June 11, 2018

Susan M. Cosper, Technical Director
FASB
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2018-240

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), Collaborative Arrangements (Topic 808): Targeted Improvements. We support the Board’s objective to clarify when a transaction between collaborative participants is within the scope of the new revenue guidance in ASC 606, Revenue from Contracts with Customers.

Our responses to the questions for respondents are as follows.

**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 agree that the amendments in this proposed Update would clarify that a transaction between collaborative participants may be within the scope of the new revenue guidance if one of the parties meets the definition of a “customer.” However, we do not believe the proposed amendments would significantly reduce diversity in practice. For entities that have previously identified the counterparty of a collaborative arrangement as a customer in a contract to provide goods or services that are an output of the entity’s ordinary activities, the proposed amendments would clarify that they should account for such transactions as revenue within the scope of Topic 606. While this clarification may reduce diversity for those entities who are unclear on the scope of Topic 606, we believe that entities will continue to analogize to diverse accounting literature or apply an accounting policy election for transactions that are not within the scope of Topic 606 or other Topics, which we believe will continue to result in diversity in practice.
Question 2: Is additional guidance necessary to determine whether a collaborative participant is a customer? If so, please provide suggestions.

We do not believe that additional guidance on the definition of a customer is necessary, but examples of how to apply the existing definition within ASC 808, Collaborative Arrangements, would be helpful. We suggest creating examples, or clarifying the existing examples, to illustrate the factors considered in evaluating whether the parties in a collaborative arrangement are customers. Specifically, we suggest including an example of a startup entity that provides research and development services within the ordinary course of business, as well as examples of when research and development activities would be considered part of the ordinary course of business for a pharmaceutical company whose primary business is commercializing pharmaceuticals but may also be involved in developing certain products that have not yet been commercialized and sold to customers.

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 that the proposed amendments on presentation in Paragraph 808-10-45-3 are operable; however, we would recommend clarifying whether entities are only precluded from presenting transactions that are not directly related to a third-party sale as revenue from a contract with a customer or whether they are prohibited from referring to such income as “revenue” and/or including that income within gross profit.

We do not expect that the amendments would significantly reduce diversity in practice in this area, as entities will continue to analogize to diverse accounting literature or apply an accounting policy election for transactions in collaborative arrangements that do not qualify as a contract with a customer.

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.

While the proposed amendments do clarify that the guidance in Topic 606 should be applied for determining if a transaction is within the scope of Topic 606, we believe there will still be uncertainty about which unit-of-account guidance should be used in evaluating certain collaborative arrangements. Specifically, when a contract includes multiple promises that are a combined performance obligation, and one or more of those promises is clearly in the scope of Topic 606 while others are not, additional guidance may be necessary to determine whether the combined performance obligation 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?

We do not believe that a reporting entity should be required to provide additional recurring disclosures. We believe the disclosures required under Topic 606 and Topic 808 provide adequate information about a reporting entity’s collaborative arrangements.

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?

We agree with the proposed transition requirements, including the retrospective application to the adoption date of Topic 606.

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

With regard to the time required to implement the proposed amendments, we defer to preparer respondents to provide feedback.

We believe that early adoption of the guidance should be permitted, since it will allow both public business entities and private companies that have the necessary information readily available to adopt the guidance. We do not believe that this will negatively impact the comparability of financial reporting because there is already diversity in practice in the application of Topic 808 to collaborative arrangements.

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 believe that the effective date of the final guidance for private companies should be one year after the effective date for public business entities, consistent with the Private Company Decision Making Framework. We agree with the discussion in the framework that states a later effective date will allow private entities to rely on the implementation experience of public business entities and give them time to evaluate the effects of the new guidance on their financial statements.

Other comments

Throughout the examples in the implementation guidance and illustrations, references are made to “sales to third parties” and “revenue from collaborative arrangements.” In order to provide clarity and be consistent with the language in Topic 606, we would suggest changing any references to sales or revenue that are within the scope of Topic 606 to “revenue from contracts with customers” to clarify when revenue can be presented in the same line as other
revenue from contract with customers. This change would differentiate revenue from contract with customers from amounts that are not considered sales to third parties but are directly related to those sales (royalties) and from scenarios when the revenue guidance is applied by analogy and therefore cannot be combined with other revenue from contracts with customers.

We would be pleased to discuss our comments with you. If you have any questions, please contact Lynne Triplett, Partner, 312-602-8060, lynne.triplett@us.gt.com or Sandy Heuer, Partner, 612-677-5122, sandy.heuer@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP