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Ms Susan Cosper
Task Force Chairman
Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
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Agenda request – Subsequent accounting for IPR&D assets and contingent consideration obligations recognized upon the initial consolidation of a VIE that is not a business

Dear Ms. Cosper

EY appreciates the opportunity to submit an agenda request to the Emerging Issues Task Force (EITF). We request that the EITF address the subsequent accounting for in-process research and development (IPR&D) intangible assets and contingent consideration obligations that are recognized upon the consolidation of a variable interest entity (VIE) that is not a business under the guidance in Accounting Standards Codification (ASC) 810-10-30-3 through 30-4.

We believe the EITF should address this question because, when entities adopt Accounting Standards Update (ASU) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, fewer acquired sets of assets and activities will meet the definition of a business, meaning this question will arise more frequently.

We acknowledge that the Financial Accounting Standards Board (FASB) has a project on its technical agenda on improving the accounting for asset acquisitions and business combinations. However, we believe that this is a narrow issue that can be resolved in less than one year and that the resolution of the issue would reduce diversity in practice.

When a primary beneficiary initially consolidates a VIE that is not a business, ASC 810-10-30-3 requires the recognition and measurement of the assets acquired and liabilities assumed at fair value in accordance with the guidance on business combinations in ASC 805-20-25 and ASC 805-20-30 (except for goodwill). A gain or loss is recognized for the difference between (1) the sum of the fair value of any consideration paid, the fair value of any non-controlling interests and the reported amount of any previously held interests and (2) the net amount of the VIE's identifiable assets and liabilities recognized and measured in accordance with ASC 805, *Business Combinations*.

ASC 810, *Consolidation*, does not provide guidance on the subsequent accounting for IPR&D intangible assets and contingent consideration obligations upon the initial consolidation of a VIE that is not a business.

For IPR&D assets initially recognized and measured at fair value pursuant to the guidance in ASC 810 (as if they were acquired in a business combination), an entity may conclude that it should follow the subsequent accounting guidance for intangible assets acquired in a business combination in ASC 350, *Intangibles – Goodwill and Other*. That is, an entity may conclude that the IPR&D intangible assets should be subsequently accounted for as indefinite-lived intangible assets, subject to impairment testing.

Alternatively, an entity may conclude that, because the VIE is not a business, it should subsequently account for these IPR&D intangible assets under ASC 730, *Research and Development*. This approach would be similar to the accounting in an asset acquisition whereby IPR&D intangible assets with no alternative future are recognized as an expense at the acquisition date.

Similarly, for contingent consideration obligations that do not meet the definition of a derivative under ASC 815, *Derivatives and Hedging*, an entity may conclude that because it is initially recognizing the contingent consideration obligation at fair value (as if it was acquired in a business combination), it should follow the subsequent accounting guidance for contingent consideration obligations in a business combination in ASC 805. That is, an entity may conclude that the contingent consideration obligation should be subsequently remeasured at fair value, depending on whether the obligation is classified as a liability or equity, in accordance with ASC 805-30-35-1.

Alternatively, an entity may conclude that, because the VIE is not a business, it should account for these contingent consideration obligations by applying an asset acquisition model. In an asset acquisition, contingent consideration obligations that do not meet the definition of a derivative under ASC 815, are recognized when the contingency is resolved and is paid or becomes payable or by applying the guidance in ASC 450, *Contingencies*.

In summary, it is unclear whether an entity should apply the guidance in ASC 350 or ASC 730 to subsequently account for IPR&D intangible assets it initially recognized when it consolidated a VIE that is not a business. It is also unclear whether an entity should apply the remeasurement guidance for business combinations in ASC 805 or apply an asset acquisition model to subsequently account for contingent consideration obligations initially recognized in this manner.

We believe that the FASB should add this issue to the EITF's agenda to reduce diversity in practice in this area.

If you have any questions, please contact Paul Beswick or Josh Forgione.

Sincerely

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