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April 30, 2019

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

File Reference No. 2019-300

Re: Exposure Draft *Revenue from Contracts with Customers— Recognizing an Assumed Liability*

Dear Ms. Cosper:

Connor Group, Inc. is pleased to provide our comments on the FASB's Exposure Draft (ED), *Revenue from Contracts with Customers— Recognizing an Assumed Liability*. 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.

Overall, we support the Board's proposal to use the definition of performance obligation under Topic 606 in determining contract liabilities from acquired revenue contracts. We believe the amendments would reduce (a) diversity in practice in accounting for acquired revenue contracts and (b) inconsistency in revenue recognition between acquired revenue contracts and revenue contracts executed after the business combination. We acknowledge that diversity in practice would still exist given the measurement issues are not resolved. However, we believe the benefits of finalizing the proposed amendments as-is prior to the finalization of the Invitation to Comment (ITC) *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805* outweigh the costs.

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



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Responses to ED questions:

Question 1: Should entities be required to recognize a contract liability from a revenue contract with a customer acquired in a business combination using the definition of a performance obligation in Topic 606? If not, please explain why and what recognition criteria are more appropriate.

Response: We support the Board's proposal to use the performance obligation definition in determining the contract liability of an acquired customer revenue contract because of the following reasons:

- Consistency between acquiring entities: the proposal would result in uniform treatment in acquisition accounting of liabilities associated with items such as technical support and when-and-if-available updates, licenses to symbolic intellectual property, and options with material rights.
- Better align with definition of liability: Under Statement of Financial Accounting Concepts No. 6, liabilities are not limited to legal obligations. Consistent with how a performance obligation in Topic 606 is defined, liabilities are not limited to explicit legal obligations but also include implied promises arising from entities' customary business practices. Thus, we believe contract liabilities arising from revenue contracts acquired in business combinations should not be limited to explicit legal obligations only. This approach would also allow to align recognition of contract liabilities related to contracts with customers acquired in business combinations with those originating through ordinary operating activities of the entity.

Question 2: Is the recognition that would be required by the amendments in the proposed Update operable? If not, please explain why.

Response: We believe the recognition brought by the proposal is generally operable. Most entities now apply the provisions of Topic 606 and thus would be able to evaluate the performance obligations associated with contract liabilities acquired in a business combination. The nature of the accounting work the acquirers would perform if the proposal is adopted is substantially the same as that already performed today. Where entities will be required to recognize additional liabilities in a business combination (e.g. where there is a performance obligation but no legal obligation), we expect entities will be able to develop a meaningful and practical approach to measurement even in the absence of specific guidance on that topic, although the approaches developed may differ from entity to entity. Please refer to our response to Question 7 below and to our comment letter on the ITC.



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Question 3: Would the proposed amendments result in financial reporting outcomes that are appropriate and meaningful to users of the financial statements? If not, please explain why.

Response: As discussed in our response to Question 1, we believe the ED would result in appropriate and meaningful financial reporting outcomes. It reduces diversity in practice in accounting for assumed contract liabilities and better reflects the commitment and performance of entities' satisfying the assumed revenue contracts.

Question 4: Should the proposed amendments be more broadly applied to similar transactions beyond contracts with customers, such as contracts within the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets? If yes, please provide examples of potentially affected transactions.

Response: We recognize that entities could acquire contracts that are in certain respects similar to contracts with customers, e.g. contracts under Topic 808 Collaborative Arrangements, Topic 610-20 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, Topic 853 Service Concession Arrangement, R&D funding arrangements with non-government entities that do not contain liabilities to the funding party, etc. Entities that have those arrangements are in some instances required to apply certain provisions of Topic 606, and in other instances commonly make analogy to Topic 606. Likewise, we believe various entities may conclude it is appropriate to analogize to the proposed amendments in business combinations when those types of contracts are acquired. We believe judgement regarding application of the ED provisions by analogy can be left to entities to make based on their specific facts and circumstances.

Question 5: The proposed amendments require no incremental disclosures. Should disclosures related to the proposed amendments or transition disclosures be required? If yes, please explain why and provide the additional disclosures that should be required.

Response: We do not believe any incremental disclosures are necessary.

Question 6: Do you agree with the proposed prospective transition requirement? If not, what transition method would be more appropriate and why? How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?

Response: We agree with the prospective transition requirement as a retrospective transition could be costly given the proposal is related to business combination transactions. We do not believe implementation of the proposed amendments will take significant amount of time as there are no new concepts or frameworks introduced by the amendments, and as such, do not



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believe that other than public business entities would necessarily require an additional year to implement the proposed amendments. Similar steps and processes applied to determine contract liabilities today would also likely be applicable after the adoption of the proposed amendments, except that certain entities who do not already apply the performance obligation definition would need to measure the fair value of those contract liabilities associated with performance obligations that do not constitute legal obligations.

Question 7: What would be the implications, if any, of finalizing the proposed amendments on the recognition of a contract liability from a revenue contract with a customer acquired in a business combination without finalizing amendments on measurement and other topics that may result from feedback received as part of the concurrently issued Invitation to Comment?

Response: We support the Board finalizing this proposal without finalizing potential amendments on measurement which may arise out of the ITC after weighing the costs and benefits. As discussed in our response to Question 6, we do not believe in most instances significant time and costs would be required to implement the proposed amendments. The proposal as-is does provide benefits for both users and preparers. It reduces certain diversity in practice in determining assumed contract liabilities and hence enhances comparability for users. It also waives the consideration of legal obligation concept in assessing contract liabilities for preparers. Given the time and efforts that would likely be necessary to finalize the ITC, which as we understand evokes substantially different views in the accounting community, we believe the industry would start benefiting from finalizing the proposed amendments without the ITC outreach being completed.

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