From: Alison J Yara <ayara@us.ibm.com>
Sent: Wednesday, May 01, 2019 3:06 PM
To: Director - FASB <director@fasb.org>
Subject: Re: File Reference No. 2019-200 & 2019-300

May 1, 2019

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2019-200 & 2019-300

Dear Mr. Golden:
The International Business Machines Corporation ("IBM" or "the company") 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 amendment", "proposed ASU" or "exposure draft") and the Invitation to Comment: *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805* (the "ITC"), issued by the Financial Accounting Standards Board ("FASB").

We appreciate the opportunity to provide feedback on the proposed ASU and ITC. We support the proposed conclusion in the exposure draft that a contract liability (from a revenue contract with a customer acquired in a business combination) should use the definition of a performance obligation in Topic 606. However, we believe the issues and questions discussed in the proposed amendment and ITC should be considered together due to their conceptual intersection and the fact that conclusions related to one issue may have consequences on another issue. For example, without clarification and additional guidance on the questions discussed in the ITC, the application of the exposure draft could be subject to multiple interpretations, which could lead to additional diversity in practice.

While we generally support the theoretical conclusion that payment terms should not affect the subsequent amount of revenue recognized by the acquirer related to the acquired revenue contract, we have significant concerns about the operability of outcome B in the illustrated solutions in the ITC. In order to apply such accounting, the fair value of all revenue contracts with unsatisfied performance obligations would need to be determined on a contract by contract basis. Additionally, these contracts could be long in duration, which could lead to additional operational difficulties. This would likely be impracticable in an acquisition that has a large number of revenue contracts and would cause a significant increase in workload as compared to current practice where only the fair value of deferred revenue is determined, which is typically done at a portfolio level.

Additionally, we do not believe the simplicity of the illustrative examples are necessarily indicative of the accounting outcomes in practice. For example, the "identifiable asset" shown in the illustrative example may not be offset by a reduction in customer-related intangible assets; rather it could be offset by another asset, such as inventory or another type of intangible asset. Therefore, the assumption that the proposed accounting under outcome B would likely not affect total income related to a revenue contract over its life may not always be true. However, to the extent it does not affect total income, that only seems to demonstrate to us that it is not worth the significant cost to implement this approach when there is no impact on the bottom line. We cannot foresee any significant benefits to financial statement users to apply the proposed accounting under outcome B, creating a new "identifiable asset" category for which many may be unclear as to what it represents. If the proposed solution in outcome B were to move forward in the standard setting process, additional guidance would need to be provided as to how to classify this asset.

Overall, we do not believe the costs of the proposed solution (if deemed operationally possible) would outweigh the benefits of the conceptually pure solution. Because of the deferred revenue haircut that results from purchase accounting, a non-GAAP measure is sometimes used to show comparative revenues as if the acquisition did not take place. We believe in these instances, as well as other circumstances, there would be minimal benefits of implementing the proposed accounting, especially given the analysis needs to be done on a contract by contract basis. We believe other alternatives to provide additional information and benefits to users of the financial statements should be explored, including evaluating the implications of providing a fair value exception to deferred revenue in purchasing accounting. This could be an alternative way to achieve consistency in the amount of revenue recognized when revenue contracts acquired in a business combination have different payments terms as well as provide more consistent year-over-year comparisons to users of the financial statements.

We encourage the FASB to continue to gather feedback from stakeholders to understand the costs and benefits of the proposal. Specifically, we would suggest performing expanded outreach with preparers and auditors to further understand the operational impacts of these proposals and other potential accounting outcomes that could occur in practice.

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact me at (914) 765-5074.

Sincerely,

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