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March 9, 2021

Via email to director@fasb.org

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (File Reference No. 2020-1000)

Dear Ms. Salo:

We are pleased to provide comments on the Board's proposal to improve the accounting for acquired contracts with customers in a business combination.

We generally agree that the proposal is operable and will increase consistency and comparability. However, we suggest the Board consider providing additional guidance on certain application issues as elaborated in our detailed responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Jon Linville at (214) 243-2940.

Very truly yours,

BDO USA, LLP

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Appendix

Question 1: Should an entity be required to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606? If not, please explain why and what alternative would be more appropriate.

We support recognition and measurement of contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. We believe this approach will simplify accounting for business combinations and will enhance consistency between an entity's financial statements before and after an acquisition, as well as comparability among different companies.

Question 2: Is the recognition guidance in the proposed amendments understandable and operable? If not, please explain why.

We agree that the recognition guidance is understandable and operable as proposed.

Question 3: Is the measurement guidance in the proposed amendments understandable and operable? If not, please explain why.

We agree that the measurement guidance is understandable and operable as proposed as it relates to a single business combination transaction.

However, it is currently unclear how the measurement guidance would be applied for contract assets and liabilities carried forward through successive business combinations during the transition period. For example, Entity B acquires Entity C on February 1, 20X1, prior to implementation of the new guidance. Entity B recognizes and measures deferred revenue acquired in the transaction using the legal obligation concept under legacy GAAP. Entity B expects to recognize deferred revenue from the acquisition of Entity C over a three-year period. Entity A then acquires Entity B on February 1, 20X2, after implementation of the new guidance. It is unclear how Entity A should measure in the current acquisition deferred revenue balances from Entity B's acquisition of Entity C that remain as of February 1, 20X2.

As a result, we recommend the FASB provide additional guidance to clarify the measurement approach for contract assets and liabilities when successive business combinations have occurred during the transition period. Specifically, we recommend requiring an entity to remeasure deferred revenue balances from the first acquisition using the new guidance when it completes the second acquisition.

Question 4: The proposed amendments would not amend the existing guidance for other assets or liabilities that may arise from revenue contracts from customers in a business combination, such as customer-related intangible assets and contract-based intangible assets. Is the existing guidance on customer-related intangible assets and contract-based intangible assets, such as contracts with off-market terms, understandable and operable under the proposed amendments? If not, please explain why and what additional guidance would be necessary to make it operable.

We believe the existing guidance on such assets is understandable and operable and would continue to be so under the proposed amendments. However, introduction of the proposed amendments to achieve more consistent revenue results without amending the guidance on recognizing customer-related intangibles may result in inconsistency in net income for some companies. As an example, the valuation of backlog intangibles takes into consideration timing of payment. Therefore, the requirement to continue recognizing backlog intangibles at fair value while recognizing contract liabilities based on the principles in Topic 606 may result in a situation in which the margin recognized on a prepaid contract post-acquisition is higher than the margin recognized on a contract for which payment has not been received at the date of the business combination. Given that business valuations are typically driven by future cash flows, this scenario would result in counterintuitive financial statement outcomes.

We note that an inconsistency in margins pre- and post-transaction already exists due to other remeasurements of certain assets and liabilities in business combinations. However, under current guidance, timing of payment does not impact the margin recognized post-transaction, as it might under the proposed guidance. We do not believe that this potential discrepancy is pervasive, nor do we believe that it outweighs the benefits that would result from the proposal. However, the FASB staff might benefit from additional outreach with users of financial statements to determine if they expect such inconsistencies to be problematic.

Question 5: If the recognition or measurement guidance in the proposed amendments is inoperable or is overly burdensome, are there any practical expedients that should be considered?

Refer to our response to Question #3.

Question 6: Would the proposed amendments result in financial reporting outcomes that are appropriate and meaningful for users of financial statements? Please explain why or why not.

We generally agree the proposed amendments result in financial reporting outcomes that are appropriate and meaningful for users of financial statements, as noted in our response to Question #1. However, the FASB may wish to consider additional targeted outreach with users as elaborated in our response to Question #4.

Question 7: The scope of the proposed amendments would include contract assets and contract liabilities from other contracts that apply the provisions of Topic 606, such as contract liabilities from the sale of nonfinancial assets within the scope of Subtopic 610-20. Should the proposed amendments be applied to contracts beyond contracts with customers that also are accounted for in accordance with Topic 606? If not, please explain why.

We agree that the scope of the proposed guidance should include acquired contracts accounted for under Subtopic 610-20 and other contracts for which the provisions of Topic 606 must be applied. However, we also recommend that the language in the final ASU (for instance, in the basis for conclusions) clarify that the guidance is not intended to exclude from its scope situations in which an entity applies principles in ASC 606 by analogy. For instance, an entity might consider the new guidance in recognizing and measuring deposit liabilities (e.g., deposits for stock purchases that have a vesting period) and balances related to collaborative arrangements for which the guidance in Topic 606 is not directly applicable.

Question 8: The proposed amendments would require no incremental disclosures. Should other disclosures be required; for example, are additional disclosures needed that would provide investors with the information necessary to distinguish between acquired revenue contracts and originated revenue contracts? If yes, please explain why and provide the additional disclosures that should be required.

In general, we do not believe additional disclosure requirements are needed upon implementation of the new guidance. However, refer to our response to Question #3 for a narrow instance which might trigger additional disclosures.

Question 9: Should the proposed amendments be applied on a prospective basis? If not, what transition method would be more appropriate and why?

We agree with prospective application.

Question 10: How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Please explain why or why not.

We believe minimal time will be needed to implement the proposed amendments, as the guidance is a simplification and is based on principles in ASC 606 which should be widely understood at this point. However, we would not object if the FASB provided additional time for entities other than public business entities (consistent with timeframes provided by other accounting standard updates).

Question 11: Is the early application requirement appropriate as proposed, or should an entity not be required to apply the proposed amendments to all prior business combinations that occurred since the beginning of the annual period if the proposed amendments are applied in an interim period? Please explain why or why not.

We believe additional clarification may be helpful regarding transition when an entity elects early application in an interim period other than the first interim period. Proposed paragraph 805-20-65-3c states in part: *An entity that elects early application of the pending content that links to this paragraph in an interim period shall apply the pending content to all prior business combinations that have occurred since the beginning of the annual period that includes that interim period.*

It is unclear whether this language would require an adjustment in the current period of adoption (i.e., cumulative catch-up), or recasting of earlier interim periods from the same year.

Alternatively, the FASB might consider specifying that an entity should adopt the guidance as of the beginning of its annual fiscal year.

Question 12: IFRS Standards on business combinations contain guidance similar to what is currently in Topic 805. The proposed amendments would create a difference between IFRS Standards and Topic 805 for measuring contract assets and contract liabilities acquired in a business combination. Would differences in that area of the guidance create additional costs or complexity for entities or users of financial statements? Please explain why or why not.

We do not object to the potential difference between US GAAP and IFRS, but we suggest the Board consider feedback from users of financial statements under both sets of standards when determining whether the difference would result in additional costs or complexity.