June 11, 2018

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2018-240

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB’s Proposed Accounting Standards Update, *Collaborative Arrangements (Topic 808) – Targeted Improvements* (the “proposed Update”).

We recognize that accounting for collaborative arrangements has been and will likely continue to be a challenging area given these arrangements often have unique complexities and terms that vary significantly from arrangement to arrangement. While we are generally supportive of the proposed Update, we believe the amendments are not likely to eliminate much of the diversity in practice that we observe today. For example, the guidance does not address a frequent question we receive in terms of how and when to recognize an upfront payment from a collaborative partner in an arrangement that is not in the scope of Topic 606. However, because of the unique and “one-off” nature of collaborations, we believe attempting to develop a comprehensive model should not be a priority for the Board at this time. With that said, we have identified opportunities for improvement that, if implemented, would help reduce some of the confusion that may be encountered when addressing this topic:

- We recommend enhancements to the unit of account guidance used to evaluate arrangements in which components that appear to be in the scope of Topic 606 may not be distinct from components that otherwise not be in the scope of Topic 606.

- We recommend that the Board reconsider precluding revenue presentation for collaborations outside the scope of Topic 606. If the Board chooses not to change this aspect of the proposed Update, we believe additional clarity is needed in the proposed guidance as to what constitutes a “transaction that directly relates to a third-party sale.”

- We recommend that the Board provide additional clarity in the proposed guidance regarding an entity’s ability to analogize to other authoritative accounting literature for transactions that are not within the scope of Topic 606.

Appendix A contains our detailed responses to the Questions for Respondents in the proposed Update, some of which expand on the above observations. Appendix B includes suggestions to clarify certain language in the proposed Update.

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If you have any questions, please contact David Schmid at (973) 236-7247 or Brett Cohen at (973) 236-7201.

Sincerely,

PricewaterhouseCoopers LLP
Responses to Questions for Respondents

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.

While the proposed amendments to Topic 606 and Section 808-10-15 clarify that an entity’s collaborative partner could also be its customer, we believe that certain aspects of the proposed amendments should be enhanced to clarify when a transaction between collaborative participants is within the scope of the revenue guidance in Topic 606.

We observe that the examples, as currently written, omit the rationale for scoping and unit of account determinations, specifically the examples that include paragraphs 808-10-55-6, 55-10, 55-14, and 55-19. At a minimum, we recommend that the examples describe the rationale for why a counterparty is or is not a customer, as defined in the Master Glossary of the Accounting Standards Codification, for each transaction.

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

We acknowledge that judgment will still be required for an entity to determine whether a collaborative partner meets the definition of a customer. We also observe that the judgment required to evaluate whether a counterparty meets the definition of a customer extends beyond the context of a collaborative arrangement. Therefore, even with the suggested enhancements to the proposed guidance described throughout this letter, two entities may reach different, but reasonable, conclusions based on an evaluation of their own facts and circumstances.

While we do not recommend providing additional guidance beyond the definition of a customer, we encourage the Board to provide the rationale for why a counterparty is or is not a customer for each transaction within the illustrative examples. This would more comprehensively illustrate how the guidance should be applied.

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 elements of the proposed amendments on presentation in paragraph 808-10-45-3 may create challenges in practice and struggle to see the conceptual basis for allowing certain types of fees that are not in the scope of Topic 606 (i.e., those “directly related to a third-party sale”) to be presented as revenue, but precluding this presentation for other amounts received from collaborative partners. More specifically, we believe the proposed amendments do not provide sufficient guidance for evaluating whether or not an income stream is “directly related to a third-party sale.” On one end of the spectrum, the term could be interpreted very broadly, such that almost any activity a collaborative partner carries out could ultimately be considered related to generating third-party sales. In the other extreme, “directly related to a third-party sale” could be interpreted as meaning only royalty payments, since such payments are calculated based on sales to third parties. If the intent is for profit sharing payments to be considered directly related to a third party sale, that may cause some confusion, since by definition, profit encompasses revenue less expenses. It may also cause some reporting entities to question whether the collaborative partner that makes the profit sharing payment is required to present such amount in its income statement as a reduction of revenue. We also observe that some payments may be tied to third-party sales but may really represent the culmination of a pre-commercial activity. Consider, for example, a $100 million milestone payment that is triggered upon the first dollar of sales.

We do not support this amendment and suggest the Board continue to allow preparers the flexibility to portray an income stream from a collaborative partner that is not in the scope of Topic 606 in the
manner it considers most appropriate as long as it is not described as or included in revenue from contracts with customers. If the Board does not accept this suggestion, we encourage the Board to provide additional clarification as to what is meant by “directly related to a third-party sale.”

Further, we note that paragraph BC20 of the Basis for Conclusions states that “sales of ‘production inputs’ or other items to a collaborative partner that are eventually sold to a third party” and “profit share receivables from collaborative partners for third-party sales” are examples of transactions directly related to sales to third parties. Since the Basis for Conclusions is not included in the Codification, if the Board decides to retain the “directly related to a third-party sale” distinction, we believe the final amendments should reflect these views in an effort to provide more clarity. Additionally, we assume that while the sales of production inputs or other items and profit share receivables referred to in the Basis for Conclusions would be presented as revenue, they would not be revenue from contracts with customers and, therefore, would not be subject to the disclosure requirements of Topic 606.

In addition, we believe that precluding revenue presentation for collaborations outside the scope of Topic 606 could be a significant change from current practice for some entities. We observe that there are other instances in which a transaction that is not with a customer, but is otherwise related to an entity’s ordinary activities, is presented as “revenue” (e.g., interest, leases). Also, the distinction between revenue from contracts with customers and other revenue is already a required disclosure under Topic 606. Therefore, we believe that the disclosures currently required by both Topic 808 and Topic 606 would provide sufficient transparency as to the amounts an entity has recorded and the rationale for the presentation of such amounts in an entity’s income statement. As a result, we recommend the proposed amendments allow for an entity to present and disclose amounts as “revenue from contracts with customers” if such amounts relate to activities within the scope of Topic 606 and as “revenue from collaborative arrangements” if such amounts relate to activities between collaborative participants not in the scope of Topic 606 (including amounts earned from activities that directly relate to third-party sales).

**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.**

We believe that the proposed amendments related to scoping, specifically paragraph 808-10-15-5A, clarifies that some or all of the collaborative arrangement could be within the scope of Topic 606. If an arrangement is wholly or partially in the scope of Topic 606, we believe that the proposed amendments in Section 808-10-15 provide some clarity as to how to separate and measure components of the arrangement into units of account that are in the scope of Topic 606 and units of account that are in the scope of other authoritative accounting literature (e.g., Topic 808). However, we believe that the proposed amendments are unclear as to how to separate and initially and subsequently measure a component that is in the scope of Topic 606 (e.g., a license) and a component that is not in the scope of Topic 606 (e.g., co-promotion activities) when the entity concludes that the two components are not distinct using the separation guidance in Topic 606. Therefore, we recommend that the Board specify in Section 808-10-15 whether it is appropriate to account for such a component under Topic 606 or Topic 808.

Paragraph BC21 of the Basis for Conclusions states that an entity is not required to apply all of the guidance in other authoritative accounting literature (e.g., Topic 606) when applying that guidance by analogy or as an accounting policy election. Reporting entities are often confused about their ability to analogize to other authoritative accounting literature, especially in the context of a collaboration arrangement. This causes inconsistency in practice, particularly when an entity only applies portions of other literature by analogy (rather than the entire model). For example, those reporting entities analogizing to portions of Topic 605 were initially confused about how their accounting would or should be impacted by the issuance of Topic 606. Therefore, we recommend the clarification in paragraph BC21 that all of the guidance need not be applied when analogizing to or basing a policy election on other authoritative accounting literature be incorporated into paragraph 808-10-15-5C to clarify the Board’s intentions.
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, we believe the existing recurring disclosure requirements in Topic 808 and Topic 606 are sufficient.

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?

Yes, we agree with the Board’s proposed transition requirements, including retrospective application to the date of initial application of Topic 606 and the use of certain practical expedients from Topic 606.

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

We do not believe that the proposed amendments would require significant time to adopt; however, we ultimately defer to the preparer community regarding the time needed for implementation.

We believe that early adoption should be permitted, subject to the view articulated in our response to Question 8.

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?

To the extent entities other than public business entities have not adopted Topic 606 before the effective date of the proposed amendments, we believe such entities should be given more time, such that the proposed amendments would be adopted no sooner than the reporting entity adopts Topic 606.
Other suggested edits

1. There are certain instances within the examples in which a payment is not presented as revenue because the underlying activity is not part of an entity’s “ongoing major or central operations.” We suggest replacing this phrase with “ordinary activities” to be aligned with the definition of a customer.

2. Certain of the tables throughout the examples (e.g., the table immediately following paragraph 808-10-55-5) use the heading “Revenues from collaborative arrangement” even though certain of the underlying activities are within the scope of Topic 606. We suggest using “Revenue from contracts with customers” for activities within the scope of Topic 606 and “Revenue from collaborative arrangement” for activities that are presented as revenue but are not within the scope of Topic 606.

3. We observe that when referencing the activities performed by the collaborative participants, the terms “component,” “element,” and “transaction” appear to be used interchangeably. We also observe that Topic 606 uses the term “parts,” which is not used in the proposed amendments to Topic 808. To the extent possible, we suggest using one common term throughout the proposed amendments to avoid confusion if the intent is to describe the same thing.

4. The proposed amendment to paragraph 808-10-15-5A suggests that Topic 606 could apply to a “component” of a collaborative arrangement as opposed to an entire collaborative arrangement. Therefore, in paragraph 606-10-15-3, we suggest the following edits to conform the proposed amendment to Topic 606 to the proposed amendment to Topic 808:

   “An entity shall apply the guidance in this Topic to a contract (other than a contract listed in paragraph 606-10-15-2) or part of a contract only if the counterparty to the contract is a customer in the context of the contract (in whole or in part).

5. In paragraph 808-10-45-2, we suggest including the words “transactions with” as underlined in the text below:

   “For costs incurred and revenue generated from transactions with third parties, the participant in a collaborative arrangement that is deemed to be the principal for a given transaction under paragraphs 606-10-55-36 through 55-40 shall record that transaction on a gross basis in its financial statements.”

6. In paragraph 808-10-45-3 and throughout the document, we suggest replacing the phrase “income statement classification for” with “presentation of” as indicated in the following text:

   “If the transactions are not within the scope of other authoritative accounting literature, the presentation of income statement classification for the transactions shall be based on an analogy to authoritative accounting literature or if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election.”

7. In paragraphs 808-10-55-8 and 55-9, we suggest emphasizing that there are portions of the net payable/receivable, respectively, that are retained by Pharma, as underlined in the following text:

   55-8: “Pharma characterizes the portion of the net payable retained related to research and development activities as a reduction of its research and development expenses ($2.5 million), because performing contract research and development services is not part of its ongoing major or central operations.”

   55-9: “Biotech analyzes its specific facts and circumstances under the guidance on consideration payable to a customer in paragraphs 606-10-32-25 through 32-27 and determines that the portion of the net receivable retained by Pharma that relates to a reimbursement of Pharma’s research and development costs ($2.5 million) should be characterized as a reduction of revenue.”