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April 29, 2019

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**RE: Proposed Accounting Standards Update: *Revenue from Contracts with Customers – Recognizing an Assumed Liability* (File Reference No. 2019-300)**

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Revenue from Contracts with Customers – Recognizing an Assumed Liability*. We have commented separately on the related Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, which the Board issued concurrently with the proposals. Both of these documents are based on the EITF's deliberations on Issue No. 18-A.

After evaluating the decisions reached in EITF Issue No. 18-A and observing inconsistent accounting outcomes that may arise depending on the timing of payments in a contract, we recommend that the FASB require a single model for all revenue contracts acquired in a business combination, regardless of whether they are in an asset position or a liability position on the acquisition date. Accordingly, while we support the EITF's consensus-for-exposure, we encourage the Board to address the issues raised in the ITC before finalizing the proposed ASU.

The Appendix provides our answers to the questions in the proposed ASU.

\* \* \* \* \*

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or [kbascom@kpmg.com](mailto:kbascom@kpmg.com), David Elsbee Jr. at (212) 909-5245 or [delsbee@kpmg.com](mailto:delsbee@kpmg.com) or Nick Burgmeier at (212) 909-5455 or [nburgmeier@kpmg.com](mailto:nburgmeier@kpmg.com).

Sincerely,

**KPMG LLP**

KPMG LLP

## Appendix – 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.**

Yes. We believe an acquirer should use the definition of a performance obligation in Topic 606 to determine its obligations under a revenue contract acquired in a business combination. However, we believe the guidance will be incomplete if it does not also address circumstances in which the acquiree has revenue contracts that are in an asset position.

The scope of the proposed ASU is limited to circumstances in which the acquiree has a contract liability on its books immediately before the acquisition. We believe that the accounting for revenue contracts acquired in a business combination should be addressed in a manner that treats **all** acquired revenue contracts the same, regardless of whether they are in an asset position or a liability position on the acquisition date. We have proposed that approach in our response to the ITC.

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

Yes. Public companies and their auditors have had time to gain an understanding of what performance obligations are under Topic 606, and private companies will soon adopt Topic 606. Therefore, applying the definition of a performance obligation to a revenue contract acquired in a business combination should not be difficult.

However, if the FASB finalizes the proposed ASU before it reconsiders the overall approach for accounting for revenue contracts acquired in a business combination, we believe there are opportunities to enhance the wording in proposed paragraph 805-20-25-15B. We believe that an entity could apply the words “...for which the acquiree has received consideration (or the amount is due) from the customer (that is, a contract liability)” too broadly.

For example, a contract may consist of a single performance obligation that is satisfied over time and paid monthly in advance or in arrears. If an acquisition takes place at the end of a month, the acquiree may have received consideration from the customer without having previously recognized a contract liability because performance has occurred to the extent of payments received (or billed). In this circumstance, an acquirer could still interpret the proposed paragraph 805-20-25-15B to require it to recognize a liability because there is a partially unsatisfied performance obligation and the acquiree has received consideration, even though the consideration received relates to the portion of the performance obligation that already was satisfied. We do not believe the Task Force intended the proposal to be interpreted this broadly, because paragraph BC10 states that an “acquirer would not need to perform this evaluation if...a contract liability would not have been recognized under ASC Topic 606.”

To avoid this potential unintended consequence, and to limit the evaluation to only a contract liability that the acquiree had recognized, we suggest replacing the language in proposed paragraph 805-20-25-15B by leveraging the language from paragraph 3 of EITF Issue No. 01-3:

~~The Task Force observed that under existing accounting principles, the acquired entity might have deferred recognition of revenue for a variety of reasons. The Task Force reached a consensus that the acquiring entity should—An acquirer shall recognize a contract liability related to the deferred revenue of an acquired entity only if that deferred revenue contract liability represents a legal obligation—one or more performance obligations assumed by the acquiring entity (a legal performance obligation).~~

**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.**

Yes. Certain performance obligations, such as implied promises and licenses of symbolic intellectual property, may not be captured using the legal obligation notion applied in practice today, thus making financial statements less comparable across entities. Transitioning to a performance obligation notion would improve comparability.

**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.**

Yes. We believe applying the proposed amendments to contracts within Subtopic 610-20 would be appropriate because Subtopic 610-20 applies the same principles as Topic 606. An example of a transaction under Subtopic 610-20 with a contract liability is a contract for the sale of real estate in which consideration has been received but control has not transferred.

Additionally, entities may apply principles from Topic 606 to other types of contracts outside the scope of Topic 606 and Subtopic 610-20. For example, an entity that issues licenses of intellectual property when those transactions are not part of the licensor's ongoing major or central operations may follow Topic 606 by analogy. Similarly, an entity that enters collaborative arrangements within the scope of Topic 808 when the counterparty is not considered a customer may apply Topic 606 by analogy.

**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 do not believe 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?**

We agree that prospective transition should be allowed. However, we also believe an entity should have the option to retrospectively apply the guidance to all business combinations that occurred after the initial application of Topic 606.

If the Board finalizes the proposed ASU before it considers the issues addressed in the ITC (which we do not recommend), we believe preparers and auditors would not need a significant amount of time to implement the change. We believe it would be appropriate to allow early adoption.

The question about whether entities other than public business entities should be given an additional year to implement the proposals is best addressed by financial statement preparers.

If the Board expands the scope of the proposals and addresses the accounting for revenue contracts acquired in a business combination using the approach we have suggested (which we believe is necessary to accomplish meaningful improvement in financial reporting for acquired revenue contracts), we believe practitioners may need more time to implement the new requirements.

**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?**

Although we support the consensus-for-exposure, we encourage the Board to holistically address the issues raised in the ITC before finalizing the proposed ASU. Not doing so could perpetuate the inconsistent accounting outcomes that may arise depending on the payments terms in a contract:

- The payment terms of contracts acquired in a business combination affect the amount of revenue that the acquirer recognizes after the acquisition. Acquirers often recognize more revenue for the post-acquisition fulfillment effort when the payments are in arrears than they do when payments were received by the acquiree in advance even though the fulfillment effort is the same.
- Certain deferred revenue liabilities (contract liabilities) are being valued at an amount that we believe is less than the price that a market participant would demand to assume the unfulfilled performance obligations under the contract, by excluding contributory asset charges. This practice results in significantly less revenue in the post-acquisition period compared with an otherwise identical contract paid in arrears, e.g. licenses of symbolic intellectual property.

In our response to the ITC, we propose an approach for accounting for revenue contracts acquired in a business combination that we believe would address these issues in a holistic manner.