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June 11, 2018

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Collaborative Arrangements (Topic 808): Targeted Improvements (File Reference No. 2018-240)

Dear Ms. Cosper:

We are pleased to provide comments on the Board's proposal to provide guidance on whether certain transactions between collaborative participants should be accounted for as revenue in accordance with Topic 606 and to provide more comparability in the presentation of revenue for certain transactions between collaborative participants.

We generally support the proposed amendments on collaborative arrangements. However, we have concerns that entities may struggle to determine when a collaborative participant is a customer and believe additional clarity about the Board's intent would be helpful. Our concerns, along with responses to the Board's specific questions, are provided 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, Angela Newell at (214) 689-5669 or Jin Koo at (214) 243-2941.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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.

Generally, we agree that the amendments in the proposed Update would clarify when a transaction between collaborative participants is within the scope of Topic 606. However, please see our response to question 2 regarding diversity resulting from a lack of clarity on how to apply the definition of a customer. As adjusted for our recommendation, we believe the proposed amendments would help reduce diversity in practice with respect to the interaction between Topic 606 and Topic 808. Regardless, given the lack of guidance on measurement and recognition in Topic 808, we note that diversity in practice will continue to exist when a transaction is not within the scope of Topic 606.

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

Companies enter into collaborative arrangements for varying reasons. Some (e.g. biopharmaceutical companies) may enter into collaborative arrangements regularly with participants whereas others may rarely enter into those arrangements. Further, for those companies that regularly enter into collaborative arrangements, they may participate in the joint activity to develop a product or perform a service that is considered part of their ordinary activities, although at other times, the activities performed may not be considered ordinary. As such, we recommend clarifying whether the Board intends "ordinary activities" to be interpreted broadly or narrowly.

For example, consider a start-up biotechnology company ("Biotech") that owns a license to a single drug compound which it is in the process of developing, and that enters into a collaborative arrangement with a larger pharmaceutical company ("Pharma"). In the arrangement, Pharma agrees to fund 50% of the research and development costs to bring the drug compound to market. Once the drug is approved for sale in the U.S., Pharma will manufacture and market the drug, while providing a revenue share to Biotech. In this instance, Biotech might conclude that the research and development reimbursements represent a contract with a customer within the scope of Topic 606 because they represent Biotech's ordinary activities. In other words, since research and development are the reporting entity's only activities, they must be deemed "ordinary" (a broad interpretation).

Alternatively, Biotech may conclude that the reimbursements do not represent a contract with a customer because Biotech does not have a business model of serving as a contract research organization which provides outsourced research and development activities for other entities, but instead intends to market and sell drug compounds once developed and approved. So while research and development activities may be Biotech's only activities at this point in its life cycle, they do not represent "an output of the entity's ordinary activities in exchange for consideration," as evidenced by the fact that Biotech does not earn a margin on the reimbursement (a narrow interpretation). Under a narrow interpretation, many smaller companies without commercialized products may not have sufficient history to determine what represents "ordinary activities."

For these reasons, we believe the Board should clarify whether it intends reporting entities to interpret the term "ordinary activities" broadly or narrowly. We believe a broad view is reasonable and note that the disclosure requirements in ASC 606 may assist users in understanding the nature of these inbound cash flows, e.g., through disaggregated revenue information.

However, if the Board believes a narrow interpretation is appropriate, this may result in many arrangements being presented as something other than revenue from customers, which could be a

significant change to practice for entities that have historically presented such income on a "topline" basis. We believe that absent this guidance, diversity in practice will remain, as the definition of a customer in Topic 606 is not substantially different than the definition applied in practice historically.

We acknowledge that any clarification related to the definition of a customer will impact the analysis of whether other arrangements outside the scope of Topic 808 are in the scope of Topic 606. However, in the majority of cases, we believe reporting entities are able to readily identify their customers.

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?

We believe that the proposed amendments on presentation in paragraph 808-10-45-3 are generally operable and consistent with current practice among entities.

While we agree that the proposed amendments would preclude presentation of revenue when the collaborative participant is not a customer, we ask that the Board provide guidance on the presentation of those nonrevenue transactions. We understand that the Board considered but ultimately decided not to provide recognition and measurement guidance for nonrevenue transactions between collaborative arrangements as discussed in paragraphs BC21 and BC22. Rather, the Board intended companies to use judgment in determining whether a nonrevenue transaction should be recognized as a reduction of cost or other income based on the nature of the underlying transaction. We ask that the Board reflect this notion about nonrevenue transactions being recognized as a reduction of cost or other income into the final amendments. For instance, paragraph 45-3 could be expanded slightly as follows (our proposed additions are underlined):

> An entity shall evaluate the income statement classification of transactions in a collaborative arrangement on the basis of the nature of the arrangement, the nature of its business operations, and the contractual terms of the arrangement. For example, if one party to an arrangement is required to make a payment to the other party to reimburse a portion of that party's research and development cost, that portion of the net payment may be classified as research and development expense in the payor's financial statements in accordance with Topic 730. Likewise, the recipient may classify the cash received as a reduction of its own research and development expense, or perhaps as other income. Except as provided in paragraph 808-10-15-5B, an entity is precluded from presenting transactions in a collaborative arrangement that are not directly related to a third-party sale of either party as revenue.

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.

Overall, we agree that 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.

We note a minor inconsistency between the terms used in paragraphs 808-10-15-5A and 15-5B, and recommend that the language be revised so that the two paragraphs are consistent with each other and with other paragraphs in Topic 808. As such, we suggest the following changes:

> **808-10-15-5A** A collaborative arrangement within the scope of this Topic may have components that are within the scope of other Topics. If a component of a

> collaborative arrangement is wholly or partially within the scope of Topic 606 on **revenue** from **contracts** with **customers**, an entity shall apply the guidance in paragraph 606-10-15-4 to determine how to separate and initially measure that component. If a component of a collaborative arrangement is not within the scope of Topic 606 but instead is wholly or partially within the scope of other Topics, an entity should follow the recognition and measurement provisions of those other Topics.
>
> **808-10-15-5B** An entity shall apply Topic 606 if the other party is a customer in the context of a promised good or service (or bundle of goods or services) that is distinct within the collaborative arrangement, separated in accordance with paragraphs 606-10-25-19 through 25-22. For any distinct component~~element~~ within the scope of Topic 606, an entity is required to apply all the guidance in Topic 606, including the recognition, measurement, presentation, and disclosure requirements.

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?

No, we do not believe additional recurring disclosures are required because of the proposed amendments.

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?

We agree with the proposed transition requirements, including the retrospective application to the adoption date of Topic 606.

Question 7: How much time is needed to implement the proposed amendments? Should early adoption be permitted?

We believe that entities should generally be able to implement the proposed amendments within a reasonable timeframe because they have recently undergone or are undergoing the implementation process for Topic 606. Entities potentially may have to reclassify certain revenue/nonrevenue items as a result of this proposed Update, but we do not believe this should take longer than a year to implement.

Also, we agree that early adoption be permitted.

Question 8: Should entities other than public business entities be provided with more time to implement the proposed amendments? If so, how much more time?

If a final ASU is issued prior to the end of the year, we believe that entities other than public business entities would not need additional time to implement. However, we would not be opposed to allowing entities other than public business entities an additional year to apply the guidance in a final ASU.