October 15, 2015

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

RE: Proposed Accounting Standards Update: “Revenue From Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (File Reference No. 2015-290)

Dear Ms. Cosper:

We appreciate the opportunity to respond to the Financial Accounting Standards Board’s proposed Accounting Standards Update (ASU) regarding the determination of whether an entity is acting in the capacity of a principal or an agent in a revenue arrangement. We strongly support the FASB’s efforts to improve the guidance in Topic 606 for making those determinations. However, we do not believe that the proposed ASU will assist financial statement preparers in making those judgments and there are aspects of the proposal that we believe may actually increase the difficulty in making those determinations when applied to transactions involving the sale of tickets, coupons, or vouchers. While we agree that the notion of control is a useful concept in the accounting frameworks for evaluating consolidation and asset derecognition, we are unclear why the Board concluded that control is the determining factor for purposes of determining whether to present revenue on a gross or net basis. Accordingly, while we would support the FASB continuing its efforts to develop improvements in this area, we do not support issuance of the proposed ASU as a final standard.

In general, we believe that netting amounts in financial statements provides less information to investors about the reporting entity’s activities. The Board has previously reached conclusions consistent with this view in other areas of GAAP. For example, the guidance on offsetting assets and liabilities on the statement of position and the guidance on offsetting inflows and outflows on the statement of cash flows impose strict requirements that must be met before offsetting is permitted (but still not required). The presentation of revenue on a net basis inherently limits the information provided to investors on the statement of operations because such presentation does not enable investors to evaluate the dollar amount of transactions conducted by the entity or the margins earned on those transactions. We believe that the need to provide such fundamental information about an entity’s activities in MD&A, rather than the financial statements, constitutes a flaw in GAAP that warrants reconsideration by the Board.

Management of e-commerce and retail entities typically views individuals that purchase products or services from them as “customers” and the parties that provide such products or services as “suppliers.” When revenue is presented on a net basis, the accounting premise is that the parties providing the products or services being sold are actually the entity’s customers, rather than its suppliers, resulting in a financial statement presentation that is inconsistent with how management operates its business. Additionally, we believe that there is a misconception that most reporting entities are either “gross reporters” or “net reporters.” The reality is that many entities, including not only e-commerce entities but also traditional brick-and-mortar entities with e-commerce operations, often have some classes of transactions that are reported on a gross basis and others that are reported on a net basis. For entities with a mix of gross and net revenue transactions, we believe that it can be difficult for financial statement users to make meaningful apples-to-apples comparisons between entities regarding top-line
performance, profit margins, and other financial ratios (for example, marketing spend as a percentage of revenue).

Rather than moving forward with a proposed ASU that appears intended to result in minimal changes to current practice, we recommend that the Board explore a model whereby the primary indicator for determining who is the principal in a revenue transaction would be the party that the customer is transacting with. Under such a model, there would be a strong presumption that the party that operates the website or physical location where a purchase is made and collects payment from the customer would be deemed to be the principal for that transaction. If the Board ultimately decides not to pursue such a model, we believe that it should consider requiring or permitting an alternative presentation on the statement of operations such as the following:

- Gross billings from customers: XX
- Amounts due to service providers in transactions reported net: (XX)
- Revenue: XX
- Cost of revenue: (XX)
- Gross profit: XX

We believe that such a presentation on the statement of operations would provide very useful information to investors about the reporting entity’s activities. Such a presentation would also reduce the importance of the gross versus net revenue analysis because information about the entity’s total transaction activity and margins would be readily accessible to investors on the statement of operations. We believe that such information would facilitate more meaningful comparisons between entities and enable investors to form their own judgments about how to consider that information.

If the Board decides to move forward with the proposed ASU, we believe that there are a number of inconsistencies that should be reconciled to ensure that the proposed guidance is operational. In particular, we believe that the proposed guidance raises significant questions regarding the gross versus net presentation of transactions in which an entity is in the business of selling tickets, coupons, or vouchers for air travel, lodging, live events, or other services that will be provided by a third party. Under existing GAAP, we believe that practice generally “looks through” the ticket, coupon, or voucher to determine who is performing the underlying service in determining what party is the principal. This generally results in a conclusion that the seller of the ticket, coupon, or voucher is an agent except in some circumstances in which that party has general inventory risk. However, the proposed ASU specifies that “an entity that is a principal obtains control of a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity’s behalf.” [Emphasis added.] That guidance appears to suggest that, rather than looking through to the underlying service to determine the party that is the principal in the transaction, an entity should identify the party that is the principal in relation to sale of the ticket, coupon, or voucher itself (i.e., the “right to a service”). Under that premise, it would appear that the party to the transaction that actually sells the ticket, coupon, or voucher directly to the customer and that is in the business of selling tickets, coupons, or vouchers would be the principal (i.e., as opposed to the party that provides the underlying service but has never engaged in a transaction involving the sale of a voucher to a customer). In our experience, entities that sell vouchers enter into contractual agreements that require merchants to perform the specified service to customers who present a valid voucher. For example, an entity would not sell vouchers for admission to a live event without first entering into an agreement obligating the venue to honor such vouchers when presented for admission. As such, at the time of sale an entity that sells a voucher to a customer actually does have the ability to direct the third party service provider to provide the underlying service to the customer.

In our experience, the arrangement terms related to deal offerings on an e-commerce marketplace generally provide the entity operating that marketplace with significant pricing discretion. As a result, the facts in such arrangements are typically more consistent with Example 47 than Example 48, except for the prepurchase of
tickets specified in Example 47. As merchants who offer vouchers for services on an e-commerce marketplace are typically paid by the operator of that marketplace shortly after a customer purchase transaction, we are unclear whether the proposed ASU would result in a conclusion that an entity would apply gross reporting on such transactions whenever prepayments are made to the merchant. If this were the case, an entity would account for voucher sales on a gross basis to the extent that prepayments are made and would account for identical voucher sales on the same deal offerings with the same merchant on a net basis to the extent that the units sold exceed the units covered by the prepayments. We are unclear whether this was the Board’s intent.

Additionally, we believe that the proposed ASU should provide additional guidance regarding the application of its control model to sales of physical products. Specifically, we believe that the Board should clarify the gross versus net analysis in circumstances, such as a drop-ship arrangement, in which the reporting entity has control over the inventory for only a brief period of time before control passes to the customer. We also believe that the proposed ASU should clarify how the existence of a provision requiring an entity to take title to a product if it is returned by the customer (i.e., “back-end inventory risk”) would be considered in evaluating the party that is the principal under the proposed ASU when the customer has a right of return. Additionally, we recommend that the Board consider how the guidance in the proposed ASU would apply to a retail entity that sells consigned inventory to an end-user customer. We believe that the analysis in such an arrangement would likely be very similar to the analysis of the sale of vouchers in Example 48; however, we are unclear whether this result is consistent with the Board’s intent.

If you have any questions about our comments or wish to discuss any of the matters addressed throughout, please contact me at 312-334-1579.

Respectfully submitted,

[Signature]

Brian C. Stevens  
Chief Accounting Officer  
Groupon, Inc.