October 4, 2016

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

File Reference No. 2016-320

Dear Ms. Cosper:

Connor Group, Inc. is pleased to provide our comments on the Proposed Accounting Standards Update (ASU), *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 500 clients and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS, with revenue recognition being a heavy focus. We are also currently in the process of assisting a number of clients, both private and public, with their adoption of Topic 606. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others.

We have included below our response to each of the “Questions for Respondents” posed in the Proposed ASU.

**Comments on Question for Respondents**

**Question 1:** The proposed amendments are intended to improve the clarity of the scope of Topic 606 for guarantees (other than product or service warranties) that are within the scope of Topic 460, Guarantees. Would the proposed amendments clarify the scope of the guidance? If not, please explain why and suggest alternatives (Issue 1).

**Response:** We agree that the proposed amendments improve the clarity of the scope of Topic 606, and support the clarifications proposed.

**Question 2:** The proposed amendments are intended to provide a better link between Example 38, Case B in Topic 606 and the presentation guidance in paragraphs 606-10-45-2 through 45-4. Would the proposed amendments better align the example with the guidance? If not, please explain why and suggest alternatives (Issue 2).
**Response:** We agree the proposed amendments provide a better alignment between the guidance and Example 38.

Further, we believe additional clarifications are required. Paragraph 606-10-45-2 defines a contract liability as “an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer” (emphasis added). Thus, a contract liability would not exist until the entity has either received consideration (e.g., cash) or such consideration is due. The accounting literature does not define the term “due”, and under the normal bookkeeping practices this term means the date when the customer has an obligation to pay the vendor. Using this definition, a conceptual contradiction results between this paragraph and paragraph 606-10-45-4, whereby a receivable exists when “only the passage of time is required before payment of that consideration is due”.

Thus, in the proposed amendments to Example 38 Case B (606-10-55-285), the journal entry to credit contract liability for $1,000 at January 31, 20X9 results in recording of a contract liability that, pursuant to paragraph 606-10-45-2, cannot exist unless the amount is also due to be collected by the entity at that date. We note that in Example 38, the amount is due to be collected on the same date as the contract becomes noncancelable. However, in practical circumstances this is not always the case.

In view of this contradiction between paragraphs 606-10-45-2 and 45-4, we have originally seen Example 38 Case B as a “tie breaker” to conclude that neither a receivable nor a contract liability should be recorded until the due date. However, the proposed change in Example 38 Case B (which we support) indicates a different position is appropriate, i.e. that both should be recorded when the right to consideration becomes unconditional. As the change in the example does not resolve the underlying conceptual contradiction in the standard itself, we therefore recommend to also clarify the language in paragraph 606-10-45-2 to ensure the definition of contract liability is consistent with the definition of a receivable.

**Question 3:** The proposed amendments are intended to improve the clarity of Example 40 in Topic 606 by removing the term *contract liability* from the journal entry in this example. Would the proposed amendments improve the clarity of the example? If not, please explain why and suggest alternatives (Issue 3).

**Response:** We support the change and agree the proposed amendments will improve the clarity of the example.

**Question 4:** The proposed amendments would reinstate the guidance on accrual of advertising costs that was previously included in paragraph 340-20-25-2. Do the proposed amendments improve the clarity of the accounting? If not, please explain why and suggest alternatives (Issue 4).

**Response:** We support the proposed reinstatement of the guidance on accrual of advertising costs for practical reasons, and agree that its placement in Topic 720-35 is appropriate. Notwithstanding, we would
like to point out that there may be conceptual issues with the proposed guidance in 720-35-25-1A. Specifically, this guidance applies to advertising costs only, and requires them to be accrued before they have been incurred if the company has recognized revenues “related to those costs”. This language, originally drafted in early 1990s for AICPA SOP 93-7, does not explain well what “related to” means, other than providing an example of cooperative advertising. That pronouncement also did not explain why advertising costs should be accrued before they are incurred, as by their very nature they could not have contributed to the generation of such revenues. We can only guess that the AICPA felt matching of costs with the revenues was appropriate in circumstances where the entity contracts with its customer to procure advertising on its behalf, perhaps, because incurring such costs was outside of the entity’s control. Alternatively, it may have been deemed a practical approach to record such expenses.

In either case, this approach appears to be inconsistent with both (a) the general concepts of when expenses should be recorded, i.e. when incurred, and (b) the approaches that would be used for other types of costs an entity may pay its customer to procure. EITF 01-9 (issued subsequently to AICPA 93-7) provided a framework for evaluating accounting for vendor consideration payable to the customer. Under this pronouncement, the entity would not reduce revenues if payments to a customer were deemed not to exceed the fair value of separable goods or services procured from the customer. While it did not further describe how such payments were to be accounted for, this was because the EITF felt that such payments can be accounted for as expenses, assets, etc., based on other applicable literature. Thus, in a way the rationale behind the guidance in EITF 01-9 (currently codified as part of Topic 650-50) obviated the need for the language from SOP 93-7 (proposed to be re-instated in 720-35-25-1A).

Notwithstanding, we believe it is practical and advisable to reinstate the language. This is because (i) changing it is outside the scope of the current project and would need its own process for the amendments to be properly developed and deliberated; (ii) we believe the guidance in 340-20-25-2 is well understood and applied in practice without causing significant practical issues, and other alternatives may be more difficult to apply. Finally; even if this language is not reinstated, in the absence of any explicit guidance, companies will likely continue to analogize to it anyway, e.g., because they will argue the FASB did not mean to eliminate such guidance.

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 (aleks.zabreyko@connorgp.com; (650) 353-7044) and Denis Kozhevnikov (denis.kozhevnikov@connorgp.com, (650) 521 3099), partners in our Accounting Standards and Professional Practice group.

Sincerely,

Connor Group, Inc.