June 30, 2015

Via email: director@fasb.org

Technical Director
File Reference No. 2015-250
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2015-250, Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606)

Dear Financial Accounting Standards Board:

On behalf of the Construction Financial Management Association (CFMA), I respectfully submit the following comments in response to the Exposure Draft of the Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606) (the ED). CFMA respects the FASB’s commitment to providing high-quality, operational financial reporting standards for financial statement preparers, auditors, and users. The due process afforded to those, such as CFMA, wishing to comment on standards affecting our constituency is an important and valuable part of this process. Again, we are grateful for your efforts and welcome the opportunity to meet with the FASB to further discuss our support.

CFMA is the “The Source & Resource for Construction Financial Professionals” and is the only nonprofit organization dedicated to serving the construction financial professional. Headquartered in Princeton, NJ, CFMA currently has more than 7,000 members in 92 chapters throughout the United States and Canada.

Established in 1981, CFMA’s General Members represent all types of contractors, as well as developers, construction managers, architects, engineers, principals, and material and equipment suppliers. Associate Members include the accounting, insurance, surety, software, legal, and banking specialists who serve the construction industry.

Executive Summary

In general, we support, and are in agreement with, the clarifications and revisions included in paragraphs 606-10-25-16 through 606-10-25-21 of the ED. These paragraphs clarify application of the concept of materiality when identifying promised goods or services at the contract level and clarify guidance on assessing when promises to transfer goods or services are separately identifiable.

We believe that applying the concept of materiality at the contract level provides consistency with previous revenue recognition guidance and will be effective in limiting the number of promised goods or services required to be identified in a contract. The concepts of deliverables, components, or elements of a contract used in previous revenue recognition guidance will be comparable to the concept of identifying only material promised goods or services in a contract under the ED. For construction contractors, each contract is generally viewed as the unit of account for identifying the deliverable, measuring satisfaction of the obligation to provide the
goods or services and recognizing revenue. This clarification will also reduce the cost and complexity of applying the ED to such contracts.

We believe that reframing the factors for separately identifying goods or services in a contract is more effective in assessing whether the contract requires an entity to provide multiple goods or services, or a combined item. The existing guidance requires each identified good or service to be evaluated individually under the separability criterion, which may lead to identification of more than one performance obligation when the substance of the contract requires the fulfillment of a single promise or delivery of the combined items. For construction contractors, a contract with a customer typically embodies the promise to fulfill a single promise or deliver a bundle of goods and services as a combined item. The refinement to this principle improves alignment with the concepts in paragraphs 606-10-25-27 through 25-29 of FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606).

The following represents our comments from the perspective of preparers, auditors, and users.

**Question 1:** Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

We would not be in favor of changing the requirement for paragraphs 606-10-25-14(b) through 25-15 to an optional practical expedient. The potential impact of making this guidance optional would be inconsistencies in the measurement of revenue recognized from contracts with customers among preparers of financial statements and an increase in costs to users of those financial statements in assessing comparability.

**Question 2:** Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

As discussed above, we believe that the clarifying language in 606-10-25-16A will reduce the cost and complexity of applying Topic 606 by providing preparers and auditors with clear guidance on materiality with respect to promises in a contract.

**Question 3:** Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

We agree that the proposed ED would reduce the cost and complexity of applying Topic 606 and support the amendments. The proposed election will result in preparers having reasonable conclusions relative to the accounting for shipping and handling services by a construction contractor.
Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

As discussed above, we believe that the revisions to 606-10-25-21 and the related examples provide added clarity to preparers, auditors, and users regarding the separately identifiable principle. As we believe preparers, auditors, and users will find the Example 10, Case A (606-10-55-137 thru 55-140) to be highly effective to the understanding and application of Topic 606 to the construction industry, we ask the Board to add additional examples applicable to the construction industry to illustrate specific differences in fact patterns would cause a construction contractor to conclude certain elements of a typical construction contract (like those identified in 606-10-55-37) are separately identifiable and create distinct goods and services in the context of a single construction contract. The addition of a modified version of Example 10, Case A included in Example 11 would greatly assist in illustrating specific factors that are critical to determining when typical goods or services in a construction contract are distinct.

Questions 5, 6, 7, and 8 in the Exposure Draft all relate to the licensing provisions in Topic 606. This is not an area that CFMA and its members would like to provide comments on, as the licensing guidance in Topic 606 is not an area that has significant applicability to the construction industry.

Conclusion

CFMA respects the FASB’s commitment to providing high-quality, operational financial reporting standards for financial statement preparers, auditors, and users. The due process afforded to those, such as CFMA, wishing to comment on standards affecting our constituency is an important and valuable part of this process. Again, we are grateful for your efforts and welcome the opportunity to meet with the FASB to further discuss our support.

CFMA appreciates the opportunity to again comment on the evolution and implementation of Revenue from Contracts with Customers (Topic 606) and this very important ED. We appreciate the efforts of the Boards and the TRG in arriving at workable solutions that result in improved financial reporting and transparency. We will continue to offer our assistance in working to improve Topic 606 and its implementation.

Thank you for your consideration of our views.

Sincerely,

Stuart Binstock
CFMA
President & CEO