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Susan M. Cosper, Technical Director
File Reference No. 2018-240
Financial Accounting Standards Board
401 Merritt 7
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Submitted via electronic mail to director@fasb.org


Dear Technical Director:

General Motors Company (“we”, “our” or “GM”) designs, builds and sells cars, trucks, crossovers and automobile parts worldwide. We also provide global automotive financing services through General Motors Financial Company, Inc. (“GM Financial”). More information on GM and its subsidiaries can be found on our website at http://www.gm.com.

GM is a participant in cost-sharing/co-development arrangements, some of which meet the definition of collaborative arrangements. The terms of such arrangements typically result in the sharing of development costs associated with bringing an automotive related product to market in one or more geographical locations. The cost sharing element of these arrangements typically result in one party reimbursing the other party for development related activities from which both parties can benefit. With this as context, we appreciate the opportunity to comment on the Exposure Draft: Proposed Accounting Standards Update: Collaborative Arrangements (Topic 808): Targeted Improvements (the “Proposed ASU”).

While we support the Board’s goal to reduce diversity in practice, we believe that much of the diversity in practice is associated with the application of the definition of a “customer” in Topic 606. We believe that the Board should revisit the Proposed ASU to include additional guidance and examples for use in determining whether the other party to a collaborative arrangement is a customer.

Under Topic 606, a customer is “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.” We believe this definition contributes to diversity in practice because entities interpret “ordinary activities” differently. For example, our view is that “ordinary activities” refers to the entity’s ongoing major or central operations for which the entity attempts to generate profits and for which the consideration is received. We believe some entities interpret the definition more broadly to include any activity that
is “ordinary” and related to the business, so long as the entity receives consideration. We believe the Board should clarify the definition of a “customer” by emphasizing that “ordinary activities” relate to the “ongoing major or central operations” of the entity for which it attempts to generate a profit. We believe this clarification would be consistent with the guidance in FASB Concept Statement No. 6 and in the Background Information and Basis for Conclusions to Topic 606, paragraph BC53.

This diversity in practice may also result from differences in how an entity views “consideration”. For example, an entity might conclude that a party has contracted with it to obtain goods or services that are an output of the entity’s “ordinary activities”, and therefore view as consideration any amounts that exceed reimbursement of its direct costs, thereby resulting in the recognition of the consideration as revenue. In contrast, another entity faced with the same arrangement might conclude that a party has contracted with it to obtain goods or services that are not part of the entity’s “ongoing major or central operations”, and therefore view any amounts that exceed reimbursement of its direct costs as reimbursements for related administration and overhead, thereby resulting in the recognition of the consideration as a cost reimbursement in the income statement. This diversity may be compounded if the guidance in the Proposed ASU is analogized to other joint activities or arrangements.

We are not convinced the Proposed ASU as written represents an improvement in practice. In particular, we highlight the fact that the proposed amendments did little to change the accounting or classification of any of the examples in Topic 808, with the only modification being to Examples 1 and 2, where the R&D activities and related profit share received by Biotech are deemed to be under ASC 606. However, the examples do not explain or illustrate how Biotech reached its conclusions, so the examples don’t illustrate how the revised guidance should or could be applied. Further, given the examples primarily focus on biotech and pharma industries, we believe the Board may want to consider whether the amendments could lead to any unintended consequences for other industries.

Should the FASB decide to reevaluate the definition of a customer, we believe the Board should consider whether the definition of a customer should more clearly link “profit generating activities” to “ongoing major or central operations”. In this context, we believe the Board might also consider further clarification as to what constitutes consideration in various types of co-development or cost-sharing arrangements, as well as other joint activities that don’t meet the definition of a collaborative arrangement, if those arrangements are evaluated as “revenue” producing exchanges pursuant to the guidance in the Proposed ASU, either specifically or by analogy. In this regard, we believe an exchange of consideration between parties to development and licensing activities needed to bring a product to market should not be presented as revenue unless the core business is to generate a profit from providing such activities.

Should the Board decide not to reevaluate or provide additional clarity or guidance related to the definition of a customer, we are not opposed to the amendments, nor would we be opposed should the Board determine not to proceed with the Proposed ASU, as diversity in practice is likely to continue to exist. We are supportive of the continued diversity in practice when grounded in strong professional judgment.

Finally, allowing a prospective application of the Proposed ASU would avoid the complexities associated with recasting financial information, particularly given the numerous new accounting standards entities will soon adopt or have adopted in recent periods. We strongly support including an option for prospective application from the effective date of the Proposed ASU with a cumulative catch up at adoption as an optional alternative to the transition requirement of retrospective application to the adoption date of Topic 606 proposed by the Board. GM elected to adopt Topic 606 employing the modified retrospective approach.

We believe the most significant aspects of the Board’s questions outlined in the Proposed ASU have been addressed herein; however, the questions outlined in the Proposed ASU are attached as Exhibit A along with brief responses.

Again, we appreciate the opportunity to provide comments and thank the Board in advance for consideration of the various points outlined herein. For any questions or further discussion, please contact Mr. Thomas Timko at (313) 667-3434.
Sincerely,

/s/ Thomas S. Timko

Thomas S. Timko
Vice President, Global Business Solutions and Chief Accounting Officer
General Motors Company
Exhibit A

**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.

We are not convinced that the Update would reduce diversity in practice in this area absent the Board providing additional guidance and implementation examples related to applying the definition of a customer. See detailed comments in our letter.

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

We believe the Board should consider whether the definition of a customer should more clearly link “profit generating activities” to “ongoing major or central operations” rather than the current definition to “obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration” as defined in Topic 606-10-20. See more detailed comment in our letter.

**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?

We believe the proposed amendments in paragraphs 808-10-45-3 would be operable. However, we do not necessarily believe the proposed amendments would reduce diversity in practice. We also question the potential impact on other arrangements that don’t meet the definition of a collaborative arrangement pursuant to Topic 808. See more detailed comments in our letter.

**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.

Yes, the Proposed ASU would provide clarity as to the determination of the unit of account; however, we believe the larger issue relates to determining whether the other party to a collaborative arrangement is a customer. See more detailed comment in our letter.

**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?

No, the disclosures currently required by Topic 808 and Topic 606 are sufficient to provide useful information to users of the financial statements.

**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?

No, we recommend that the Board allow a prospective application of the Proposed ASU to greatly simplify its application and avoid the complexities associated with recasting financial information, particularly given the numerous new accounting standards entities will soon adopt or have adopted in recent periods.

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

The amount of time required to implement the Proposed ASU depends whether the Board determines to provide more
comprehensive guidance.

**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?

We are not in a position to answer this question since GM is a public business entity.