March 22, 2021

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

File Reference No. 2020-1000

Dear Ms. Salo:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants is pleased to offer feedback on FASB Proposed Accounting Standards Update (ASU), "*Business Combinations (Topic 805)–Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.*" FinREC supports the Board's objective to improve the accounting for acquired revenue contracts with customers in a business combination while improving the usefulness of the information provided in financial statements. FinREC generally agrees with the proposal but recommends certain changes to make the proposed amendments more understandable and operable.

The remainder of this letter provides FinREC's responses to certain questions for respondents.

Sincerely,

Angela J. Newell

Chair

FinREC

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APPENDIX: RESPONSES TO QUESTIONS

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.

> Yes, FinREC agrees that an entity should be required to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606.
>
> FinREC agrees that the amendments in this proposed Update would simplify an area of business combination accounting that is complex and costly to apply and would provide information about acquired revenue contracts that should be more meaningful and easier to understand.

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

> As further discussed below in our response to Question 3, to make the recognition guidance more understandable and operable, FinREC recommends that the final standard clarifies that an entity would be permitted but not required to reassess judgments made by the acquiree at contract inception (such as whether performance obligations are distinct in the context of the contract). Other recommendations to make the proposed amendments more operable and understandable are discussed in our responses to other questions in this letter.

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

> FinREC is concerned that operationalizing the proposed amendments could be complex and judgmental without additional guidance. At a minimum, FinREC recommends that the final standard incorporates into FASB Accounting Standards Codification (ASC) the guidance from paragraph BC28 of the *Background Information and Basis for Conclusions* section of the proposal, which clarifies the intent of the proposal. Specifically, paragraph BC28 states that
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>> The Board indicated that differences between contract assets and contract liabilities recorded by an acquirer and those recorded by the acquiree before the acquisition generally would result from (a) differences in the acquirer's and acquiree's revenue recognition accounting policies and the resulting change to the acquiree's policies, (b) differences in estimates between the acquirer and acquiree, or (c) errors in the Topic 606 accounting of the acquiree.
>
> Furthermore, FinREC believes that the final standard should articulate which estimates made by the acquiree should be revisited as part of this assessment. For example, FinREC recommends that the final standard clarifies that an entity would be permitted but not required to reassess estimates made by the acquiree at contract inception (such as standalone selling prices). In addition, FinREC believes that the final standard should clarify whether or not an entity would need to reassess other estimates made by the

acquiree that Topic 606 requires to be reassessed each reporting period (such as variable consideration).

Also, FinREC understands that the proposed amendments are not intended to amend the existing guidance for costs that are within the scope of Subtopic 340-40, *Other Assets and Deferred Costs–Contracts with Customers,* and, as such, the measurement guidance in the proposed amendments would not be applicable to those assets. FinREC recommends that this be clarified in the Basis for Conclusions section of the final standard.

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.

FinREC understands that an additional intangible asset or liability for off-market contract terms in acquired revenue contracts should only be recognized when there is a change in market terms from contract inception to the acquisition date. If our understanding is correct, FinREC recommends that this intent be clarified in the final standard.

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?

FinREC believes that to the extent that an acquiree does not have previously existing US GAAP financial statements (for example, if an acquiree's historical financial statements are prepared under a different basis of accounting), an acquirer should be allowed to use all practical expedients specified in FASB ASC 606-10-65-1.

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.

FinREC believes that the proposed amendments will result in financial reporting outcomes that are appropriate and meaningful for users of financial statements. This is because the requirement to measure acquired contract assets and contract liabilities arising from revenue contracts with customers in a business combination in accordance with Topic 606 at the acquisition date would eliminate differences in the subsequent amount of revenue recognized by an entity after a business combination based on the timing of payment.

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.

FinREC supports including in the scope of the final standard 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, *Other*

Income–Gains and Losses from the Derecognition of Nonfinancial Assets. Furthermore, FinREC recommends that point *b* in FASB ASC 805-20-25-28C be clarified that the proposed amendments would apply to contract assets or contract liabilities from other contracts to which entities apply the provisions of Topic 606, including when the acquiree has appropriately applied Topic 606 by analogy. Such arrangements may include arrangements within the scope of Topic 808, *Collaborative Arrangements*, or Subtopic 730-20, *Research and Development–Research and Development Arrangements*. However, FinREC is concerned that expanding the scope to include such other contracts could lead to unintended consequences. While we are yet to identify any specific unintended consequences, we encourage FASB to do further research and outreach prior to expanding the scope.

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.

FinREC recommends that entities be required to disclose if they use practical expedients as discussed in our response to Question 5.

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

Yes, FinREC agrees that the proposed amendments should be applied on a prospective basis.

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.

FinREC does not anticipate that entities (both public business entities and other entities) would need substantial amount of time to implement the proposed amendments. FinREC recommends that the final standard be effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2021 (assuming that the final standard is issued prior to that date) and permits early adoption (subject to revisions discussed in our response to Question 11).

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.

FinREC agrees that early application should be permitted and supports the requirement to apply the proposed amendments as of the beginning of the annual period to all business combinations that occurred within that period. However, FinREC recommends clarifying in the final standard that if an entity elects to early adopt this guidance in an interim period, it would apply its provisions to previously completed business combinations within that annual period via a cumulative catch-up adjustment following the existing guidance in FASB ASC 805-10-25-17 on changes in estimates during the measurement period and providing related disclosures in FASB ASC 805-20-50-4A (c).