

MEMO

Memo No. **Issue Summary No. 1,
Supplement No. 2***

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Contact(s)	Ryan Carter	Project Lead	(203) 956-5379
	Jane Lazzara	Postgraduate Technical Assistant	(203) 956-5399
	Jason Bond	EITF Coordinator	(203) 956-3279
	Lawrence Dodyk	EITF Liaison	(973) 236-7213

Project	EITF Issue No. 18-A, "Recognition under Topic 805 for an Assumed Liability in a Revenue Contract"		
Project Stage	Redeliberations		
Dates previously discussed by EITF	June 7, 2018; September 27, 2018		
Previously distributed memo numbers	Issue Summary No. 1, dated May 24, 2018; Issue Summary No. 1, Supplement No. 1, dated September 13, 2018		

Background and Memo Purpose

1. At the June 7 and September 27, 2018 EITF meetings, the Task Force discussed issues related to circumstances in which an entity should recognize a contract liability from a contract with a customer (hereinafter referred to as a revenue contract) within the scope of Topic 606, Revenue from Contracts with Customers, that is acquired in a business combination. At the September 27, 2018 EITF meeting, the Task Force reached the following consensuses-for-exposure:
 - a) Require an entity to use the Topic 606 performance obligation definition to determine whether to recognize a contract liability from a revenue contract with a customer that is acquired in a business combination at the acquisition date
 - b) Require that an entity apply the amendments resulting from this Issue prospectively to all business combinations that occur after the amendments are effective
 - c) Not to require any incremental disclosures in the period of adoption.

*** The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

2. At the October 10, 2018 Board meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and on February 14, 2019, issued proposed Accounting Standards Update, *Business Combinations (Topic 805): Revenue from Contracts with Customers—Recognizing an Assumed Liability* (the proposed Update). The comment deadline was April 30, 2019.
3. At the June 7 and September 27, 2018 EITF meetings, the Task Force also considered the measurement of the assumed contract liability and the effects of payment terms on the subsequent revenue recognition of the acquired revenue contract. The Task Force decided not to address those issues in the proposed Update. The FASB issued an Invitation to Comment (ITC), *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, on February 14, 2019, with a comment deadline of April 30, 2019, to solicit feedback about those issues.
4. This Issue Summary Supplement summarizes the feedback received through comment letters on the proposed Update. It also provides the staff's analysis and recommendations on how to proceed. Issue Summary No. 1, Supplement No. 3 provides a detailed summary of the feedback from comment letters received on the related issues described in the ITC.
5. At the June 13, 2019 EITF meeting, the Task Force will have the opportunity to consider the feedback received on the proposed Update and ITC as it redeliberates the consensus-for-exposure. The Task Force will then be asked whether it wishes to affirm the consensus-for-exposure as a consensus.

High Level Summary of Comment Letters and Responses

Comment Letter Demographics

6. The following table provides a summary of the 16 comment letters received on the proposed Update listed by type of respondent. Not all respondents addressed all questions; some focused only on specific targeted areas. Some respondents were broader in their responses.

Respondent Type	
Certified Public Accountant (CPA) State Society	4
Preparer/Preparer Association	6
Accounting Firm	6

7. In addition to the 16 comment letters categorized in the table above, some respondents to the ITC who did not separately provide a comment letter on the proposed Update included commentary about the proposed Update in their letter on the ITC. Those comments will be summarized throughout this memo and identified as feedback incremental to the comment letter process for the proposed Update.

Overview of Feedback Received

8. Many comment letter respondents indicated that they support the Board's efforts to provide guidance about the interaction between Topic 606 and Topic 805, Business Combinations, to clarify the accounting for contract liabilities in a business combination. Respondents generally supported requiring the use of the performance obligation definition under Topic 606 when determining whether to recognize a liability from a contract with a customer in a business combination. However, most respondents identified negative implications of finalizing the recognition guidance in the proposed Update before addressing the issues identified in the ITC, including several who indicated that they do not support finalizing the recognition guidance in the proposed Update before addressing the issues identified in the ITC.

Issues

Issue 1 – Recognition of an Assumed Liability from a Revenue Contract

Issue Background

9. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure that would require an entity to use the Topic 606 performance obligation definition to determine whether to recognize a contract liability from a revenue contract with a customer that is acquired in a business combination at the acquisition date. An entity would evaluate whether it has a contract liability from a revenue contract that is assumed in a business combination because the acquiree has been paid (or consideration is due) for goods or services for which control has not been transferred to the customer. The acquirer would not need to perform this evaluation if the acquiree has not received payment or there is no consideration due (that is, a contract liability would not have been recognized under Topic 606).
10. The proposed Update included the following questions specific to the Task Force's consensus-for-exposure on recognition of an assumed liability in a revenue contract in a business combination. The feedback received on Question 7 is included in the summary below because it may inform the Task Force's decision on whether to affirm the consensus-for-exposure on recognition.

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.

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

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.

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?

Feedback Related to Recognition of an Assumed Liability from a Revenue Contract

11. Fifteen respondents provided feedback on Question 1 in the proposed Update. Twelve out of 15 respondents supported using the definition of a performance obligation in Topic 606 to determine whether to recognize a contract liability from a revenue contract with a customer acquired in a business combination. Explanations, when provided, were generally consistent with the Task Force's discussion summarized in paragraph BC11 of the proposed Update. That is, the use of the definition of performance obligation better aligns with current guidance included in the Codification and by using that definition, the guidance under Topic 606 and the guidance under Topic 805 would be consistent. Two respondents (CL#2, an accounting firm, and CL#9, a preparer) noted that using the performance obligation concept is preferable to the practice of using the legal obligation concept because the use of the legal obligation concept is based on superseded guidance. Furthermore, two respondents (CL#5, a state society, and CL#14, an accounting firm) indicated that the definition of performance obligation is consistent with the definition of a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which indicates that liabilities are broader than legal obligations. Additionally, in comment letters addressing the ITC, two respondents (ITC CL#5, a private company association, and ITC CL#7, a preparer) noted that they support the use of the performance obligation concept for reasons similar to those provided by other respondents, including that it would result in greater consistency in practice.
12. Three accounting firms (CL#3, CL#4, and CL#7) conditionally agreed with using the performance obligation definition. One of the accounting firms (CL#3) supported the use of the concept of a performance obligation but noted that it prefers that current practice is maintained until guidance on measurement is issued. That respondent noted several reasons why retaining current practice is preferable, including that the underlying economics (and cash flows) related to revenue contract liabilities assumed in a business combination did not change as a result of Topic 606 and Topic 606 did not amend Topic 805. Another accounting firm (CL#4) supported the use of the performance obligation definition; however, it stated that the guidance on revenue contracts would be incomplete if circumstances in which the acquiree has revenue contracts in an asset position also are not addressed. The other accounting firm (CL#7) indicated that they do not object to the use of the performance obligation definition, but their view may change if the resolution of the issues discussed in the ITC results in significant and complex measurement guidance.

13. Seven of the 11 respondents who addressed Question 2 in the proposed Update (which includes all types of respondents) indicated that the proposed recognition requirements would be operable, noting that preparers are familiar with the performance obligation concept because most entities have adopted or will soon adopt Topic 606. Some of the respondents proposed edits to make the guidance clearer. One of the seven respondents (CL#14, an accounting firm) explained that preparers “would be able to evaluate the performance obligations associated with contract liabilities acquired” and that the “nature of the accounting work the acquirers would perform if the proposal is adopted is substantially the same as that already performed today.” The four remaining respondents who addressed Question 2 in the proposed Update (which includes all types of respondents) noted that identifying the performance obligations for recognition may not be difficult but determining the fair value of the obligations may be complex and lead to diversity in practice. Therefore, those four respondents noted that the operability of the recognition guidance is dependent on the conclusions the Board reaches about measurement and other topics discussed in the ITC.
14. Eight of the 10 respondents who addressed Question 3 in the proposed Update noted that the proposed amendments would result in financial reporting outcomes that are appropriate and meaningful to users of financial statements. Several of those respondents indicated that the proposed amendments would improve comparability by reducing diversity in practice. One respondent (CL#4) explained that comparability will be enhanced because “certain performance obligations, such as implied promises and licenses of symbolic intellectual property, may not be captured using the legal obligation notion” in practice today. The two other respondents to Question 3 (CL#2, an accounting firm, and CL#10, a preparer) asserted that to determine whether the financial reporting outcomes are appropriate and meaningful, the Board will first need to address the related measurement issues raised in the ITC.
15. Thirteen of the 15 respondents who discussed the interaction between the issues in the proposed Update and the ITC identified implications of finalizing the recognition guidance in the proposed Update without corresponding measurement guidance.¹ Many respondents indicated that finalizing recognition guidance before considering the issues described in the ITC would perpetuate or create diversity in practice, not reduce it. Some respondents also noted that the recognition and the measurement of contract liabilities in a business combination are interrelated issues. Several respondents therefore commented that guidance should be issued concurrently on recognition and measurement to holistically address the issues. One respondent (CL#7, an accounting firm) noted that current practice should be retained until guidance is developed for recognition and measurement because of the complexity of the issues raised in the ITC. Another respondent (CL#10, a preparer) indicated that if the Board decides to issue guidance on recognition in advance of its measurement conclusions, preparers

¹ The implications summarized in this paragraph include feedback specifically addressing Question 7 in the proposed Update or general concerns raised about the interaction of the issues described in the proposed Update and ITC. These comments are incremental to the concerns raised in paragraphs 12 through 14, which were described by respondents within the context of their views on Questions 1 through 3 in the proposed Update.

would need to develop positions on measurement and “support those positions with their auditors and develop and execute implementation plans.” That preparer noted that the measurement position may then need to be changed upon the issuance of explicit measurement guidance. Another respondent (CL#16, a preparer association) noted that the separate issuance of recognition guidance and measurement guidance “will necessitate two separate implementation exercises, increasing the costs for preparers, and likely creating confusion in the accounting community.”

16. Of the two other respondents to Question 7 in the proposed Update, one respondent (CL#1, a state society) did not identify any implications of finalizing the recognition guidance before measurement guidance is issued. The other respondent (CL#14, an accounting firm) explicitly supported finalizing the amendments on recognition without corresponding measurement guidance because it “reduces certain diversity in practice in determining assumed contract liabilities,” “the industry would start benefiting from finalizing the proposed amendments without the ITC outreach being completed,” and the proposed amendments would not be costly to implement. That accounting firm acknowledged that diversity in practice would still exist if the measurement issues are not resolved, but the time and effort to finalize measurement issues could be considerable because the ITC “evokes substantially different views in the accounting community.” That respondent concluded that on balance, the industry would benefit from the proposed amendments without finalizing any measurement guidance.
17. In comment letters addressing the ITC, three respondents who did not respond to the proposed Update (ITC CL#5, a private company association, ITC CL#6, an accounting firm, and ITC CL#9, an accounting firm) discussed the interaction between the issues in the proposed Update and the ITC. Two of the three respondents (ITC CL#5, a private company association, and ITC CL#6, an accounting firm) supported the issuance of guidance related to recognition before the Board reaches a conclusion on measurement and other issues described in the ITC to reduce diversity in practice that currently exists for the recognition of contract liabilities in business combinations. Conversely, one respondent (ITC CL#9, an accounting firm) indicated that if the Board finalizes the proposed Update without corresponding measurement guidance, there likely would be diversity in practice because of the measurement questions.

Question for the Task Force

1. Does the Task Force want to affirm its consensus-for-exposure that requires entities 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?

Staff Analysis and Recommendation

18. Based on the feedback received through comment letters, the staff does not recommend that the Task Force affirm its consensus-for-exposure until the Board considers the measurement of contract liabilities and other issues in the ITC. The staff continues to agree with the Task Force's reasoning described in paragraphs BC10 through BC12 of the proposed Update that supports why the performance obligation concept under Topic 606 is the conceptually appropriate recognition criteria for a revenue contract with a customer acquired in a business combination. The staff also believes that the recognition guidance alone is operable and that its issuance should reduce diversity in practice for the recognition of contract liabilities. However, the staff agrees with the concerns of some respondents that there are negative implications to finalizing the proposed amendments without resolving the issues in the ITC on measurement and payment terms.
19. Specifically, the staff believes that the operability of the proposed amendments could change and become much more costly and complex depending on whether the Board decides to add to the Technical Agenda and conclude on any of the interrelated issues described in the ITC. The staff also is concerned that diversity in practice would continue for the measurement of the obligations assumed even if the recognition guidance is finalized. Therefore, the benefits of the financial reporting outcome of the proposed amendments is difficult to assess without additional measurement guidance. There is the potential that the benefits of the financial reporting improvements resulting from providing recognition guidance may be minimal or completely offset by the negative outcomes of not including measurement guidance. Additionally, if standard setting for the accounting for contracts with customers acquired in a business combination is performed piecemeal, preparers would be at risk of undergoing two changes because some preparers may reach conclusions on measurement that will subsequently conflict with the final amendments reached. Historically, the Board has addressed the recognition and measurement of a transaction assumed in a business combination concurrently (for example, the guidance issued in FASB Statement No. 141 (revised 2007), *Business Combinations*, related to operating leases). In summary, although respondents and the staff agree that the use of the definition of performance obligation would promote consistency throughout the Codification and may reduce diversity in practice for recognition, the staff believes that the recognition and measurement issues are fundamentally interrelated. Therefore, the staff believes that holistically considering the issues would result in a more meaningful improvement to GAAP.

Issue 2 – Scope

Issue Background

20. At the September 27, 2018 EITF meeting, the Task Force discussed how to appropriately scope the proposed amendments for this Issue. The proposed Update indicates that the amendments would apply to all entities that enter into a business combination within the scope of Subtopic 805-10 after the

adoption of Topic 606. The basis for conclusions of the proposed Update indicates that the scope of the proposed amendments does not include contract liabilities other than those from revenue contracts with customers, even if those liabilities are accounted for using guidance in Topic 606. The proposed Update included the following question to gather feedback on what the scope of the amendments should be:

Question 4: Should the proposed amendments be more broadly applied to similar transactions beyond contracts with customers, such as contracts within the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets? If yes, please provide examples of potentially affected transactions.

Feedback Related to Scope

21. Of the nine respondents who expressed a view on the scope of the proposed Update, five respondents (which includes all types of respondents) supported broadening the scope of the amendments, three respondents (an accounting firm and two state societies) indicated that the proposed amendments should have a narrow scope, and one respondent (an accounting firm) noted that entities should be able to use judgment to determine whether contracts similar to contracts with customers should follow the proposed amendments by analogy.
22. The five respondents who recommended that the scope of the proposed amendments be broadened to include transactions similar to contracts with customers suggested various transactions that should be considered by the Task Force in determining the appropriate scope of the amendments. All five respondents indicated that the proposed amendments should apply to transactions under Subtopic 610-20, with most reasoning that many of the principles of Topic 606 are referenced in Subtopic 610-20. One respondent (CL#7, an accounting firm) noted that other guidance addresses many of the transactions within the scope of Subtopic 610-20 (for example, Topic 805 addresses long-lived assets held for sale at the acquisition date), so the proposed amendments would not be needed. However, that firm indicated that there may be instances in which the proposed amendments might be needed for the portion of an overall transaction within the scope of Subtopic 610-20 that does not relate to a long-lived asset.
23. Three of the five respondents who supported broadening the scope of the proposed amendments identified areas of the Codification (in addition to Subtopic 610-20) that the Task Force should consider including in the scope of the proposed amendments. One respondent (CL#4, an accounting firm) indicated that the proposed amendments would potentially affect other transactions that follow Topic 606 by analogy, such as licenses of intellectual property that are not part of the licensor's ongoing or major operations or collaborative arrangements when the counterparty is not considered a customer. Two respondents (CL#1, a state society, and CL#7, an accounting firm) suggested that contract liabilities assumed in asset acquisitions under Subtopic 805-50, Business Combinations—Related Issues, should be addressed. One respondent (CL#1, a state society) indicated that liabilities assumed

in asset acquisitions should be considered within the Board’s project on Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project), and the other respondent (CL#7, an accounting firm) stated that such transactions should be considered within the scope of the proposed amendments. One respondent (CL#7, an accounting firm) also noted that “the Board should consider whether the accounting for unearned premiums of an acquiree subject to Topic 944 [on Financial Services—Insurance] should be aligned with other revenue contracts.”

24. Three of the nine respondents to Question 4 indicated that the scope should not be more broadly applied to transactions beyond contracts with customers. One of the three respondents (CL#3, an accounting firm) noted that “if the Board elects to move forward with the proposed ASU [Update] as written, we believe the scope should be limited to revenue contract-related liabilities associated with symbolic IP because ASC [Topic] 606 prescribes a specific model for symbolic IP.” That respondent indicated that limiting the proposed amendments would minimize implementation issues and divergence from IFRS guidance.
25. One of the nine respondents to Question 4 (CL#14, an accounting firm) acknowledged that there are certain transactions other than contracts with customers that apply certain provisions of or analogize to Topic 606. Therefore, that respondent noted that the scope should be able to be applied to transactions other than contracts with customers. The respondent preferred that the scope be left open for interpretation, rather than specifically including or excluding other types of arrangements.

Question for the Task Force

2. Should the amendments in the final Update be more broadly applied to similar transactions beyond contracts with customers?

Staff Analysis and Recommendation

26. Most respondents generally believed that transactions beyond contracts with customers should be considered in determining the scope of the proposed amendments (six of the nine respondents to Question 4 brought up transactions similar to contracts with customers [five believed that the scope should be explicitly broadened, and one believed that entities should analogize such transactions to the proposed amendments]). Considering the respondents’ feedback, the staff also thinks that transactions that are required to apply the principles of Topic 606 should be able to apply the proposed amendments. For example, contracts under Subtopic 610-20 and certain contracts under Topic 808, Collaborative Arrangements, would be required to follow the proposed amendments because, in some cases, portions of each of those contracts are required to follow the principles of Topic 606. The staff does not believe that contracts under Topic 944 should be within the scope of the proposed amendments because that Topic does not follow the principles of Topic 606. Furthermore, the staff does not believe that the proposed amendments should apply to transactions under Topic 805-50

because the proposed amendments are limited to contracts that are assumed as part of a business combination rather than an asset acquisition.

27. One of the major benefits respondents noted for adopting the performance obligation concept for the recognition of assumed liabilities in a business combination is that it would promote consistency throughout the Codification. Application of the proposed amendments to all contracts that are required to apply the principles of Topic 606 would further the initiative of applying principles consistently throughout the Codification. The staff believes that it would be inappropriate to apply different recognition criteria to two contract liabilities in a business combination when each contract liability is required to be accounted for under the provisions of Topic 606. That is, if the liability represents an unsatisfied performance obligation for which consideration has been received or is due under Topic 606 (or by reference to Topic 606), it should be recognized as an assumed liability in a business combination regardless of whether it is from a contract with a customer. Therefore, if the Task Force decides to finalize the consensus-for-exposure on Issue 1, the staff recommends that the scope of the amendments include transactions other than contracts from customers that are required to apply the provisions of Topic 606.

Issue 3 – Disclosures

Issue Background

28. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for exposure not to require transition disclosures in the period in adoption. The Task Force also did not identify the need for additional general disclosure requirements related to the proposed amendments. The proposed Update included the following question about disclosures:

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.

Feedback Related to Disclosures

29. All respondents who addressed Question 5 in the proposed Update (13) indicated that no incremental disclosures should be required related to the proposed amendments or transition. The respondents generally agreed that the disclosures required under Topic 606 and Topic 805 are sufficient for users and, therefore, supported including no incremental disclosure requirements as a result of the proposed amendments.

Question for the Task Force

3. Does the Task Force want to affirm its consensus-for-exposure not to require transition disclosures or other disclosures in the period of adoption?

Staff Analysis and Recommendation

30. All respondents who provided feedback supported the consensus-for-exposure about transition disclosures and did not identify any additional disclosures that should be required related to the proposed amendments. Based on that feedback, if the Task Force decides to finalize the consensus-for-exposure on Issue 1, the staff recommends that the Task Force affirm its consensus-for-exposure not to require transition disclosures in the period of adoption or other disclosures related to the proposed amendments. Consistent with the comment letter feedback, the staff believes that a user is able to obtain sufficient understanding about the assumed liabilities from revenue contracts with customers in a business combination from the existing disclosure requirements in Topic 606 and Topic 805.

Issue 4 – Transition and Effective Date

Issue Background

31. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure to require that an entity apply a prospective transition method. Under a prospective transition method, an entity would apply the amendments resulting from this Issue prospectively to all business combinations that occur after those amendments are effective. The Task Force did not propose an effective date for the proposed amendments or reach a consensus-for-exposure on whether an entity should be permitted to adopt the amendments early because it wanted to consider the comments received on the proposed amendments before making those decisions. The Task Force also did not consider whether entities other than public business entities should be provided with an additional year to implement the proposed amendments. The proposed Update included the following question about transition and effective date:

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?

Feedback Related to Transition and Effective Date

32. Thirteen of the 16 respondents addressed Question 6 in the proposed Update. Not all respondents addressed all of the questions within Question 6. All 13 respondents supported the consensus-for-

exposure to require prospective transition. Four respondents commented that retrospective application would be burdensome or would provide limited usefulness. Two respondents (CL#4, an accounting firm, and CL#11, an accounting firm), who supported prospective transition, indicated that entities should also have the option to apply the amendments retrospectively coinciding with the entity's initial adoption of Topic 606. All nine respondents to Question 6 who addressed early adoption indicated that it should be permitted.

33. Respondents had mixed views on the amount of time nonpublic entities should have to implement the proposed amendments. Of the 13 respondents to Question 6, 4 respondents (2 accounting firms and 2 state societies) supported or did not object to providing entities other than public business entities with an extra year to adopt the proposed amendments, 4 respondents (2 accounting firms and 2 state societies) did not support providing an extra year, and 5 respondents did not provide a view. Respondents opposed to providing additional time for nonpublic entities to implement the proposed amendments indicated that the cost and effort necessary to apply the amendments should be minimal and that entities other than public business entities are currently assessing and implementing Topic 606. Respondents who supported providing additional time highlighted that it would ensure adequate education about the amendments and be consistent with other recent Updates issued by the Board.
34. Ten of the 13 respondents addressed the amount of time that would be necessary to implement the proposed amendments. Seven respondents (which includes all types of respondents) indicated that they do not believe that the proposed amendments would be significantly time consuming or complicated to implement. One of the seven respondents (CL#14, an accounting firm) observed that "there are no new concepts or frameworks introduced by the amendments" but noted that "certain entities who do not already apply the performance obligation definition would need to measure the fair value of those contract liabilities associated with performance obligations that do not constitute legal obligations." Another respondent (CL#4, an accounting firm) who did not believe that a significant amount of time would be necessary to implement the proposed amendments noted that if the Task Force or Board decided to broaden the scope of the project by considering a new approach to accounting for revenue contracts, the time necessary to implement amendments would change.
35. Of the three other respondents who addressed the implementation period, two respondents (CL#8, a state society, and CL#10, a preparer) indicated that entities should have at least one year to implement the proposed amendments, and another respondent (CL#7, an accounting firm) noted that the time necessary to implement the amendments will depend on the resolution of the issues in the ITC.

Questions for the Task Force

4. Does the Task Force want to affirm its consensus-for-exposure to require prospective transition?

5. What should the effective date of the amendments resulting from this Issue be? Should entities other than public business entities be provided with an additional year to implement the proposed amendments?
6. Should early adoption of the amendments resulting from this Issue be permitted?

Staff Analysis and Recommendation

36. All respondents who commented on transition agreed with the consensus-for-exposure to require prospective transition. Based on the feedback from respondents, if the Task Force decides to finalize the consensus-for-exposure in Issue 1, the staff recommends that the Task Force affirm its consensus-for-exposure to require prospective transition. Several respondents noted that there is a certain amount of complexity and cost that would be associated with a retrospective application; however, a few respondents suggested that the option for retrospective application be allowed. The staff notes that the retrospective application of the amendments would need to align with the entity's initial effective date for Topic 606. That would limit the retrospective period to any business combinations that occurred after the beginning of 2018 for calendar year public business entities who did not early adopt Topic 606. Consistent with the Task Force's previous discussion, the staff believes that retrospective application could result in unnecessary costs and complexity for preparers and that there is no precedent for allowing a retrospective option for amendments to Topic 805, which typically follow a prospective transition method. Furthermore, if an entity elects to apply the proposed amendments retrospectively, additional questions could arise. For example, the recognition of additional performance obligations could affect the measurement of related assets and liabilities and goodwill in the business combination, which could raise questions about whether retrospective impairment assessments need to be made. Given the limited usefulness of the information and potential for additional complexities, the staff does not believe an option for retrospective application would be widely used and it may result in additional issues when applied.
37. The staff believes that the amount of time needed for an entity to adopt the amendments resulting from this Issue on a prospective basis generally would be minimal, which is consistent with feedback from respondents. Based on that fact and the possible issuance of a final Update during the third quarter of 2019, if the Task Force decides to finalize the consensus-for-exposure in Issue 1, the staff recommends that for public business entities, the amendments resulting from this Issue be effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.
38. Respondents had mixed views on the appropriate length of time to provide entities other than public business entities with to implement the proposed amendments. While the staff believes that the recognition criteria would not be particularly too complex to adopt, if the Task Force decides to finalize

the consensus-for-exposure in Issue 1, the staff recommends that the Task Force provide nonpublic entities with an extra year to adopt the proposed amendments because that would be consistent with other recent Updates issued by the Board and allow nonpublic entities enough time to employ their potentially limited resources to adopt the amendments.

39. All respondents who provided feedback about early adoption of the amendments suggested that stakeholders have the option to apply the amendments early. The staff did not identify any concerns with allowing an entity to apply the amendments early. Therefore, if the Task Force decides to finalize the consensus-for-exposure in Issue 1, the staff recommends that the Task Force allow early adoption of the amendments.