June 11, 2018

Technical Director

Financial Accounting Standards Board

401 Merritt 7, P.O. Box 5116

Norwalk, CT 06856-5116

File Reference No. 2018-240

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Collaborative Arrangements (Topic 808), Targeted Improvements.* We generally agree with the proposed Update to clarify when transactions between collaborative participants is within the scope of ASC 606. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

In general, the Committee is supportive of the Board’s proposed changes.

**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.*

**Response:** We believe the proposed ASU would help to clarify when a transaction between collaborative participants is within the scope of ASC 606; however, we do not believe it will significantly reduce diversity in practice. The proposed ASU does not address collaborative arrangements that are not with customers. For such arrangements, the guidance states that an entity should first look to determine if any other authoritative accounting literature is applicable. If none, the entity should classify the transaction based on an analogy to other authoritative accounting literature, or reasonable, rational and consistently applied accounting policy. Accordingly, transactions not within the scope of ASC 606, i.e. non- revenue transactions, an area where diversity currently exists, are not being addresses in the proposed ASU. The Board recognizes this in the basis of conclusions (BC13).

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

**Response:** No. We believe the definition of a customer in ASC 606 is well understood and can be applied easily to collaborative arrangements.

**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?*

**Response:** We do not believe the proposed amendments on presentation in paragraph 808-10-45-3 is operable and would reduce diversity in practice. The proposed ASU states that an entity shall evaluate the income statement classification of transactions in a collaborative arrangement based on the nature of the arrangement, the nature of its business operations and the contractual terms of the arrangement and that, as noted in BC19, an entity may still analogize to ASC 606 even if the counterparty is not a customer provided the transaction is not presented as revenue. We believe, as noted in the Board’s basis of conclusion in paragraph BC21-23, such a model allows for a wide range of outcomes (i.e., expense reduction vs. other income) which would not necessarily reduce diversity in practice. We believe the Board should address income statement presentation for transactions in a collaborative arrangement; however, we believe it should be considered by the Board under a broader project relating to recognition and measurement guidance for nonrevenue transactions between collaborative participants.

In addition, while paragraph 808-10-45-3 prohibits classification as “revenue” in certain circumstances, it’s unclear to us if that guidance would prohibit an entity to presenting payments received as “other income,” as suggested in the basis of conclusion, which could be presented along with revenues from customers and therefore included in an entity’s gross profit/loss in the statement of operations.

**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.*

**Response:** Under Unit of Account, BC25, the Board decided to align the unit of account guidance in ASC 808 with ASC 606 for distinct good or service. ASC 606 also contains guidance on contracts that are combined unit of account with the customer. However, under the proposed ASU, it is unclear whether a combined unit of account would be outside the scope of ASC 606 if it includes both transactions with a customer and transactions that are not with a customer. It is also noted that the Board decided not to include in the proposed ASU recognition and measurement guidance for nonrevenue transactions in a collaborative arrangement. Without guidance, entities will continue to account for these transactions consistent with their past practices and/or consistent with the economics of their collaborative arrangements. Hence, more clarity would be required under the proposed ASU to reduce diversity in practice.

**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?*

**Response:** No, we believe the disclosure requirements in ASC 808 and ASC 606 are sufficient to allow users of an entity’s financial statements to understand the nature of an entity’s collaborative arrangements.

**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?*

**Response:** We agree with the proposed ASU’s transition requirements.

\* \* \* \* \* \*

We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Brian Kot, CPA**  
Chair, Accounting Principles Committee

**William Keirse, CPA**  
Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE

ORGANIZATION AND OPERATING PROCEDURES

2018-2019

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Jared Bourgeois, CPA PricewaterhouseCoopers LLP

Ryan Brady, CPA Grant Thornton LLP

Matthew Denton, CPA Sikich LLP

Ashlee Earl, CPA Ernst & Young LLP

Jason Eaves, CPA Crowe Horwath LLP

William Keirse, CPA (Vice Chair) Ernst & Young LLP

Scott Lehman, CPA Crowe Horwath LLP

Melissa Lynch, CPA Plante Moran, PLLC

Thomas Masterson, CPA Wipfli LLP

Reid Mitchell, CPA Wipfli LLP

Matthew Mitzen, CPA Marcum LLP

Elizabeth Prossnitz, CPA BDO USA LLP

Darshana Raigaga, CPA BDO USA LLP

**Medium:** (more than 40 professionals)  
Almira Goethe, CPA CDH, PC

Danielle Martin, CPA Porte Brown LLC  
 Iryna Prokhorov, CPA Mueller & Company, LLP   
 Jeffery Watson, CPA Miller Cooper & Company Ltd  
 **Small:** (less than 40 professionals)  
 Peggy Brady, CPA Selden Fox, Ltd.  
 Brian Kot, CPA (Chair) Cray Kaiser Ltd CPAs  
**Educators:**

John Hepp, CPA University of Illinois at Urbana-Champaign

**Industry:**

Jason Crider, CPA Molto Properties LLC

Jeffrey Ellis, CPA FTI Consulting, Inc.

Adam Karac, CPA Consultant

Michael Maffei, CPA GATX Corporation

Lisa Sezonov, CPA Northern Trust

Richard Tarapchak, CPA Reynolds Group Holdings

William Wang, CPA MAT Holdings, Inc.

Daniel Wilfong, CPA Sunset Transportation, Inc.

**Staff Representative:** Rafael Wiesenberg, CPA Illinois CPA Society