

# ASC 606 in Recent Comment Letters

February 12, 2019

Paul Schumacher with Data by  MYLOGIQ

There are nearly 600 codification references of ASC 606 (and related ASC 340-40) in over 430 comments covering a broad range of issues. Just over 180 unique Companies have engaged in a total of 225 conversations (i.e. a few had more than one round) via the comment letter process. SEC staff comment letters behold a goldmine of information with detailed documented conversations between Company management and the SEC staff. There are now two years of conversations, some visibly long, and almost 50 percent of comment responses concluded with the Company saying they will amend/clarify language in future filings. Responses generally provide “draft” example wording.

The rate of comments really steepened in the second half of 2018. Here are a few observations from the population of SEC comment letters related to ASC 606 through Feb 9, 2019. I say Feb 9, but really Dec 22, 2018...pencils down during the government shutdown.

Sparing no stubby pencils or digital ink, the SEC staff has issued comment letters to over 180 “unique” companies in the last two years related to ASC 606.

- Slightly more than 150 unique Companies received at least one comment related to their post adoption of ASC 606 (including related ASC 340-40). This includes S-1 and DRS comment letters.
- Another 27 Companies received a comment related to its SAB 74 disclosures around the future adoption of ASC 606.
- There are more than 430 comments in the 225 comment letter rounds/conversations (i.e. the comment letter issued by the SEC staff and the response letter from the Company).

Most Companies, about 80 percent, cleared their comments with the SEC in the first round of conversation.

- About 20 percent of unique Companies had at least a second conversation.
- One Company received six follow up comment letters (15 letters if you count the letter, the response and the closing letter). In case you were wondering, this long conversation concluded with a restatement.

A forgiving approach to implementation efforts...mostly...think “forgive yourself” by Jean Valjean in “Les Miserables”.

- About half of the comments resulted in the Company indicating they would clarify/revise their disclosures in future filings.
- Ten companies adopted ASC 606 but did not provide the required interim disclosures.
- One Company changed their conclusion on principal vs agent as a result of the comment letter communications.
- One Company restated the first and second quarter financials as a result of seven rounds of comment letter communications

Smaller Companies, Companies audited by non-Big 4 firms and IPO’s have also received their fair share of attention from the SEC staff. Although most companies receiving comments have been large accelerated filers audited by a Big 4 firm, the following have also received comments (percentages below relate to the 150 unique Companies receiving post adoption comments);

- About 15 percent of unique Companies are audited by non-Big 4 firms.
- About 5 percent of unique Companies are non-accelerated filers (less than \$75 million market cap).
- 13 percent are accelerated filers (between \$75 million and \$700 million market cap).
- About 20 percent of the comment letters relate to S-1’s or Draft Registration Statements (DRS’s).

The 150 unique Companies (post adoption comment letters) cover a broad range of industries.

- The coverage includes most industries, but there has been a focus on technology. About one third of the unique Companies are in a technology related sub-industry.
- There are plenty of comment letters in industries such as biotech, pharma and financial services, industries you may not expect to receive many comments.

There are nearly 600 codification references in the 430 comments. For example, a comment might reference both ASC 606-10-25-1 and ASC 606-10-50-5. See below for additional explanation.

The following Table categorizes codification references by significant ASC 606 or ASC 340 area. You can see comments cover the entire standard with a slight focus on disclosure. I'll leave it at this for now as providing a deeper analysis would entail a much broader and longer research note.

<b>Area</b>	<b>Codification Reference para</b>	<b>Percent of total</b>
Scope and scope exceptions	15-1 through 15-5	4%
Recognition	25-1 through 25-37	19%
Measurement	32-1 through 32-45	16%
Contract costs (including disclosure)	340-40-05-1 through 340-40-50-6	7%
Disclosure	50-1 through 50-23	25%
Implementation guidance	55-3 through 55-91	22%
Other (including SAB 74)	Various	7%

The following paragraphs help define a few terms I've used above and explain certain populations...in case the numbers seem high (or low) to you.

## **Unique Companies receiving comment letters**

“Unique” means the Company received at least one comment letter. If they received more than one letter, then they are still only counted once. I created a database that includes comment letters through Feb 9. The team at MyLogIQ was kind enough to send me their detailed list of companies receiving an SEC comment letter with at least one comment related to ASC 606, which I reconciled to my database population. Since I had focused on “CORRESP” letters, I ended up adding several draft registration statement comment letters “DRSLTR”. Thanks MyLogIQ!!!

## **Comment letters**

The population consisted of responses from companies in CORRESP and DRSLTR letters.

A “round” of conversation consisted of the letter to the company and the response from the company.

Closing letters from the SEC staff were not included.

Parent/sub relationships were considered only once, even though they both may have received the same letter.

## **Unique comments**

ASC 340-40, “Other Assets and Deferred Costs: Contract with Customers”. Comments related to ASC 340-40 are included in the population since this subtopic was added by Accounting Standards Update 2014-09 to help companies address the accounting for costs incurred as part of obtaining or fulfilling a contract with a customer.

ASC 280 – The population generally does not include a comment if the primarily issue related to ASC 280, “Segment reporting”. Several companies receiving ASC 280 comments also responded with a reference to ASC 606 stating they have provided extended disclosure regarding disaggregation of revenue for the Company’s reportable segments to present revenue depicting how the nature, amount, timing and uncertainty of revenue and cash flows of each segment are affected by economic and industry factors.

## **Codification references or “Issues” population**

Why are there over 600 “issues” identified but only 430’ish unique comments? Simply stated, many comments included multiple codification references. Other considerations included:

Multiple codification references or “issues” in one separate comment – For example, a comment may inquire how a company identified their performance obligations and then follow with a question on why they believe each performance obligation should be recorded gross or net (as a principal or agent). It may further inquire how they considered the disclosure requirements related to significant judgments. This comment would contain three codification references, or “issues”.

Often a comment would request a Company’s consideration of a range of codification issues, such as ASC 55-36 through ASC 55-39A. Since a range generally covered a broad topic such as “principal vs agent considerations” Generally this “range” only counted as one codification reference or “issue” in the population.

If a codification reference or “issue” from a comment letter was not closed and a follow up comment on the same or similar “issue” was received in a subsequent letter, this issue was counted again in the population.

Response codification references were also included as “issues”. Often the comment response may contain several supporting codification references not included in the comment.

If the codification reference was in the comment and the response then it was only counted once.

Certain comments contained no codification reference but the issue clearly related to one or more certain codification guidance. The respective codification reference was identified and added to the population.