



April 30, 2019

Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB February 14, 2019 Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers Under Topic 805* [File Reference No. 2019-200]

Dear Technical Director:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers Under Topic 805 (ITC)* and is providing the following comments for your consideration.

TIC notes that this ITC is directly related to another FASB project, Proposed Accounting Standards Update, *Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability* (proposed Update). TIC did not respond to the proposed Update formally; however, TIC does support the notion that using the performance obligation terminology in ASC 606 rather than the term legal obligation would be operable and likely result in less diversity in practice.

TIC does not support adding guidance to the Codification related to how payment terms affect the amount of revenue recognized after a business combination. While TIC does not represent the user community, TIC does not believe the benefits to users of financial statements justifies the cost and complexity of implementing the proposed amendments in the ITC. TIC believes the proposed amendments would require significant effort to determine the proper accounting for all revenue contracts assumed in a business combination and would likely require additional analysis (and costs) from valuation specialists. TIC would support the proposed amendments if they addressed significant concerns raised by the user community, but TIC is unaware of this

being the case. Additionally, TIC believes for a vast majority of transactions in the marketplace, the accounting for revenue contracts assumed in a business combination is a transitional (or temporary) issue that should have limited impact beyond the near-term following an acquisition. The burden of assessing the impact would be considerable and costly as it would require analysis of the terms and status of each revenue contract at the acquisition date to achieve an accounting outcome that has questionable benefit to users of private company financial statements.

In addition, TIC believes adding guidance on payment terms could create additional implementation issues for private companies that have elected to apply the private company accounting alternative under ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*. The ITC suggests recognition of a customer-related intangible asset as a way to provide consistent revenue recognition after a business combination, regardless of payment terms. Under the private company accounting alternative, customer-related intangible assets are subsumed into goodwill unless they are capable of being sold or licensed independently from the other assets of the business. TIC believes that additional clarification would be required to resolve the conflicting guidance between the private company accounting alternative under ASU 2014-18 and the proposed guidance in the ITC. In addition, TIC understands that the Board is considering whether to expand the private company accounting alternative to all entities; if that is the case, clarification would be required for all entities applying GAAP.

Recently, the Board has made a concerted effort to simplify the accounting for business combinations and the subsequent measurement of goodwill; TIC believes the proposed amendments in the ITC run counter to those efforts.

In conclusion, TIC believes that the Board should move forward with the proposed update *Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability* in order to provide consistency between the guidance in ASC 606 and ASC 805. However, TIC does not support moving forward with the proposed amendments in the ITC as TIC believes there would be a significant increase in cost and complexity in applying GAAP with questionable benefit to the users of private company financial statements.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee