may be misinterpreted and applied too broadly. We are also concerned about the implications of differing guidance on this topic in the FASB's and IASB's basis for conclusions. We disagree with the statement in BC36 of the FASB's ED that the transaction price should be reported net in cases "when the entity is (and expects to remain) unaware of the amount the intermediary charged to the end customer" and the implications of setting a precedent that a lack of access to data is a basis to not make estimates.

We recommend removing this discussion from the basis for conclusions. If the board decides to retain this discussion, we recommend either (1) conforming to the IASB's proposed language or (2) providing further clarification of the types of transactions the discussion is intended to address and the supporting rationale for the principal's accounting treatment.