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Via email to director@fasb.org

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Re: Recognition of Breakage for Certain Prepaid Stored-Value Cards (Subtopic 405-20) (File Reference No. EITF-15B)

Dear Ms. Cospers:

We are pleased to provide comments on the Board's proposed "breakage" guidance for certain prepaid stored-value cards. We support the proposal to provide a scope exception for those financial liabilities under Subtopic 405-20 so that they may fall within the scope of the breakage guidance in Topic 606 on revenue recognition.

However, we note the ED would include cards that are redeemable for cash by a consumer. While we are sympathetic to accounting for cash-settled cards in the same manner as cards settled for goods or services, we understand that cash-settled cards generally do not qualify for an unclaimed property exemption in most states, and therefore are escheatable. Consequently, it does not appear that cards redeemable for cash would be eligible for breakage accounting. If the Task Force intends for cash-settled cards to be eligible for breakage accounting, it appears that the scoping criteria would need to be revised accordingly in the final amendments. We have several other suggestions for clarifying the final amendments, which are included in our responses to the Board's specific questions in the appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Ken Gee at (415) 490-3230.

Very truly yours,

BDO USA, LLP

Appendix

Question 1: Should the scope of the proposed amendments be limited to prepaid stored-value card liabilities resulting from the sale of cards with the characteristics specified in this proposed Update? If not, what other liabilities should be included in the scope of this proposed Update?

We generally agree with the scope of the proposed amendments. However, regarding criterion (c)(i) of paragraph 405-20-40-4, we understand that cards which are redeemable for cash generally do not qualify for an exemption in most states, and therefore are escheatable. Thus, it does not appear that cards redeemable for cash will be included within the scope of the final amendments. As such, if the Task Force intends for cash-settled cards to be eligible for breakage accounting, it appears that the scoping criteria would need to be revised accordingly in the final amendments. We would welcome the opportunity to discuss this issue further with the FASB staff.

Separately, we note one of the proposed scoping criteria is that the prepaid “cards are not subject to unclaimed property laws.” On its face, this language might imply there must be no applicable escheat laws whatsoever in order to be within scope. Our understanding is that unclaimed property laws exist in virtually all states; however, the requirements vary by state. While some states allow an exemption for certain types of cards (e.g., gift cards) if certain conditions are met (e.g., no expiration date, only exchangeable for merchandise, no dormancy fees, etc.), other states do not offer such exemptions. In this sense, many prepaid cards are “subject to” and also comply with unclaimed property laws.

To address this point, we suggest that the Board consider revising criterion (b) of paragraph 405-20-40-4 to clarify that the cards are subject to unclaimed property laws, but that:

1. The cards comply with the applicable priority rules in order to qualify for an exemption in the state (if available) in which they were issued and therefore are not escheatable to the state; and
2. Depending on the unclaimed property laws of the state of issue, the card balance may be either fully or partially escheatable, but if item (1) above is met, the entire balance of the card is still included within the scope of the amendments.

In addition, we observe that the scope is limited to cards for goods or services provided by “only third-party merchants.” We suggest clarifying this term and also expanding the proposal’s scope. For instance, would third party merchants include parent or sister companies of the issuer, e.g., a sister restaurant chain? We believe such cards should be included. We also recommend extending the scope to include cards that are redeemable at the issuer’s own store or at third party stores, e.g., certain prepaid cards that are equivalent to cash that can be used anywhere credit cards are accepted.

Question 2: If an entity expects to be entitled to a breakage amount, should a prepaid stored-value card liability within the scope of the proposed amendments be derecognized in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur? If an entity does not expect to be entitled to a breakage amount, should the liability be derecognized when the likelihood of the customer exercising its remaining rights becomes remote? If not, what breakage model would be appropriate?

We agree with the proposed recognition model. However, we believe that in order to maintain consistency with the principle of constraining estimates of variable consideration in Topic 606,¹ the Board should specify within paragraph 405-20-40-3 that a liability within the scope of the proposed amendments should be derecognized in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that significant reversal of the *cumulative* recognized breakage amount will not subsequently occur.

Question 3: Should an entity be required to provide the disclosures specified in this proposed Update? Should any other disclosures be required? If yes, please explain what disclosures should be provided.

We agree that an entity should be required to disclose the methodology used to recognize breakage under the proposed amendments. However, we believe further clarification is needed about the proposal to disclose “significant judgments made in applying the breakage methodology.” Since the pattern of rights expected to be exercised by a card holder, i.e., expected breakage, is generally based on historical data, we are unclear what “significant judgments” the proposal contemplates. Perhaps disclosure of the “significant inputs” into the determination of breakage revenue would more appropriately characterize the nature of the final disclosure requirement and enhance auditability.

With respect to BC11 of the exposure draft, we recommend providing a scope exception for the disclosure requirements under Topic 825 when a prepaid card otherwise meets the scope of the proposed amendments. While users may provide additional insight on this point, we question whether the marginal benefit of the Topic 825 disclosures would justify the associated costs, particularly since the footnotes will disclose the key aspects and amounts of an entity’s breakage policy.

Question 4: Should the proposed amendments be applied using a modified retrospective transition method (requiring a cumulative-effect adjustment as of the beginning of the annual period in which the guidance is effective)? If not, please explain why.

We agree the proposed amendments should be applied using a modified retrospective transition method (i.e., a cumulative-effect adjustment).

Question 5: How much time would be needed to implement the proposed amendments? Should early adoption be permitted?

We do not expect significant time would be required to implement the proposed amendments to Subtopic 405-20, but we believe the Board should look to feedback received from preparers in the retail industry on this matter.

Additionally, we recommend that the Task Force consider whether there will be any unintended consequences of the final amendments becoming effective prior to the final effective date of Topic 606. If the final amendments are adopted prior to the effective date of Topic 606, entities will in effect early adopt a portion of the new revenue standard for selected transactions,

¹ Paragraph 606-10-32-11 states: An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 606-10-32-8 only to the extent that it is probable that a significant reversal in the amount of *cumulative revenue recognized* will not occur when the uncertainty associated with the variable consideration is subsequently resolved. [Emphasis added]

including the constraint on variable consideration, without adopting the entirety of the new standard.

Question 6: Do entities other than public business entities (that is, private companies and not-for-profit entities) need additional time to apply the proposed amendments? Why or why not?

Consistent with our response to Question 5, we recommend that Task Force consider whether the effective date for nonpublic entities should coincide with the effective date of Topic 606 for nonpublic entities.