April 30, 2019

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

By e-mail: director@fasb.org

Re: Invitation to Comment—*Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*

(File Reference No. 2019-200)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Margaret A. Wood, Chair of the Financial Accounting Standards Committee, at (201) 401-7844, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

Jan C. Herringer
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

INVITATION TO COMMENT—*MEASUREMENT AND OTHER TOPICS RELATED TO REVENUE CONTRACTS WITH CUSTOMERS UNDER TOPIC 805*

(File Reference No. 2019-200)

April 30, 2019

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New York State Society of Certified Public Accountants

Comments on

Invitation to Comment—*Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*

(File Reference No. 2019-200)

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*.

General Comments

The adoption of Topic 606 significantly affects the manner in which revenue is evaluated, recognized and disclosed. We welcome the opportunity to comment on these questions related to measurement and other topics under Business Combinations Topic 805.

<u>Chapter 1-Payment Terms and Their Effect on the Subsequent Revenue Recognized</u>

Question 1.1: Should the timing of payments affect the subsequent amount of revenue recognized by the acquirer? Why or why not? Are there other accounting outcomes applied in practice for the different payment terms scenarios that are not illustrated?

The Invitation To Comment ("ITC") highlights that under current accounting rules, the timing of payments from a contract affects the amount of revenue recognized by the acquirer. Further, Topic 606 causes reporting entities to consider the payment terms separately from revenue recognition and, if the payments terms are deemed a significant financing component, recognize interest expense or income. Adjusting the application guidance to neutralize the impact of payments on subsequent revenue recognized by the acquirer seems reasonable and appropriate, and consistent with Topic 606.

We have several concerns. First, the effort to identify, evaluate, and measure the impact of payment terms on revenue recognition is significant. In the early stages of the acquisition, entities are focused on integrating the acquisition. Incremental evaluation of payment terms increases the burden entities face in completing an acquisition. Second, the recognition of identified assets includes well defined practices for measuring the payments to be received. Neutralizing the impacts of payments on revenue recognition by the acquirer would require incremental effort on the part of the reporting function to ensure future payments related to acquire revenue contracts are properly segregated from the related customer intangible valuation. Third, the period of time where revenue is affected diminishes quickly. This evaluation applies only to contracts acquired in an acquisition, and not to new contracts. We note that users of financial statements are accustomed to purchase accounting adjustments affecting results in the immediate periods after acquisition and, therefore, reducing the need to neutralize such impact. Fourth, the classification and subsequent recognition of the contract asset will impact subsequent financial results and will cause reporting entities to evaluate and potentially renegotiate the debt agreement or seek a waiver.

While we agree that neutralizing the impact payment terms on the subsequent amount of revenue recognized by the acquirer has benefits, we do not believe that the benefits exceed the costs to comply.

Question 1.2: If the timing of payments should not affect the subsequent amount of revenue recognized by the acquirer, would an acquirer need to recognize an identifiable asset separate from other contract-related assets and liabilities, as illustrated in the scenarios? Why or why not? Are there other approaches that should be considered (for example, measuring a contract liability on the basis of Topic 606 instead of Topic 805)?

An asset would be required as described in the examples in the ITC in order to neutralize the impact of payment terms on subsequent revenue recognized by the acquirer. This asset should be separate from other contract related assets and liabilities as its characteristics and subsequent accounting are different than the other contract assets and liabilities. As noted in our response to Question 1.1, we have concerns that the benefits of neutralizing payment terms on subsequent revenue recognized by the acquirer does not exceed the costs to comply.

Question 1.3: Would the recognition of an identifiable asset for each contract be operational? Are there alternative approaches that would make this more practical to apply?

We believe that the recognition of an identifiable asset for each contract would be operational. We would expect an entity to pool contracts with similar characteristics in order to quantify the approximate impact. We note that under current guidance, acquirers analyze existing customer contracts and arrangements to make judgements on the necessary fair value adjustments to deferred revenue and inventory.

Question 1.4: Would that identifiable asset meet the definition of an asset?

a. If so, is the identifiable asset a financial asset, a customer-related intangible asset, or a contract asset? Please explain your view.

b. Should the unit of account of the asset be each contract, each customer, or a group of contracts for similar customers?

We believe the identifiable asset meets the definition of an asset. As the identifiable asset relates to an acquired contract, we believe it should be classified as a contract asset and subject to impairment under the contract asset impairment model.

The unit of account for these assets should be determined by the acquirer based on the facts and circumstances of the acquired contracts. We would expect similar contracts to be grouped together.

Question 1.5: Would an entity still need to consider whether to recognize an order or production backlog if guidance requires the recognition of an identifiable asset that results in the same amount of revenue recognized by the acquirer after acquisition for contracts with different payment terms? Why or why not?

We do not believe consideration of whether to recognize an order or production backlog would be required if guidance requires the recognition of an identifiable asset that results in the same amount of revenue recognized by the acquirer after acquisition for contracts with different payment terms. The examples noted in the ITC present a method for capturing the fair value associated with acquiring a committed order or contract and, therefore, further evaluation and measurement of an order or backlog is unneccesary.

Question 1.6: Would additional guidance on subsequent measurement be needed for the identifiable asset?

While it is expected the contract asset would be amortized in a pattern similar to recognition of revenue, additional guidance on subsequent measurement of the identifiable asset is necessary. For example, will the amortization of the contract asset always be against revenue? Are there any scenarios where it would be recorded to expense? Also, what impairment triggers should be considered and if impairment is recorded, is it recorded as a reduction of revenue? Or are there scenarios where the impairment charge is recorded to expense?

Question 1.7: Would guidance on payment terms improve the usefulness and comparability of financial information provided to users?

We understand the scenarios identified in the ITC to continue to require a fair value adjustment to revenue contracts acquired in an acquisition. This results in the period immediately following the acquisition to not be representative of future results and not comparative to other financial statements where no acquisition has occurred. We expect that users will understand the impact of the acquisition and make judgements to adjust for such impact. Therefore, we believe that guidance on payment terms will have a modest improvement on the usefulness and comparability of financial information provided to users. It would improve comparability between entities with acquisitions and also diminish the opportunity for an acquirer to structure the acquisition in a way to limit the reduction of future revenue recognition caused by payment terms.

Question 1.8: Should contingencies related to the amount of consideration to be received affect the subsequent amount of revenue recognized by the acquirer? Are there other variable payment arrangements that should result in a different conclusion?

We believe that contingencies and other variable payment arrangements should be evaluated at the date of the acquisition and measured and recorded as an identifiable asset or liability as appropriate. The measurement should be based on the facts known or knowable at the acquisition date. The measurement should be constrained in accordance with ASC 606-10-32-11 through 32-14. We do not believe that there are other variable payment arrangements that should result in a different conclusion.

Question 1.9: Should an acquirer continue to apply the sales and usage-based royalty constraint or variable consideration constraint guidance in Topic 606 as part of a business combination to an acquired revenue contract in which one or more performance obligations have been satisfied before the acquisition?

We believe that the acquirer should continue to apply the sales and usage-based royalty constraint. We expect that the economic benefit of this revenue contract will be captured in an identifiable intangible asset.

Question 1.10: How should an entity subsequently measure and derecognize the asset that would result if contingencies related to the amount of consideration to be received do not affect the subsequent amount of revenue recognized by the acquirer?

We believe that the asset related to contingencies should only be recognized to the extent it is unconstrained in accordance with ASC 606-10-32-11 to 32-14. Subsequent measurement should follow the accounting guidance for resolving variable consideration.

Chapter 2-Costs to Fulfill a Performance Obligation in Measuring the Fair Value of a Contract Liability for a Revenue Contract under Topic 805

Question 2.1: In what circumstances, if any, do you think an entity should include a contributory charge for the use of a related asset in measuring the fair value of a contract liability acquired in a business combination?

We believe that a contributory charge for the use of a related asset should be included in measuring the fair value of a contract liability in a business combination when an income (cash flow) or replacement cost fair value method is utilized.

Question 2.2: If guidance is provided on how to measure the fair value of a contract liability assumed in a business combination, would additional guidance be needed on how to measure the fair value of related assets?

We believe additional guidance with related examples would be needed.

Question 2.3: Should the performance obligation unit of account used in Topic 606 for revenue recognition (for example, the unit of account for a license to symbolic intellectual property) be used as the unit of valuation in a business combination under Topic 805?

Yes, the performance obligation unit of account used in Topic 606 for revenue recognition (for example, the unit of account for a license to symbolic intellectual property) should be used as the unit of valuation in a business combination under Topic 805.