



GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthornton)
twitter.com/grantthorntonus

April 30, 2019

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

Via Email to director@fasb.org

Re: File reference No. 2019-300

Dear Ms. Cospers:

Grant Thornton 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)*.

We recognize the diversity in practice and support the Board's intent to clarify guidance related to the deferred revenue of an acquiree. We find it difficult, however, to consider the proposed amendments apart from the measurement and other topics in the related Invitation to Comment. That is, we are concerned that the proposed amendments, coupled with further amendments that may stem from the Invitation to Comment, will increase the complexity of accounting for business combinations. Also, we are concerned with the shift toward recognizing deferred revenue of an acquiree based on what the acquirer's future revenue should be instead of what legal obligations were assumed in the acquisition. Business combinations result in significant changes to the economics of both acquirers and acquirees, and we do not believe there necessarily should be an impetus to bring a Topic 606 concept into Topic 805.

Our responses to select Questions for Respondents follow. We did not respond to Question 3 that is directed to users of financial statements.

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.

Pending the resolution of the issues in the Invitation to Comment, we currently do not object to the proposed amendments to recognize a contract liability using the definition of a performance obligation in Topic 606. If the Invitation to Comment results in significant complexities added to the guidance, we might change our view.

An alternative to the proposed amendments would be to carryover an acquiree's deferred revenue amounts. This would accomplish the shift toward Topic 606 for acquired customer contracts and likely would be simpler once the acquirer validates the acquiree's historic accounting.



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

The concept of performance obligation as the basis for recognizing these liabilities is straightforward enough and entities should be familiar with the requirements of Topic 606 by this time. However, we view the operability of the amendments dependent upon resolution of the issues in the related Invitation to Comment. If the measurement and recognition guidance is difficult to apply, then the proposed amendments could be less operable.

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.

Subtopic 805-50

Acquisitions of assets or asset groups that do not meet the definition of a business and are not within the scope of the acquisition method under Topic 805 may include customer contracts. Paragraph 805-50-30-3 states that the cost is allocated to assets acquired or liabilities assumed based on their relative fair values. We suggest that the Board consider including customer contracts from asset acquisitions in the scope of the proposed amendments.

Subtopic 610-20

We considered when transactions within the scope of Subtopic 610-20 would be impacted by a business combination and generally do not believe the proposed amendments should apply. There are circumstances in which an acquiree has received or is due consideration prior to the transfer of an asset within the scope of Subtopic 610-20. We were unable to identify a situation not already addressed by current guidance. For example, paragraph 805-20-30-22 addresses long-lived assets held for sale at the acquisition date. Further, we believe that contracts to sell nonfinancial assets that call for buyers to make a deposit in advance of closing would have refundability clauses, even if the refund were contingent. In these cases, amounts received by acquirees often would be accounted for as refundable deposits in their financial statements.

We suggest, however, a fact pattern under Subtopic 610-20 to which the proposed amendments might be applicable to a portion of the overall transaction. Assume that an acquiree has an arrangement to sell a building and has received a down payment in cash. Before closing the sale, specified remediation activities must be completed or the down payment is refundable. If the business combination occurs before completion of the activities, the acquirer must continue the remediation and then transfer the building. We believe those remediation activities represent a performance obligation assumed by the acquirer that would be subject to the proposed amendments even though the contract to sell is within the scope of Subtopic 610-20 because the counterparty is not a customer. In other words, the transfer of the non-



financial asset itself would not be subject to the proposed amendments, but the contractual requirement for the acquirer to provide remediation goods or services would be, even if the derecognition of a contract liability would be a gain in the context of Subtopic 610-20 instead of revenue.

Leases

We believe that the contract liability arising from the nonlease component under Topic 842, as accounted for under Topic 606, should receive the same accounting treatment as the contract liabilities arising from contracts with customers. However, the language in the proposed paragraph 805-20-25-15B states “an acquirer shall recognize a liability assumed in a business combination from a contract with a customer ...”, and the heading of the section references also “Contracts with Customers”. We believe the references to customers could lead to ambiguity around whether a performance obligation arising from a nonlease component under Topic 842 would be in the scope of this paragraph. Therefore, if the Board proceeds with the proposed amendments, we suggest the following revisions, with additions marked in underline:

> > Revenue from Contracts with Customers and Other Transactions
Accounted for under Topic 606

805-20-25-15B An acquirer shall recognize a liability assumed in a business combination from a contract with a customer, or from another transaction that is accounted for under ASC 606, 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, a contract liability).

Industry Topics

We also considered whether transactions subject to other Topics should be impacted by the proposed amendments. Several of the Industry Topics have business combination subtopics. In particular, we note paragraph 944-805-30-1a that explicitly precludes the recognition of any unearned premiums that do not represent future cash flows. This guidance appears in Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, issued long before current revenue recognition and purchase accounting guidance was written. Insurance contracts are excluded from Topic 606, and we believe the Board should consider whether the accounting for unearned premiums of an acquiree subject to Topic 944 should be aligned with other revenue contracts.

Questions 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 any additional disclosures should be required, as the existing disclosure requirements in Topic 606 and Topic 805 are adequate.



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 with the proposed prospective transition requirement. This form of transition avoids issues with retrospective transition; that is, reopening previous acquisitions that were properly accounted for.

We believe that the time needed to implement the amendments will depend on the resolution of the issues in the Invitation to Comment.

We believe that early adoption should be permitted.

We do not believe that entities other than public business entities should be provided with an additional year to implement the proposed amendments. It is expected that by the time this proposed ASU is effective, all entities will have implemented Topic 606 and therefore entities other than public business entities need not be provided with an additional year to implement the proposed amendments.

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 hold the view that these proposed amendments should not be finalized until the issues raised in the related Invitation to Comment are resolved. Those issues potentially could increase the complexity of accounting for and valuing deferred revenue and recognized assets. Therefore, the existing guidance should remain unchanged until that project is complete.

We would be pleased to discuss our comments with you. If you have any questions, please feel free to contact Douglas J. Reynolds, Partner, at 617.848.4877 or doug.reynolds@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP