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October 15, 2015

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

File Reference No. 2015-290

Dear Ms. Cospers:

Connor Group, Inc. is pleased to provide our comments on the Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606)*, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. Connor Group was founded in 2005 and is a technical accounting advisory firm built of Big 4 alumni and industry executives. We currently have over 400 clients and specialize in helping our clients solve complex technical accounting issues under both US GAAP and IFRS, with revenue recognition being a heavy focus area. Our clients represent industries such as technology, software, Internet, cloud services, life sciences and manufacturing, amongst others. In addition, we assist many of our clients with aspects of their accounting and financial reporting during their IPO filing process.

We strongly support the Board's intention to clarify and provide additional guidance for the principal versus agent considerations under Topic 606. However, we believe the proposed amendments do not fully achieve this objective. In particular, in our view, as discussed in more detail in our response to Question 4, the proposed Examples 47 and 48 do not provide sufficient depth of explanation and further, should be supplemented with guidance to assist entities in their evaluation as to whether the right to goods or services is created only when it is obtained by the customer or whether it exists before the customer obtains the right. As part of such guidance, language in paragraph BC24 should be relocated from the Basis for Conclusion to the body of the standard itself. We believe absence of such additional guidance could result in diversity in practice and decreased comparability across issuers of financial statements.

Also, we do not agree that if an entity provides a significant service of integrating goods or services purchased from the other party the entity should be automatically considered a principal, as proposed in paragraph 606-10-55-37A. Our rationale is explained in our responses to Questions 1 and 2 below. In our opinion, providing a significant service of integrating goods or services purchased from the other party is just one of the control indicators and should instead be included in paragraph 606-10-55-39.



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Further, as discussed in more detail in our reply to Question 1, we believe that paragraph 606-10-55-36 should include a general principle which would require a vendor to evaluate whether its application of paragraphs 606-10-25-19 through 25-22 is consistent with the presentation objective in ASC 606-10-55-36. In the absence of such principle, the resulting accounting may not reflect the economic substance of the arrangement with the customer.

We also note that IASB released the proposed amendments to the principal versus agent guidance one month prior to the release date of the proposed amendments by the Board. As discussed in paragraph BC19 in the Basis for Conclusions, the Board decided to propose more limited amendments that are converged with those that have been proposed by the IASB, despite the Board's view that additional changes could be helpful to further clarify the principal versus agent guidance in Topic 606. We are concerned that this approach may not be in the best interests of the domestic stakeholders and may significantly limit operability and understandability of the principal versus agent guidance. We encourage the Board to continue to strive to align with the IASB the timeline and the contents of ongoing amendments to ASC 606, in the interest of keeping the new revenue standards converged.

We have included below our responses to each of the "Questions for Respondents" posed in the Exposure Draft.

Comments on Questions for Respondents

Question 1: *The proposed amendments to paragraph 606-10-55-36 clarify the unit of account (the "specified good or service") at which an entity would determine whether it is a principal or an agent and clarify that an entity can be both a principal and an agent in a single contract. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain and suggest alternatives.*

Response 1: We believe the proposed amendments would improve the operability and understandability of the principal versus agent guidance. Nevertheless we are concerned that in certain cases mandatory application of paragraphs 606-10-25-19 through 25-22 to determine whether a good or service is distinct prior to determining the nature of promises made to a customer may preclude accurate representation of the economic substance of an arrangement with the customer. Consider, for example, a system integrator that provides significant integration services to a customer. For convenience reasons, customer frequently engage system integrators to procure on their behalf various equipment and software licenses, to be integrated with the integrator's own goods or services, and may pay the integrator a small commission on such purchases. Literal application of the proposed guidance in ASC 606-10-55-36, and specifically, reference to ASC 606-10-25-21(a), will require the integrator to conclude that the integration



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services result in equipment and licenses not being distinct from its own goods and services. However, as we also discuss in our response to Question 2 below, the extent of the integrator's involvement with the equipment and license purchases may vary significantly. In our experience, depending on the transaction facts and circumstances, both the customer and the integrator may see the integrator purchase activities as either an inherent part of the integration, or a separate obligation. In many integrations the customer will supply its own goods or services to be made part of the integration; in this regard, the integrator's role with the respect to the items it procures for convenience purposes from third parties may not be different from its role with respect to the items supplied by the customer itself. Combining these items into a single distinct performance obligation with the integrator's own goods or services may thus not be consistent with the economic substance of the arrangement. In this regard, we believe the role of a system integrator may vary considerably from that of the construction general contractor who usually takes responsibility for the entire construction process and consequently the customer looks at the entire deliverable as a single unit of accounting.

Therefore, we do not believe specified goods or services as defined in ASC 606-10-55-36 should be limited to what is deemed distinct goods or services to be provided to the customer. Therefore, we suggest including into ASC 606-10-55-36 a general principle similar to the principle outlined in ASC 606-10-32-35 that would require vendor to evaluate whether the application of paragraphs 606-10-25-19 through 25-22 is consistent with the presentation objective in ASC 606-10-55-36 of accounting for the entity's involvement as principal or agent based on the nature of the entity's promise to the customer.

We also believe that it will be beneficial to incorporate parts of the discussion in BC13 directly into the standard as this paragraph provides an important clarification that the specified goods or services to be provided to the end customer as used in the context of ASC 606-10-55-36 are not necessarily performance obligations of the vendor.

Question 2: *Paragraph 606-10-55-37A clarifies application of the control principle to certain types of arrangements by explaining what a principal controls before the specified good or service is transferred to the customer. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.*

Response 2: We support clarification of the control principle for certain types of arrangements. However, we do not agree that providing a significant service of integrating goods or services provided by another party into the specified good or service for which customer has contracted should automatically indicate that the vendor controls the specified good or service before that good or service is transferred to the customer. Application of this guidance to the system



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integrator example discussed in our response to Question 1 will result in a conclusion that the system integrator acts as a principal when purchasing equipment and software licenses on behalf of the customer even if the vendor is just an intermediary retained by the customer for convenience to procure equipment and software from the third party vendors. A system integration service may involve goods or service supplied by the system integrator, by the customer, or by third parties. In our experience, in the case of goods or services supplied by third parties, the extent of decision-making and control over the procurement process that is exercised by the system integrator vs. by the customer could vary significantly. In our opinion, when the system integrator acts on behalf of the customer in purchasing goods or services to be used in the integration project, the system integrator may not have more control over these goods or services than over the goods or services used in the integration that are supplied directly by the customer. Thus, we do not believe there should be a non-rebuttable presumption that the system integrator has control over such goods or services. As such we suggest removing references to significant integration services from ASC 606-10-53-37A and including significant integrating services into ASC 606-10-55-39 as one of the indicators of control.

Additionally, we feel that including parts of guidance in BC30 and BC31 into the standard, for example, the three categories of service contracts and considerations regarding when an entity engages another party to provide a service to the customer, will improve the understandability of the concept of control with regards to a right to the specified services (paragraph ASC 606-10-55-37(A) (b) in the proposed amendments).

Question 3: *The proposed amendments to paragraph 606-10-55-39 provide indicators of when an entity controls the specified good or service before it is transferred to the customer and, therefore, would be a principal. The amendments also clarify the relationship of each indicator to the control principle in paragraph 606-10-55-37. Paragraph 606-10-55-39A was added to explain that the indicators may be more or less relevant to the principal versus agent assessment depending on the nature of the arrangement and that different indicators may provide more or less persuasive evidence about whether the entity controls the specified good or service before it is transferred to the customer in different contracts. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.*

Response 3: We support the proposed amendments to paragraph 606-10-55-39 and the addition of paragraph 606-10-55-39A.



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Question 4: *Would the revisions to the principal versus agent illustrative examples (Examples 45 through 48) and the added illustrative examples (Examples 46A and 48A) improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives?*

Response 4: While we strongly support inclusion of additional illustrative examples we have certain concerns related to consistency, operability and understandability of the gross versus net guidance based on the rationale in some of the illustrative examples as follows:

Example 45: The proposed amendments remove the reference to credit risk considerations in paragraph 606-10-55-318C (e). We feel it will be beneficial to retain the original language to illustrate that depending on specific facts and circumstances some indicators may not be relevant.

Example 46: We believe the reference to a single performance obligation in paragraph 606-10-55-323A is confusing and is not consistent with the proposed guidance in paragraph 606-10-55-36 and the discussion in BC13 in the Basis for Conclusions. Paragraph 606-10-55-36 requires assessment of the specified goods or services transferred to the customer, rather than performance obligations in the contract. We believe that such assessment usually will be done prior to evaluation of performance obligations, since the evaluation of performance obligations requires understanding of the nature of promises made to the customer, which in turn is affected by the principal versus agent analysis. Referring to a single performance obligation in ASC 606-10-55-323A presumes that the analysis of the nature of performance obligations has been already performed, which is inconsistent with the foregoing decision process. As such we suggest removing the words “(that is, there is a single performance obligation)” from paragraph 606-10-55-323A.

Example 47: We believe that it will be beneficial to provide additional clarification related to the conclusion that the right to each flight is not created at the time of its transfer to customers of the entity. Specifically, it is not currently clear from the example how the existence of the firm purchase commitment impacts that conclusion. We do not believe that the existence of the tickets in printed or electronic form prior to their transfer to end customers in and of itself is sufficient to conclude that the right to each flight existed prior to its transfer to the entity’s customers, because in our opinion the fact pattern described in Example 47 is not sufficiently separable from the fact pattern in Example 48 (where the entity could also print or generate electronic coupons ahead of their transfer to the end customer). We also feel the analysis of the control indicators in paragraph 606-10-55-328C should include assessment of the fulfillment indicator included in paragraph 606-10-55-39(a). In our opinion, this would allow to more clearly articulate the decision process, and how this factor is weighted against other control indicators in paragraphs 606-10-55-39(b) and (c).



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Additionally, we believe that the reference to the entity's ability to decide whether to use the tickets to fulfill the customer contracts or to use tickets for its own internal needs is not very relevant to the analysis. Based on our understanding of the background information in the example the entity does not anticipate using the tickets purchased from the airline for its own internal needs, and such use is not considered by the entity as a viable economical alternative to selling tickets to its customers or a third party reseller.

Example 48: We believe the statement in paragraph 606-10-55-333B that the vouchers are created only at the time they are transferred to the customers requires further explanation. Similar to our comments for Example 47 we do not believe that non-existence of vouchers or coupons in printed or electronic form prior to their transfer to the customers in and of itself is sufficient to conclude that the vouchers are created only at the time that they are transferred to the customers, because the entity could print or generate such vouchers ahead of their transfer.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Aleks Zabreyko (650-353-7044, aleks.zabreyko@connorgp.com) or Denis Kozhevnikov (650-521-3099, denis.kozhevnikov@connorgp.com), partners in our Accounting Standards and Professional Practice group.

Sincerely,

Connor Group, Inc.