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Summary of the June Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the June 13, 2019, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensuses (“consensuses-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

After each meeting, the official EITF minutes, including the results of the FASB’s ratification process, will be posted to the [Deloitte Accounting Research Tool \(DART\)](#) and to the [FASB’s Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 18-A, “Recognition Under Topic 805 for an Assumed Liability in a Revenue Contract”

Status: Consensus-for-exposure.

Affects: Entities that assume a liability in a revenue recognition contract acquired in a business combination after the acquirer has adopted ASC 606.¹

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s [“Titles of Topics and Subtopics in the FASB Accounting Standards Codification.”](#)

Background: ASC 805 requires the recognition of assumed liabilities in a business combination. Views differ on how an entity should apply ASC 805 when the assumed liability in a business combination is a revenue contract and the entity has adopted ASC 606. As a result, at its March 28, 2018, Board meeting, the FASB added to the EITF's agenda a project to address how an entity recognizes a liability related to a revenue contract acquired in a business combination after adopting ASC 606.

At its June 2018 meeting, the Task Force tentatively decided that an entity should recognize the assumed liability for a contract liability from a revenue contract acquired in a business combination on the basis of whether the liability represents a performance obligation under ASC 606. The Task Force indicated that the amount of revenue recognized by the acquirer for the acquired contract should not be affected by the timing of the payment of consideration or the payment terms in the contract.

However, after the Task Force reached a consensus-for-exposure on this Issue, it identified potential unintended consequences of applying the tentative decision it reached. At the September 2018 meeting, the Task Force decided that additional research is needed before decisions are made regarding this Issue, since there may be greater implications related to measuring assumed contract liabilities in a revenue contract acquired in a business combination. As a result, the Task Force decided to issue for public comment a discussion paper summarizing these matters and soliciting input on (1) whether and, if so, how payment terms affect the amount of revenue recognized after a business combination and (2) measuring the fair value of an assumed contract liability for a revenue contract accounted for under ASC 805.

At its October 2018 meeting, the FASB ratified the Task Force's consensus-for-exposure to issue a proposed ASU on the tentative decision that an entity should recognize the assumed contract liability resulting from a revenue contract acquired in a business combination on the basis of whether the liability represents a performance obligation under ASC 606.

In early 2019, the FASB exposed the proposed ASU and issued a separate invitation to comment to solicit input about measurement and other topics related to the Task Force's consensus-for-exposure. The comment period for both documents ended on April 30, 2019.

Summary: At this meeting, the Task Force discussed feedback received on the FASB's proposed ASU and invitation to comment.

On the basis of feedback related to measurement issues in the invitation for comment, the Task Force recommended that the FASB add to its technical agenda a project on measuring assumed contract liabilities in a revenue contract acquired in a business combination. Further, although the Task Force agrees with the tentative decision reached at the September 2018 meeting that the recognition of assumed contract liabilities from a revenue contract acquired in a business combination should be based on a performance obligation, it decided to postpone reaching a final consensus until the FASB addresses measurement and other issues raised in its invitation to comment.

Effective Date and Transition: The effective date and transition will be discussed at a future meeting.

Next Steps: The FASB will decide whether to add to its technical agenda a project regarding the measurement of assumed contract liabilities and other issues raised in the invitation to comment.

Issue 19-A, “Financial Instruments — Clarifying the Interactions Between Topic 321 and Topic 323”

Status: Initial deliberations.

Affects: Entities that hold equity securities accounted for under ASC 321 or equity method investments accounted for under ASC 323.

Background: In 2016, the FASB issued ASU 2016-01 (codified in ASC 321). ASC 321 provides a measurement alternative for certain equity securities without a readily determinable fair value. The measurement alternative allows an entity to elect to measure an equity security at its cost minus impairment and adjusted for the price within observable transactions. Upon adopting the guidance in ASU 2016-01, stakeholders identified several instances in which the interaction between ASC 321 and ASC 323 was unclear, particularly related to the application of the measurement alternative provided under ASC 321.

Stakeholders indicated that there is diversity in practice related to the interaction between ASC 321 and ASC 323 associated with an entity's accounting for (1) its equity interest under the measurement alternative if the interest subsequently qualifies for the equity method of accounting under ASC 323 (e.g., if an additional purchase causes the investment to qualify for the equity method, whether an entity must adjust any previously held interest to the observable price before applying the equity method) and (2) its equity method investment under ASC 323 if it no longer qualifies for application of the equity method and instead applies the ASC 321 measurement alternative to its remaining equity interest (e.g., if a portion of the investment is sold, whether an entity must adjust the retained portion to the observable price).

In addition, ASC 323 provides guidance on recognizing an investor's share of equity method losses in situations in which the investor has other investments in the investee that do not qualify for the equity method of accounting (e.g., they are accounted for under ASC 321). Stakeholders have asked the FASB to clarify the application of this guidance in circumstances in which an investor has other investments in the investee that do not qualify for the equity method of accounting and to which it applies the measurement alternative in ASC 321. Specifically, stakeholders have asked the Board to clarify the order in which to apply the guidance when, within an accounting period, there is an observable transaction that will result in an adjustment to the carrying value of the investment and allocable equity method losses.

Lastly, stakeholders have indicated that there are diverse views about whether ASC 323 or ASC 321 should be used to account for certain forward contracts and purchased options to acquire an equity instrument that do not meet the definition of a derivative under ASC 815 if an investee currently holds an investment that is accounted for under the equity method or the equity instruments that will be acquired under the forward or option will be accounted for under the equity method.

At its May 8, 2019, meeting, the FASB decided to add to the EITF's technical agenda a project on clarifying the interaction between ASC 321 and ASC 323.

Summary: At this meeting, the Task Force discussed the interaction between ASC 321 and ASC 323 and reached tentative decisions that (1) an entity that applies the ASC 321 measurement alternative should consider observable transactions that require it to either apply or discontinue the equity method immediately before applying or after discontinuing ASC 323 and (2) an entity should apply ASC 321 rather than ASC 323 to account for forward contracts and purchased options to acquire an equity instrument that do not meet the definition of a derivative under ASC 815.

The Task Force did not reach a tentative decision on how to account for equity method investee losses in circumstances in which an investor has other investments in the investee to which it applies the measurement alternative in ASC 321. The Task Force asked the FASB staff to perform additional research on this issue and is expected to redeliberate it at its next meeting.

Effective Date and Transition: The Task Force decided that an entity would apply a prospective transition method when adopting the final guidance. The effective date will be discussed at a future meeting.

Next Steps: The FASB staff will draft a proposed ASU and, if the Board ratifies it, will issue it for public comment related to the tentative decisions reached.

Issue 19-B, “Revenue Recognition — Contract Modifications of Licenses of Intellectual Property”

Status: Initial deliberations.

Affects: Entities that recognize revenue from licenses of intellectual property with contracts that have been modified.

Background: ASC 606 requires an entity to recognize revenue for license renewals no earlier than the beginning of the renewal period. A contract modification, which is a change in price or scope, must be accounted for as a separate contract when (1) the additional goods and services are distinct and (2) an increase in the price of the contract reflects the entity's stand-alone selling price of those additional goods or services, adjusted to reflect the circumstances of the contract. If the contract modification does not result in a separate contract, the entity must determine whether the modification constitutes (1) the termination of the existing contract and the creation of a new contract, (2) a part of the existing contract, or (3) a combination of both.

A modification of a license of intellectual property may include an extension to the term of the original license along with other changes in the rights of the contract. Views differ on whether to apply the guidance on license renewals or the guidance on modifications when modifications of licensing arrangements include an extension to the term of the license along with other changes (e.g., those that grant or revoke additional rights).

An additional issue is emerging in the software industry related to contracts that include (or are modified to include) an option that allows the customer to convert from a license arrangement to an arrangement in which the software is hosted. Views differ on how to account for the revocation of licensing rights and the conversion to a hosted solution.

At its May 8, 2019, meeting, the FASB decided to add to the EITF's technical agenda a project on contract modifications of licenses of intellectual property. The scope of the project includes:

- Accounting for contract modifications in which another right is added to the existing rights, and the contract term is extended.
- Accounting for situations in which licensing rights are revoked, “including conversion of term software licenses to software as a service (SAAS) arrangements.”

In addition, the FASB staff established an industry working group to advise the Task Force.

Summary: At this meeting, the FASB staff held an educational session on this Issue. No formal votes were taken, and no decisions were made. The Task Force broadly discussed the two topics above and offered suggestions to the FASB staff regarding potential issues and questions for the industry working group to deliberate.

Effective Date and Transition: The effective date and transition will be discussed at a future meeting.

Next Steps: The industry working group meeting has been scheduled for July 16, 2019. At its September 2019 meeting, the Task Force is expected to deliberate the working group's feedback on this Issue.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for September 19, 2019.

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