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
twitter.com/grantthorntonus

March 15, 2021

Hillary H. Salo
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. 2020-1000

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.*

We understand that the introduction of the term "performance obligation" in Topic 606 has raised questions about how a "performance obligation" differs from a "legal obligation" in Topic 805 for entities accounting for acquired revenue contracts in a business combination. While we do not think the introduction of the term "performance obligation" creates a new issue that requires additional standard setting, we support making a clarification to Topic 805 to recognize contract assets and contract liabilities in a business combination using the definitions outlined in Topic 606 if such clarification is deemed necessary to reduce any diversity in practice.

On the topic of measurement, we support the proposed amendments that would require an acquirer to measure contract assets and contract liabilities acquired in a business combination in accordance with the guidance in Topic 606. While we generally support using the fair value measurement principle outlined in Topic 805 when accounting for a business combination, we support the proposed amendments on the basis that they generally will result in the acquirer accounting for its acquired revenue contracts consistently with how the acquirer accounts for its revenue contracts postcombination, providing the users of the financial statements with more decision-useful information. Finally, we believe the proposed amendments will simplify the accounting for acquired revenue contracts for management and auditors.

Our responses to your questions are included in the paragraphs that follow, along with our comments and recommendations for your consideration.

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 whether another alternative would be more appropriate.

We support the proposed amendments to clarify that an acquirer should recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606.

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

Yes, we believe the recognition guidance in the proposed amendments is both understandable and operable.

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

In BC28, the Board indicates that differences between contract assets and contract liabilities recorded by an acquirer and those recorded by the acquiree before the acquisition may result from differences in estimates between the acquirer and the acquiree. Further, we note that BC16 says that acquirers would still need to consider whether the terms of the contract require recognizing an additional intangible asset or liability for off-market terms (for example, if there were changes to the prevailing standalone selling price since that contract was entered into). We note the distinction between “differences” in estimates and “changes” in estimates – highlighting that the standalone selling price estimate in ASC 606 is not revisited after contract inception unless the contract is modified. Our interpretation of the proposed guidance is that acquirers should measure a contract asset or contract liability using estimates such as the standalone selling price of the performance obligations as of the contract inception date or latest contract modification date. Subject to that interpretation, we believe the measurement guidance in the proposed amendments is both understandable and operable.

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.

As noted in our introductory paragraph, we generally support using the fair value measurement principle outlined in Topic 805 when accounting for a business combination. While we acknowledge that the use of a mixed-model approach to recognizing acquired revenue contracts (that is, fair value for the customer-related intangible assets and contract-based intangible assets and an ASC 606-approach for contract assets and liabilities) may result in different post-acquisition contract margins for certain arrangements, we believe the benefits of the overall proposed amendments through reduced costs and complexity outweigh the costs.

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?

We do not believe the recognition and measurement guidance in the proposed amendments is inoperable or overly burdensome.

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 believe the proposed amendments would result in financial reporting outcomes that are appropriate and meaningful for users of financial statements. We generally believe the proposed accounting would improve the comparability between an entity's revenue contracts acquired in a business combination and revenue contracts generated postcombination.

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.

Yes, we believe the scope should include all contracts that apply the provisions of Topic 606.

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.

We defer to financial statement users to provide feedback on which additional disclosures should be required, if any.

In our view, information to distinguish between acquired revenue contracts and originated revenue contracts is outside the stated scope of the proposed amendments. Additionally, we envision that providing such disclosures could require significant time and effort by financial statement preparers and their auditors.

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

Yes, we believe prospective application is appropriate.

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 defer to financial statement preparers to address the length of time needed to implement the proposed amendments. However, in accordance with the Private Company Decision-Making Framework, we believe nonpublic entities should be provided an additional year to implement the proposed amendments.

Question 11: Is the early application requirement appropriate as proposed, or should an entity not be required to apply the proposed amendments as of the beginning of the year if the proposed amendments are applied in an interim period? Please explain why or why not.

We agree with the early application requirement as proposed, since we believe the most decision-useful information would be to present consistent revenue recognition as though the business combination (or all business combinations, if more than one in the period) were completed as of the beginning of the fiscal period.

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.

Generally, differences between U.S. GAAP and IFRS tend to create additional costs and complexity for financial statement preparers and their auditors. We do not believe the proposed amendments represent an exception to this general observation.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Partner, at Graham.Dyer@us.gt.com or 312-602-8107 or Susan Mercier, Partner, at Susan.Mercier@us.gt.com or 202-521-1565.

Sincerely,

/s/ Grant Thornton LLP