Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

April 30, 2019

Via email to director@fasb.org

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

Re: Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability (File Reference No. 2019-300) and Measurement and Other Topics Related to Revenue from Contracts with Customers under Topic 805 (File Reference No. 2019-200)

Dear Mr. Kuhaneck:

We are pleased to provide comments on the Board's proposed guidance on when an entity should recognize a liability assumed in a business combination from a contract with a customer, and the related Invitation to Comment on measurement and other topics.

We generally support the proposed amendments on when to recognize a contract liability assumed in a business combination.

However, we have concerns that the measurement concepts identified in the Invitation to Comment may ultimately prove unnecessarily complex. We understand some stakeholders believe the timing of payments under an acquired revenue contract should not affect the amount of revenue recognized in the acquirer's post-combination period. We do not share that view since an assessment of *future* cash flows is a common element used to value an asset or liability. That is, the timing and uncertainty of future cash flows is generally depicted in a fair value measurement.

However, we are not opposed to an outcome in which the amount of revenue recognized after an acquisition is the same for two contracts in which the timing of cash payments differs, assuming the contracts are otherwise identical. This could be accomplished in a cost-efficient manner by providing an exception to the fair value measurement principle in ASC 805 for contracts within the scope of ASC 606. We note stakeholders are familiar with the core principle in ASC 606 that revenue should reflect the transaction price established with a customer. Therefore, we believe the information and relevance of a transaction-price approach used to measure acquired contracts – as opposed to adjusting those amounts to fair value – should be considered. In this context, we note the Board has previously concluded other types of acquired assets and liabilities should be exempt from the measurement principle in ASC 805, such as deferred taxes and employee benefit plans.

We've provided additional thoughts on the matters raised in the exposure draft and invitation to comment in the Appendices to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Angela Newell at (214) 689-5669.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix I

Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability (File Reference No. 2019-300)

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.

We agree that entities should 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. We believe this is a consistent application of generally accepted accounting principles.

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

We agree with the recognition principle and anticipate that it will be understood by preparers. Additionally, we do not believe that the guidance in this proposed ASU will, by itself, result in a significant change in practice for most entities.

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.

We believe the amendments would provide appropriate and meaningful information . We expect that users of financial statements will provide the most meaningful feedback for this question.

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.

No, we believe that existing disclosure requirements of both ASC 805 and 606 are sufficient.

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 generally agree with the proposed prospective transition requirements. However, we suggest the Board also permit entities to elect retrospective adoption, with initial application coinciding with the date of initial application of ASC 606.

We expect that preparers of financial statements will provide the most meaningful feedback regarding effective dates, although we would not object to private companies having an additional year.

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?

Absent guidance on measurement of assumed contract liabilities, current practice will continue, which may include diversity.

Appendix II

Measurement and Other Topics Related to Revenue from Contracts with Customers under Topic 805 (File Reference No. 2019-200)

Chapter 1

Our views on selected issues within Chapter 1 of the ITC are summarized herein.

Generally, we disagree with the need to achieve the same outcome after a business combination despite a difference in the timing of payments. We believe that timing of payments might naturally result in different outcomes, because fair value concepts are based on valuing the future benefit or cost, which is generally tied to receipt or payment of cash. In other words, a liability that represents an obligation to pay cash or expend other resources in the future will often have more value than one that does not require a similar outlay. In addition, we note that it is common for other assets and liabilities arising from business combinations to result in outcomes that are different.

However, if the Board sees a need to achieve consistent outcomes, we recommend a scope exception to the fair value-based measurement principle in ASC 805, whereby an acquirer would recognize and measure the contract liability by applying the guidance in ASC 606, similar to the scope exception in ASC 805 for income taxes, which are accounted for under ASC 740 even in a business combination. In essence, this approach would result in valuing the deferred revenue at carryover basis, assuring a consistent outcome regardless of timing of payment. The final guidance should specify that the exception does not apply to valuation of customer relationship assets arising under ASC 340-40.

We also recommend the Board not change the current model for variable consideration and sales and usage-based royalties. That is, an acquirer should 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.

Chapter 2

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?

There are instances when the use of a related asset should be considered in measuring the fair value of a contract liability. We would agree with the concept described in Section 2.4 related to the cost to use the backhoe even if the backhoe was owned by the acquirer (this would be considered in the depreciation of the owned asset assuming the asset has not already been fully depreciated). In our view, this would be considered a remaining cost to be incurred by the acquirer related to fulfilling the obligation (costs related to physical asset needed to fulfill the obligation). However, in our view, upfront costs incurred to develop certain intellectual property should not be considered as it is not a remaining cost to be incurred by the acquirer. The cost to maintain the intellectual property should be considered a remaining costs to be incurred by the acquirer, which is generally maintenance R&D costs for technology or marketing costs for a trade name.

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?

Yes. Generally, contract assets are valued using the Multi-Period Excess Earning Method. All expenses required to maintain the contractual cash flows should be considered. In Section 2.5, it indicates that cash flows related to the use of an asset to fulfill an obligation should not be considered as it was already considered in the measurement of the contract liability. In our view, assets and liabilities are valued separately based on facts and circumstances and the value of a contract asset should include all expenses required to maintain the contractual cash flows.

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?

In our view, Topic 606 and Topic 805 contain different concepts for different purposes and should be considered separately in valuation methodology.