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 Sir or Madam:

On behalf of the Associated General Contractors of America (AGC), 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). We appreciate the efforts of the Financial Accounting Standards Board (FASB or the Board); the International Accounting Standards Board (IASB or the board); the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG); the staff in preparing the ED; and for the opportunity to comment on the ED. We thank the Boards for taking the time to consider comments and recommendations presented by the AGC, which are more fully described below. We commend the Board's focus on creating accounting standards and principles that most accurately reflect the economic reality of any given transaction. In short, your driver is good accounting and we appreciate the opportunity to participate in this process.

AGC is the largest and oldest national construction trade association in the United States. AGC's nearly 30,000 member companies are engaged in all forms of non-residential construction – including the nation's commercial buildings and industrial facilities, highway and public transportation infrastructure, water and wastewater systems, flood control and navigation structures, utility infrastructure, defense installations, multi-family housing, and more.

Our comments relate solely to matters of identifying performance obligations in the ED and Questions 1-4. In general, we support and are in agreement with the clarifications and revisions included in paragraphs 606-10-25-16A and 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 fulfillment of a single promise or delivery of 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).

Answers to Questions for Respondents

**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 consequences of making this guidance optional would be potential 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. We also recommend that the Board reconsider the provisions in paragraphs 606-10-32-42 through 32-45 that address changes in the transaction price (including Example 8) in FASB ASU No. 2014-09. These paragraphs result in inconsistent application of the principle depending on whether a series of distinct goods or services are accounted for as a single performance obligation, or a single performance obligation has been identified. Changes in the transaction price under these paragraphs are accounted for prospectively for a series as compared to the cumulative catch-up method for a single performance obligation.

**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 in our general comments, 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.

**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.

**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 in our general comments, 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 fulfillment of a single promise or delivery of 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).

**Conclusion**

AGC 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,

Stephen E. Sandherr
Chief Executive Officer