



October, 26, 2009

Mr. Russell G. Golden, Technical Director
Financial Accounting Standards Board
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Via Email to director@fasb.org

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Re: File Reference No. EITF 0902

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update (ASU) of Research and Development (Topic 730), *Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition (A Consensus of the FASB Emerging Issues Task Force)*.

We do not support finalizing the guidance in the proposed ASU at this time because we do not believe it would significantly improve financial reporting. The proposed ASU represents a narrow-scope attempt to address certain inconsistencies between the new business combinations standard and other accounting guidance on research and development activities, asset acquisitions, and contingencies. Such a piecemeal approach to addressing perceived problems with existing guidance risks increasing accounting complexity by creating new inconsistencies and exceptions to principles, without broadly addressing whether the principles themselves should be reconsidered.

Therefore, we believe that the proposed changes for asset-acquisition accounting should only be addressed in the context of a project to comprehensively reconsider the accounting for asset acquisitions and/or ASC 730, including consideration of the accounting for internally generated intangible assets. As described in our responses below to the Questions for Recipients in the proposed ASU, the proposal does not address many existing accounting inconsistencies for similar assets and creates inconsistencies that did not previously exist.

We also believe that the question of whether contingent consideration in an asset acquisition should always be recognized at acquisition-date fair value should be addressed only in the context of a broad reconsideration of the existing principles for accounting for contingencies in ASC 450, *Contingencies*.

Question 1: Do you agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized regardless of whether they have a future alternative use? Why or why not?

We believe that the FASB should not amend ASC 730 at this time to require capitalization of research and development assets acquired in an asset acquisition. The FASB has proposed this ASU to partially address the differences between business combination and asset acquisition accounting for research and development assets. However, significant inconsistencies in research and development accounting would either remain or be created by the proposed ASU, including the following:

- ***Recognition of research and development assets:*** The proposed ASU would require capitalization of research and development assets acquired in an asset acquisition but not provide for the capitalization of internally generated intangible assets. Therefore, in-process research and development (IPR&D) projects would be capitalized on acquisition in a business combination and in an asset acquisition, but research and development costs subsequently incurred to complete the acquired project would continue to be expensed as incurred. The initial capitalization of IPR&D projects acquired in an asset acquisition under the proposed ASU would address an inconsistency between business combination and asset acquisition accounting, but would create a new inconsistency between the accounting for the cost of the IPR&D in an asset acquisition and the subsequent costs to complete the project.
- ***Initial measurement of capitalized research and development assets:*** In a business combination, research and development assets are initially measured at acquisition-date fair value and do not include transaction costs. In an asset acquisition under the proposed ASU, such assets would be measured at allocated cost, which would include transaction costs, but might not include the fair value of any related contingent consideration.
- ***International convergence:*** Even if the proposed ASU is adopted, it is not clear whether the asset capitalized under U.S. GAAP would always be the same asset that would be capitalized under international accounting standards. For example, guidance on internally generated intangible assets under International Accounting Standard 38, *Intangible Assets*, prohibits the capitalization of research-phase costs and provides for the capitalization of development-stage costs only after certain conditions are met.

In summation, we acknowledge that a conceptual basis exists for capitalizing research and development assets, whether acquired or internally generated. However, we do not believe that the proposed ASU would represent a significant improvement to financial reporting because of the remaining inconsistencies noted above.

Question 2: Do you agree that contingent payment arrangements in an asset acquisition should not be recognized at fair value unless those arrangements are derivatives?

U.S. GAAP currently provides principles for recognizing contingencies as articulated in ASC 450. In our view, the question of whether contingent consideration in an asset acquisition should always be recognized at acquisition-date fair value should be addressed only in the context of a broad reconsideration of the existing principles in ASC 450. We believe that

creating new narrow exceptions to an accounting principle would increase accounting complexity.

Question 3: This proposed Update does not provide guidance for determining whether a contingent payment relates to futures services or consideration for the asset acquired. Paragraph 805-10-55-25 provides guidance for determining whether payments made to the seller in a business combination after the acquisition date relate to the acquisition of the business or the performance of future services by the seller. Do you believe that additional guidance is necessary to assisting in making this determination in an asset acquisition?

No, we do not believe additional guidance is necessary.

Additional comments and drafting suggestions

In addition to our responses to the Questions for Recipients in the proposed ASU, we offer the following comments and drafting suggestions to clarify the proposed guidance:

- To be consistent with the proposed change in paragraph 730-10-25-2(a), we suggest that other references to “materials, equipment, and facilities” in ASC 730 also be changed to “tangible assets.” For example, we believe this change should be made to paragraphs 730-10-55-3 and 730-20-25-14.
- We believe that it may not be clear under proposed paragraph 730-10-25-2(a) whether the costs to construct equipment or facilities for research and development activities would now be expensed when incurred rather than capitalized and depreciated.
- We suggest that that the wording in paragraph 730-10-25-2(c) include the last sentence in paragraph 350-30-35-17A on temporarily idled intangible assets.
- We believe that the new disclosure in paragraph 805-50-50-5 should be included under the subsection heading “Acquisition of Assets Rather than a Business.”

We would be pleased to discuss our comments with you. If you have any questions, please contact John Hepp, Partner, Accounting Principles Consulting Group, at 312.602.8050.

Sincerely,

/s/ Grant Thornton LLP