



November 9, 2015

Ms. Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2015-290, Exposure Draft of Proposed Accounting Standards Update, *Revenue from Contracts with Customers – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft of Proposed Accounting Standards Update, *Principal versus Agent Considerations* (Proposed ASU).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We commend the FASB for issuing the Proposed ASU to address concerns regarding the application of principal versus agent guidance. We support the Board's proposed amendments to the guidance on determining whether an entity's obligation is to provide a good or service to a customer or to arrange for a third party to provide that good or service.

We believe that it is important and useful to clarify how to identify the specified goods or services in the contract, including the rights to goods or services provided by another entity. We also support the Board's view that a principal is the party who controls the specified goods or services before those goods or services are transferred to the customer. Finally, it is helpful to provide additional guidance on how application of the control model in a principal-versus-agent assessment relates to other guidance in Accounting Standards Codification (ASC) 606.

We believe the proposed amendments to ASC 606-10-55-39 and the addition of ASC 606-10-55-39A improve the guidance in ASC 606. The current accounting guidance is a "risks and rewards" model; however, that guidance has similar criteria for determining the principal or agent as the proposed "control" model. As a result, we find ambiguity as to the extent of change in practice that is expected by the proposed ASU and suggest additional guidance be included, specifically for certain service arrangements. For example, in the film industry, Company A might distribute the films of Company B



to a theater. Under the current accounting guidance (“risks and rewards” model), there is a focus on the risk that Company A is taking in distributing the films of Company B (i.e., if Company A incurred the advertising costs for Company B movies, Company A is the principal). We are unclear if the proposed guidance is looking to change the current accounting judgments, as the model is different (i.e., “risk and rewards” vs. “control”) or whether accounting conclusions similar to practice today will be made under the Proposed ASU.

As it relates to estimating gross revenue as a principal, as discussed in BC33-38, we observe that the FASB has reached a different conclusion than the International Accounting Standards Board (IASB) in situations where it is difficult to estimate consideration to the end customer and we believe that the Boards should work to converge their conclusions. However, if the Boards are unable to reach a converged solution we support the decisions reached by the FASB. We also believe that the conclusions reached by the FASB are substantive and should be included in the authoritative part of the Standard.

Our Committee has diverse opinions on the FASB’s view on the basis of transaction price described in BC36-38 with some believing that the FASB’s conclusion is inconsistent with the core of the standard, especially its application to virtual goods and services. However, a majority of committee agrees with the FASB, noting that in multi-party arrangements it may not be possible for the principal or the agent to obtain the necessary information from the other party to determine a reasonable estimate. In addition, we have the following observations.

- Some on our committee suggest the Board consider whether the fact that the transaction price uncertainty is an indication that the intermediary is both: (i) an agent of the end customer and (ii) the customer to the reporting entity. Under this view, we observe that the definition of “customer” in the codification states “A party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.” If the intermediary sets the price for sales of products or services it has purchased and the reporting entity is not involved in determining the pricing or distribution of its products or services, then it does not seem as though the reporting entity could conclude that the end consumer is its customer under the codification definition.
- Others struggle with the practical implications of the view in the prior bullet, particularly in the case where the ultimate obligation for delivery is to the end customer. For example, we observe that in the case of prepaid cards issued by one party and distributed by another, the distributor pays the reporting entity a fixed fee and then can sell that card at any price to the end customer. However, fulfillment of the obligation under the card is the reporting entity’s obligation. Those supporting the view in the prior bullet do not believe that a change in the party that has a right to performance by the reporting entity should affect the identification of the customer.
- We believe there is some level of confusion among practitioners on the use of the terms “performance obligation” vs. “specified goods and services” in the Proposed ASU. While the guidance in BC13 is helpful in understanding why the term “specified goods and services” was used in the analysis of gross versus net, some find it inconsistent with the concept of “performance obligations” in this context and may indicate a different unit of account. We believe it would be less confusing to use the terms the FASB has already defined, rather than introducing this term in a new context.



Although the proposed changes will not resolve all principal versus agent implementation issues, we believe that they will improve the understandability of the principles and narrow diversity in practice. Accordingly, we are supportive of the Proposed ASU.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA  
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Institute of Management Accountants  
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