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24 May 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-400

RE: Proposed Accounting Standards Update (ASU) Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606)

Dear Mr. Kuhaneck:

Connor Group, Inc. is pleased to provide our comments on the FASB's proposed ASU *Compensation – Stock Compensation (Topic 718) and 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 250 accounting professionals and over 600 clients and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others. Many of our clients are emerging growth mid-cap or small-cap public entities, companies aspiring to become public in the near future, or high-growth private companies.

We support the Board's proposal to provide specific guidance on how to measure share-based payments to a customer after the effective date of ASU 2018-07. We also agree with the Board's decision to measure the share-based payment awards on grant date and believe this is the most practical approach towards reducing the potential diversity in practice in absence of this proposal. We believe the benefits of adopting the proposed ASU outweigh the costs.

Our views on the specific questions asked in the proposed ASU are addressed below.

Question 1: Do you agree that share-based payment awards issued to customers as consideration payable should be measured at the grant date of the award? If not, why should there be a difference in the measurement date for share-based payment awards issued to customers and nonemployee share-based payment awards, and what other alternatives would be more appropriate?

Response: Yes, we support the Board's proposal to measure the share-based payment awards issued to customers at the grant date. The value of the awards is taken into account as part of

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the deal economics by both parties during contract negotiations. This also applies when parties negotiate a master agreement, which itself may not necessarily include a contract with a customer as defined in Topic 606. Grant-date fair value is typically very close to that value at the inception of the relationship as considered by both parties, if not exactly the same. Accordingly, we believe grant-date fair value adequately reflects the transaction consideration promised and accepted by both parties compared to the value (re)measured on a later date. We also support the Board's decision to use grant date instead of contract inception date. This is because the key economic terms of the arrangement are negotiated with the master agreement, and not necessarily individually with each purchase order subject to this master agreement. In addition, this approach would significantly reduce the complexity and costs in applying the guidance in some circumstances.

Question 2: Do you agree that share-based payment awards issued to customers as consideration payable should be classified in accordance with the guidance in Topic 718?

Response: Yes, we support the Board's proposal that share-based payment awards issued to customers as consideration payable should be classified in accordance with the guidance in Topic 718, because this aligns with the accounting for awards granted to non-employees, and customers are a type of non-employee entity.

We also agree that changes in fair value of liability-classified awards should not be included in the transaction price. We acknowledge an unavoidable inconsistency between the guidance regarding measurement dates of noncash consideration received from customers (ASC 606-10-32-23) and other noncash consideration payable to customers (both of which are measured at contract inception date to the extent measurement relates to the form of the consideration), and the guidance regarding measurement date of liability-classified awards under Topic 718 (which are eventually measured as of the settlement date, with all preceding interim changes recognized in the same manner based on the associated cost drivers). This inconsistency is akin to that discussed in paragraph BC20 of the proposed ASU. We additionally note that classifying subsequent changes in fair value of liability-classified share-based awards as revenue could in many instances completely block the grantor entity from recognizing revenue under that arrangement with the customer, because it would be difficult for the entity to assert that it is probable that the fair value of the award would not increase so as to result in reversal of any revenue previously recognized under that arrangement. This would not provide a meaningful outcome for either preparers or users of the financial statements.

We agree with the practical solution included in the proposed ASU. We do recommend to delete the word "elsewhere" in the last sentence in the proposed ASC 606-10-32-25A. This is because not all revenue reported in an entity's income statement is revenue accounted for under Topic 606. Thus, it may be appropriate, or entities may conclude it is most meaningful for them, to include changes in the fair value of liability-classified share-based awards under the caption "Revenue", even though these amounts would not represent either part of the transaction price

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under a particular contract with a customer, or otherwise revenue in scope of Topic 606. The revised sentence would require entities to recognize the effect of changes in the fair value of liability-classified awards in income immediately as they occur but would not affect how entities present these amounts.

Question 3: Do you agree that the amendments in this proposed Update provide sufficient guidance to account for share-based consideration to a customer?

We believe there are a few areas where the accounting community could benefit from more guidance from the Board. Specifically, practice could evolve to address certain accounting issues under either Topic 718 or Topic 606. Without clarification from the Board, there could be diversity in practice. Examples of these issues include the following:

- ✓ Awards modified after the grantee is no longer a customer: the proposed guidance provides that a share-based award would be outside the scope of Topic 718 if it is modified after the grantee is no longer a customer. A customer is defined under Topic 606 as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. It is not clear when a party ceases being a customer. For example, parties may have an overall customer relationship, e.g. through a master services agreement. Individual purchase orders may be placed from time to time, with the related goods delivered shortly thereafter. However, it is not clear whether the counterparty remains a customer during the intervals between delivery of goods under one purchase order and placement of the following purchase order, as there may be no active contract with the customer during this interval. Additional complications may relate to circumstances where there is no master purchase agreement, and a counterparty who had previously made a purchase from the entity is likely to make another purchase but has not yet done so. Further, there will be circumstances where an additional contract has been executed with that counterparty, but it does not yet meet the criteria for a contract with customer under ASC 606-10-25-1. Conversely, an entity may have a long-term contract with a customer where the entity has completed delivery of its performance obligations, but the customer retains payment obligations to the entity (e.g. in the form of milestone or royalty payments). Also, it is possible for entities to grant price concessions to customers after the contract has been completed; modifying a share-based award could be a form in which such concession is granted. Even though there is no ongoing customer relationship between the parties, in these circumstances it may be appropriate to attribute the impact of the modification to revenue; accordingly, it would not then be logical to exclude the award from the scope of Topic 718 on a going-forward basis.

- ✓ Awards modifications: Topic 606 provides specific modification guidance to determine the type of modification and as a result recognize its impact, e.g. on a cumulative catch-up or prospective basis, or account for the modification as a separate contract. It is

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unclear from the current proposal whether entities should look to Topic 606 or 718 to account for such modifications, including the effect of changes in both per-share (per-unit) fair value of the share-based awards and the number of shares (units).

Question 4: Are the transition requirements for the proposed amendments appropriate? If not, what transition approach would be more appropriate and why?

Response: We believe the transition requirements should be aligned with those of ASU 2018-07. The proposed amendment ASC 718-10-65-15.b.2 suggests to apply this pronouncement to all relevant prior periods beginning with the date the entity applied content linked to ASC 718-10-65-11, with cumulative-effect adjustment to retained earnings. We note, however, that the transition requirements of ASU 2018-07 are different. They additionally contemplate that share-based awards affected by the adoption are remeasured only as of the adoption date. This provision is not present under the proposed ASC 718-10-65-15.b, i.e. for those entities that have already adopted ASU 2018-07 (it is explicitly provided under the proposed ASC 718-10-65-15.a for those entities that have already adopted ASU 2018-07). We recommend specifying that the adoption method for the proposed content should in all instances align with that used to adopt ASU 2018-07.

Question 5: How much time would be necessary to adopt the proposed amendments? Should early adoption be allowed?

Response: We believe the same amount of time that was allowed to adopt ASU 2018-07 would also be appropriate for this proposed amendment. Early adoption should be allowed to the extent the entity has already adopted ASU 2018-07 and Topic 606.

We would be pleased to respond to any questions the Board might have regarding our comments.

Sincerely,

Connor Group, Inc.

Accounting Standards and Professional Practice Group