October 4, 2016

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

RE: Exposure Draft, Technical Corrections and Improvements to Update 2014-09, Revenue from Contracts with Customers (Topic 606) Additional Corrections (File Reference No. 2016-320)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, Technical Corrections and Improvements to Update 2014-09, Revenue from Contracts with Customers (Topic 606) Additional Corrections.

Our responses to Questions for Respondents are included in the Appendix to this letter. This letter summarizes our key comments.

Contract Asset versus Receivable
The proposed amendments to Example 38, Case B are helpful and better align the example with the guidance in 606-10-45-4. However, the amendments do not address the tension between 606-10-45-4 and the guidance in 606-10-45-2 and 45-3 about what constitutes an unconditional right to payment. It is our understanding that the Board did not intend to change the accounting for receivables but the presentation of contract assets and contract liabilities under ASC 606 is impacted by the determination of when a receivable is recognized. We understand there is diversity in practice about when receivables are recognized under the guidance in ASC 310 and without further interpretive guidance in ASC 310, that diversity will likely continue. We acknowledge this issue extends beyond a technical correction but encourage the Board to consider whether the diversity in practice warrants additional standard setting.

Advertising Costs
We believe that the proposed amendments raise application questions about the transactions to which the guidance is intended to apply. The scope of ASC 720-35 does not apply to costs of advertising conducted for others under contractual arrangements. Therefore, the reinstated guidance creates confusion about when the guidance applies and whether the guidance applies only when an entity is reimbursing a customer for the advertising costs it incurs. Because the guidance describes revenue transactions that create advertising obligations, it also creates confusion about how it interacts with the guidance in Topic 606 for consideration payable to a
customer in paragraphs 606-10-32-25 through 32-27 and whether amounts are presented gross or net against revenues.

Franchisors currently analogize to this guidance or follow similar guidance in ASC 952 for advertising expenditures that are made after revenue related to those costs is recognized. The guidance in ASC 952 was superseded by ASU 2014-09. As a result of the proposed amendments and the ambiguity in the proposed scope of ASC 720-35, questions may arise about the appropriate accounting for these transactions.

Paragraph BC10 of the proposed ASU states that the Board did not intend to remove from ASC 340-20-25-2 the guidance about when to recognize a liability for advertising costs. However, because of the questions that we raise in the Appendix, and the potential for other unintended consequences, it would be helpful if the Board described more clearly in the Basis for Conclusions what existing practice it intended to retain.

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If you have any questions about our comments or wish to discuss the matters addressed herein, please contact Brian Allen at (212) 954-3621 or ballen@kpmg.com, or Prabhakar Kalavacherla at (415) 963-8657 or pkalavacherla@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP
Appendix – Responses to Questions for Respondents

Loan Guarantee Fees

Question 1: The proposed amendments are intended to improve the clarity of the scope of Topic 606 for guarantees (other than product or service warranties) that are within the scope of Topic 460, Guarantees. Would the proposed amendments clarify the scope of the guidance? If not, please explain why and suggest alternatives.

We believe the proposed amendments clarify the scope of Topic 606 for guarantees that are within the scope of Topic 460.

Contract Asset versus Receivable

Question 2: The proposed amendments are intended to provide a better link between Example 38, Case B in Topic 606 and the presentation guidance in paragraphs 606-10-45-2 through 45-4. Would the proposed amendments better align the example with the guidance? If not, please explain why and suggest alternatives.

Paragraph 606-10-55-286 implies that an entity’s right to consideration would not be recorded as a receivable until the payment is due. The proposed amendments to Example 38, Case B eliminate this implication by concluding that the receivable would not be recorded before the due date because the contract in that example is cancellable before that date. The proposed amendments better align the example with the guidance in 606-10-45-4. However, the amendments do not address the tension between 606-10-45-4 and the guidance in 606-10-45-2 and 45-3 about what constitutes an unconditional right to payment. It is our understanding that the Board did not intend to change the accounting for receivables but the presentation of contract assets and contract liabilities under ASC 606 is impacted by the determination of when a receivable is recognized. We understand there is diversity in practice about when receivables are recognized under ASC 310 and without further interpretive guidance in ASC 310, this diversity in practice will likely continue.

Refund Liability

Question 3: The proposed amendments are intended to improve the clarity of Example 40 in Topic 606 by removing the term contract liability from the journal entry in the example. Would the proposed amendments improve the clarity of example? If not, please explain why and suggest alternatives.

We believe the proposed amendments enhance the clarity of Example 40.

Advertising Costs

Question 4: The proposed amendments would reinstate the guidance on accrual of advertising costs that was previously included in paragraph 340-20-25-2. Do the proposed amendments improve the clarity of the accounting? If not, please explain why and suggest alternatives.
The proposed amendments do not clarify the types of transactions to which the reinstated guidance should apply. Consequently, we believe there is a potential for misinterpretation and unintended consequences.

The reinstated guidance would state:

**720-35-25-1A** Expenditures for some advertising costs are made after recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers’ advertising costs (cooperative advertising). Generally, revenues related to the transactions creating those obligations are recognized before the expenditures are made. For purposes of applying the guidance in this Subtopic, those obligations shall be accrued and the advertising costs expensed when the related revenues are recognized.

The proposed amendment places this guidance in Subtopic 720-35 which does not apply to costs of advertising conducted for others under contractual arrangements as noted in 720-35-15-3 (c). This raises the question about whether the reinstated guidance applies only when the obligation is to reimburse the customer. Because the guidance uses customer reimbursement only as an example, it implies that the guidance may apply in other circumstances, which may conflict with the scope of Subtopic 720-35. The guidance describes revenue transactions that create advertising obligations and therefore creates confusion about how it interacts with the guidance in Topic 606 for consideration payable to a customer in paragraphs 606-10-32-25 through 32-27 and whether amounts are presented gross or net against revenues.

Franchisors currently analogize to this guidance or apply similar guidance in ASC 952-340-25-3 for advertising expenditures that are made after revenue related to those costs is recognized. This guidance was superseded by ASU 2014-09. As a result of the proposed amendments and the ambiguity in the proposed scope of ASC 720-35, questions may arise about the appropriate accounting for these transactions.

Paragraph BC10 of the proposed ASU states that the Board did not intend to remove from ASC 340-20-25-2 the guidance about when to recognize a liability for advertising costs. However, because of the questions that we raise herein, and the potential for confusion or other unintended consequences, it would be helpful if the Board described more clearly in the Basis for Conclusions what existing practice it intended to retain.