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April 29, 2019

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

File Reference No. 2019-300

Dear Ms. Cospers:

RSM US LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability, a consensus of the FASB Emerging Issues Task Force* (the “proposed Update”). Overall, we support the FASB’s efforts to provide clarity on whether the new concept of a performance obligation under Topic 606 should affect the accounting for customer contracts acquired in a business combination under Topic 805. However, we believe the FASB should delay issuance of final guidance on this proposed Update until the related measurement issues discussed in the concurrently issued Invitation to Comment are finalized. Provided below for your consideration are our responses to the “Questions for Respondents” on which specific comment was requested, along with comments and suggestions on other matters in the proposed Update.

Responses to Questions for Respondents

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.*

We believe for consistency purposes that the definition of a performance obligation in Topic 606 should be used to determine whether it is appropriate for entities to recognize a customer contract liability in a business combination. Our initial view on this issue when it was raised was that there should be no change in the accounting for a business combination under Topic 805 from the issuance of Topic 606. This was because the Board did not seem to contemplate in its deliberations that the Topic 606 revenue recognition guidance would change the accounting for customer contracts acquired in a business combination. However, given that: (1) the practice of determining the fair value for deferred revenue in a customer contract in a business combination currently is based on a superseded EITF issue and (2) the notion of “legal obligation” from that superseded EITF issue is not defined anywhere in the Codification, we believe for consistency purposes it would be easier to just use the notion of “performance obligation” as defined in Topic 606 in determining whether a contract liability should be recorded in a business combination.

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

We believe that determining whether a contract liability exists and should be recognized using the guidance in the proposed Update will not be difficult. However, we believe that there will be

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complexity in determining the fair value of that contract liability and significant diversity in practice absent further guidance.

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.*

To determine whether the financial reporting outcomes of the proposed amendments would be appropriate and meaningful to users, we believe the FASB first needs to address the measurement of the contract liability in its project on "Measurement and Other Topics Related to Revenue Contracts with Customers" under Topic 805.

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.*

We believe the same guidance in the proposed amendments should also apply to transactions within the scope of Subtopic 610-20, "Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets" given that much of the guidance in Topic 606 is already applicable to transactions within the scope of Subtopic 610-20.

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.*

We agree that no disclosures are necessary beyond those already required in a business combination under Topic 805.

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?*

We believe that prospective transition requirements are appropriate as we do not believe there would be significant benefit to financial statement users to apply the proposed amendments to previously completed business combinations. If the proposed amendments are applied on a prospective basis, we do not believe a significant amount of additional time will be necessary to implement this guidance, as it will become part of the normal exercise of accounting for a business combination. For this same reason, we do not believe nonpublic entities would necessarily require an additional year to implement the proposed amendments. However, consistent with many other ASUs issued recently, we believe it would be appropriate to provide nonpublic entities with an additional year to implement if they choose and to allow for early adoption.

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?*

We believe the proposed amendments on the recognition of a contract liability for a customer contract acquired in a business combination are intertwined with the issue of how that contract liability should be measured. As a result, we believe the proposed amendments in this Exposure Draft should be finalized at the same time as the guidance on measurement of the related contract liability. If the amendments in the proposed Update were finalized and effective prior to issuing guidance on the

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related measurement issue, we believe there would be significant diversity in practice as illustrated by the potential views regarding how a contract liability should be measured in the concurrently issued Invitation to Comment.

Other Comments and Suggestions

Revenue from Contracts with Customers (proposed ASC 805-20-25-15B)

We suggest the following modification (see underline below) to proposed ASC 805-20-25-15B to clarify that what is being referred to as a “contract liability” is actually an “assumed contract liability”, given that the acquiree has received the consideration (rather than the entity itself having received the consideration as noted in the definition of contract liability in the Glossary):

“An acquirer shall recognize a liability assumed in a business combination from a **contract** with a **customer** if that liability represents an unsatisfied **performance obligation** under Topic 606 for which the acquiree has received consideration (or the amount is due) from the customer (that is, an assumed contract liability).”

We appreciate this opportunity to provide feedback on the proposed Update. We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017) or Brian H. Marshall at 203.905.5014.

Sincerely,

RSM US LLP

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