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July 6, 2016

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

File Reference No. 2016-240

Dear Ms. Cospers:

Connor Group, Inc. is pleased to provide our comments on the Proposed Accounting Standards Update, *Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. 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 have included below our responses to each of the “Questions for Respondents” posed in the Exposure Draft except Question 4 and Question 9.

Comments on Questions for Respondents

Question 1: *The proposed amendments to Subtopic 340-10, Other Assets and Deferred Costs—Overall, would supersede the guidance on accounting for pre-production costs related to long-term supply arrangements. Consequently, an entity would apply the guidance in Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, if the costs relate to a contract with a customer. Do the proposed amendments resolve the scope issue? If not, please explain why and suggest alternatives.*

Response 1: We support the FASB’s proposed amendment to Subtopic 340-10. The amendments eliminate the decision, which would otherwise be needed, on which guidance entities with pre-production costs should apply and therefore resolve the scope issue.

Question 2: *The proposed amendments are intended to improve the clarity of the impairment testing requirements in Subtopic 340-40. Would the proposed amendments improve the clarity of these requirements? If not, please explain why and suggest alternatives.*

Response: We agree that the proposed amendments to paragraphs 340-40-35-3 through 35-5 improve the clarity of application of the guidance. We understand that “expected contract renewals and extensions” language included in the proposed paragraph 340-40-35-4 is meant to signify renewals and extensions over a period such as an average length of a customer relationship, whether or not a customer is entitled to a material right associated with such renewal or extension. If this is not the Board’s intention, we believe it would be beneficial to provide additional clarifications as to the meaning of “expected” as related to the contracts to be renewed or extended. In addition, we believe it would be helpful to include into the Codification the following language currently included in paragraph BC6 of this Exposure Draft: “*the information used for the impairment testing in paragraphs 340-40-35-3 through 35-7 should be consistent with information used in determining the amortization period in paragraphs 340-40-35-1 through 35-2*”. We believe this would improve understanding and enhance consistency of application of principles in Subtopic 340-40.

Question 3: *The proposed amendments would provide an accounting policy election about the level at which the provision for loss contracts is determined. Would the proposed amendments improve the operability of applying the guidance on the provision for loss contracts in Topic 605, Revenue Recognition? If not, please explain why and suggest alternatives.*

Response: We believe that the proposed amendments to paragraph 605-35-25-47 align with the FASB’s objective to not fundamentally reconsider cost accounting in this area. In addition, by introducing policy election to assess losses on contracts at the performance obligation level, the guidance gives entities that are currently following the segmentation provision under ASC 605-35-25 the option to continue to assess losses on contracts in a somewhat similar manner as under the current guidance.

Question 4: *The proposed amendments are intended to improve the clarity of the scope of Topic 606 for contracts within the scope of Topic 944, Financial Services—Insurance, and fixed-odds wagering contracts for an entity within the scope of Topic 924, Entertainment—Casinos. Would the proposed amendments improve the clarity of the scope guidance? If not, please explain why and suggest alternatives.*

Response: We support the proposed clarifications as we believe they improve the affected entities’ ability to apply the new guidance in a manner consistent with the Board’s intention.

Question 5: *The proposed amendments would provide an additional practical expedient to the disclosure of remaining performance obligations in specific situations in which an entity need not estimate variable consideration to recognize revenue. Would the addition of this practical expedient diminish the usefulness of the disclosure information? If yes, please explain why. Would the proposed amendments reduce the cost and complexity of applying Topic 606? If not, why? Are there other situations in which an entity would be required to estimate variable consideration for disclosure but not for purposes of recognizing revenue?*

Response: We support the addition of paragraphs 606-10-50-14A and 50-14B. Based on our recent experience in helping our clients with their Topic 606 implementation, we believe this practical expedient will reduce the cost and complexity of applying Topic 606 for certain types of variable consideration by eliminating the need to make estimates for disclosure purpose only. While we think the addition of the practical expedients might diminish somewhat the usefulness of the disclosure information, we believe such effects would be limited especially when considering the additional disclosure requirements added in paragraph 606-10-50-15 of this Exposure Draft (and those contemplated in Question 7 as discussed below) for entities that elect to apply one of those practical expedients.

As a related side note, we would like to highlight that we believe the criterion in paragraph 606-10-32-40.b (required to apply the variable consideration allocation methodology and thereby be eligible for practical expedient in paragraph 606-10-50-14A) could benefit from additional examples and/or clarification. Currently, the only example in the new standard illustrating the application of this paragraph (Example 35) suggests to use standalone selling price (“SSP”) to assess whether the allocation objective has been met by comparing the expected royalty amount with SSP of the license. We understand that it was not the Board’s intention to limit this assessment to comparison with SSP only. Thus, we believe it would be helpful to provide clarifications and/or examples. We understand that certain level of judgment will be required in applying this guidance.

Question 6: *The proposed amendments to the disclosure requirement in paragraph 606-10-50-15 are intended to expand the information disclosed when an entity applies one or more of the practical expedients in paragraphs 606-10-50-14 through 50-14A. Do you agree with the proposed amendments? If not, what information should an entity be required to disclose about its remaining performance obligations when one or more of the practical expedients are applied?*

Response: We generally agree that the expanded disclosure requirements in paragraph 606-10-50-15 will enhance the decision usefulness for users of financial statements as such disclosures will help to provide a more complete picture of future revenues from current contracts with customers, especially for entities that have significant variable considerations from contracts that meet criteria for application of one or more practical expedients in paragraphs 606-10-50-14 and 50-14A.

However, we would like to point out that for contracts qualified for one or more practical expedients, estimating contract duration may or may not be required for revenue recognition purposes. For example, for a service contract that has only one performance obligation which meets the criterion in paragraph 606-10-55-18, revenue recognition will be solely based on billing amounts. In order to comply with the proposed language in paragraph 606-10-50-15, entities will, however, need to determine the remaining duration of the contract for disclosure purposes only.

If the Board does decide to keep the requirement to disclose the remaining contract duration in paragraph 606-10-50-15, we believe further clarification and/or examples regarding how to determine contract duration will be helpful, specifically, as related to termination rights and penalties and renewal/extension rights. Further, referencing the FASB-IASB Joint Transition Resource Group (“TRG”) Agenda ref. 48 paragraph 44, an entity should consider whether a termination penalty is substantive in determining the contract duration. As a result, we anticipate there could be diversity in practice that could undermine the usefulness of the proposed disclosures as related to the contract duration.

Question 7: *While not proposed in this Exposure Draft, should an entity that applies one or more of the practical expedients to the disclosure of remaining performance obligations be required to disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients? What would be the costs associated with including that disclosure? Would that disclosure provide useful information? Also, should an entity that applies one or more of the practical expedients be required to disclose information (for example, remaining contract duration) about each major customer as that term is used in Topic 280, Segment Reporting (that is, customers with revenue equal to or greater than 10 percent of total revenue)?*

Response: We believe it would be helpful to include disclosure of the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients. We believe such information would be helpful for users of financial statements to understand the underlying economics of contracts with customers. With the proposed amendments, for an entity that applies one of the practical expedients, users would have a more robust picture of revenue recognized to date as well as understanding of factors affecting future revenue from such contracts. As related to the costs associated with including this disclosure, this would require entities to separately track and identify fixed and variable consideration associated with such contracts; we do not believe companies currently have systems in place to track such consideration on a consistent basis.

We do not believe additional disclosure for entities that apply one or more practical expedients would be necessary for each major customer because we believe in cases where contracts with some but not all major customers are qualified for practical expedients, this requirement would result in disproportionately highlighting specific information for such major customers compared to



the other customers, which might be misleading. We believe today's disclosure requirement on major customer is mainly beneficial for users of financial statements to understand the entities' reliance upon certain customers and hence customer concentration risk. Additional disclosures (e.g. remaining duration) for only contracts with major customers to which entities apply practical expedients will not enhance decision usefulness in this regard.

Question 8: *The proposed amendments to Example 7 in Topic 606 are intended to improve the alignment of the analysis in the example and the guidance in paragraph 606-10-25-12. Do the proposed amendments align the example with the guidance in paragraph 606-10-25-12? If not, please explain why and suggest alternatives.*

Response: We support the Board's amendments to Example 7, which clarify that in making the determination in accordance with paragraph 606-10-25-12, the scope and/or price increase of the additional promised goods or services should be considered.

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.