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Technical Director
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Proposed Accounting Standards Update: Collaborative Arrangements (Topic 808)

Targeted Improvements

The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 44,000 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

We have the following comments on the proposed ASU.

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.

The Committee agrees with the objective of the proposed Update to clarify the interaction between topics 606 and 808. However, the Committee does not believe that the change to ASC 606-10-15-3 is appropriate. It will permit income recognition on a transaction in which the ultimate realization of income depends on the success of the collaborative arrangement, and the Committee believes income recognition in this situation is not appropriate.

Other aspects of the proposed Update would clarify when a transaction between collaborative participants is within the scope of the revenue guidance in Topic 606. As such, it should reduce diversity in practice.

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

Yes, the Committee believes additional guidance is necessary to determine whether a collaborative participant is a customer. The definition of “customer” in paragraph 606-10-20 is broad and can be ambiguous when one tries to apply it to certain collaborative arrangements. We recommend explanatory guidance and / or examples addressing indicators such as:

- Transactions with other parties who may be customers
- Other relationships with the other participant
• The presence or absence of a profit motive in a particular transaction being evaluated
• The ability to objectively separate parts of a contract between those covered by ASC 606 and those not covered by ASC 606
• Control or influence over the arrangement by the participant evaluating revenue recognition.

In this regard, retention of the third sentence of ASC 606-15-3, which is proposed to be deleted, with expansion to explain circumstances when a counterparty would or would not be a "customer" would be helpful.

The Committee recognizes that evaluation of these transactions is difficult and may not be done consistently, but without additional guidance, practice may continue to be overly diverse.

**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?

The proposed amendments in paragraph 808-10-45-3 are operable. They may reduce diversity in practice, but the fact that they appropriately require use of judgment will likely not entirely eliminate diversity in practice.

**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 Committee agrees that 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.

**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?

The Committee does not believe any additional recurring disclosures because of the proposed amendments are necessary.

**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?

The Committee agrees with the proposed transition requirements.

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

The Committee cannot comment on the time needed to implement the proposed amendments. It believes early adoption should be permitted, but only if ASC Topic 606 has been adopted.
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?

Entities other than public business entities should be provided an additional year to implement the proposed amendments, consistent with the additional year provided in the transition in Topic 606.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants