MINUTES

Financial Accounting Standards Board

To: Board Members

From: Hegg (x233)

Subject: Minutes of November 19, 2012 Joint Board Meeting **Date:** November 21, 2012

cc: Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Boards' deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topics: Revenue Recognition: Constraining the cumulative amount of revenue recognized, collectibility, and licenses

Basis for Discussion: FASB Memorandums 164A/7A, 164B/7B, 164C/7C, 164E/7E, 164F/7F, 164G/7G

Length of Discussion: 9:02 a.m. to 12:11 p.m. EST

Attendance:

Board members present:	FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith
	IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Suh, and Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Bauer, Schilb, and Harris
	IASB: Brady, Berchowitz, and McManus
Other staff at Board table:	FASB: Rees, North, Brickman, Proestakes, Cosper, Skoglund, and Hegg
	IASB: Dara, Lloyd, and Eastman
Outside participants:	None

<u>Type of Document and Timing Based on the Technical Plan</u>:

The Board met to discuss issues relating to the development of a final standard. The Boards' technical plan calls for that document to be issued early 2013.

<u>Summary of Decisions Reached</u>:

The IASB and the FASB continued their redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (the 2011 ED). The Boards discussed the following topics:

1. Constraining the cumulative amount of revenue recognized
2. Collectibility
3. Implementation guidance: Licenses.

Constraining the Cumulative Amount of Revenue Recognized

Location of the Guidance Related to the Constraint

The Boards considered whether the constraint on revenue recognition should be applied as:

1. A constraint on the cumulative amount of revenue recognized when an entity satisfies a performance obligation (Step 5); or
2. A constraint of the transaction price (Step 3), which the 2010 Exposure Draft had previously proposed as the location of the constraint.

On the basis that the location of the constraint (that is, either in Step 5 or in Step 3) should not affect the amount or timing of revenue recognition, the Boards tentatively decided to move the constraint to Step 3 unless, during the drafting process of the revenue standard, it becomes apparent that decision will result in unintended consequences.

Constraining the Cumulative Amount of Revenue Recognized ("the Constraint")

The Boards tentatively decided that the revenue standard should state that the objective of the constraint on revenue recognition is for an entity to recognize revenue at an amount that should not be subject to significant revenue reversals (that is, a downward adjustment) that might arise from subsequent changes in the estimate of the amount of variable consideration to which the entity is entitled. An entity should reassess this objective as subsequent facts and circumstances change.

The Boards tentatively decided that an entity would meet that objective if the entity has sufficient experience or evidence that supports its assessment that the revenue recognized should not be subject to a significant revenue reversal. The Boards tentatively decided that the assessment is qualitative and needs to consider all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur. The Boards did not define the level of confidence that an entity would need to achieve to recognize revenue. However, the Boards indicated that their intention is that the level of confidence would need to be relatively high for an entity to recognize revenue for variable consideration.

The Boards also tentatively decided to retain the indicators in paragraph 82 of the 2011 ED (subject to improvements and clarifications) to help entities in assessing whether to recognize revenue based on estimates of variable consideration, including estimates of price concessions.

Collectibility

The Boards considered possible approaches for addressing customer credit risk in accounting for contracts with customers without a significant financing component. The Boards tentatively decided:

1. To affirm their proposal in the 2011 ED that the transaction price, and therefore revenue, should be measured at the amount of consideration to which the entity is entitled (that is, an amount that is not adjusted for customer credit risk and the revenue recognized is not subject to a collectibility threshold); and
2. To present prominently as an expense in the statement of comprehensive income any corresponding impairment losses (recognized initially and subsequently in accordance with financial instruments standards) arising from those contracts with customers.

The Boards also tentatively affirmed the proposals in the 2011 ED for accounting for contracts with customers with significant financing components.

Implementation Guidance: Licenses

The Boards discussed improvements to the implementation guidance in the 2011 ED for license arrangements in which an entity grants a customer a right to use its intellectual property. The Boards tentatively decided that an entity should assess the nature of the promise for the license before applying the revenue recognition model to a license arrangement. This assessment is necessary because the Boards tentatively concluded that some license arrangements represent the promise to transfer a right and others represent a promise to provide access to the entity's intellectual property. That conclusion is consistent with View B as explained in November 2012 Agenda Paper 7F/164F.

In determining the nature of the promise in a license, the Boards tentatively decided that an entity should consider the characteristics of the license. The Boards also tentatively decided that the following characteristics may indicate that the nature of the promise in a license represents a promise to provide a right:

1. The right transferred to the customer in the form of a license represents an output of the entity's intellectual property, similar to a tangible good.
2. The license can be easily reproduced by the entity with little or no effect on the value of the entity's intellectual property.
3. The customer can determine how and when to use the right (that is, when the benefits from the asset can be consumed) and the customer does not require any further performance from the entity to be able to consume those benefits.

When those characteristics are not present, the license would represent a promise to provide a service of access to the entity's intellectual property. In these cases, access to the intellectual property is required because the customer obtains a right to use only a portion of the intellectual property (defined by the terms of the license) and that portion is closely connected to the remaining intellectual property. This may be evidenced by the fact that changes in the nature or value of the intellectual property may directly affect the portion that the customer has a right to use by virtue of the license.

This assessment of the nature of the promise for the license is important. That is because when the license is distinct, the nature of the promise would affect whether the license results in a performance obligation satisfied at a point in time (that is, when the license is a promise to transfer a right) or a performance obligation satisfied over time (that is, when the license is a promise to provide access to the entity's intellectual property).

The Boards also tentatively decided to clarify the application of the other parts of the model to license arrangements. In particular, the Boards noted that after determining the nature of the promise related to the license, an entity would need to assess:

1. Whether the entity has promised to transfer other goods or services in addition to the license and, if so, whether the license is distinct from those other goods or services;
2. When the license, goods, and services or the bundle of those promises is transferred to the customer (that is, whether the separate performance obligations are satisfied over time or at a point in time); and

3. Whether the cumulative amount of revenue recognized is subject to the constraint.

Next Steps

The Boards expect to continue redeliberations in December 2012.

General Announcements: None