

FASB Revenue Recognition

Electronic Feedback Form Response

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Respondent information

Type of entity or individual:

Regulator

Contact information:

Organization: Financial Industry Regulatory Authority

Name: Andrew Labadie

Email address: andrew.labadie@finra.org

Phone number: (202) 728-8397

Questions and responses

1. Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

2. Paragraphs 68 and 69 state that an entity would apply Topic 310 or IFRS 9 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

3. Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

4. For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

5. The Boards propose to amend Topic 270 on interim reporting and IAS 34, Interim Financial Reporting, to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are: A. The disaggregation of revenue (paragraphs 114 through 116) B. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117) C. An analysis of the entity's remaining performance obligations (paragraphs 119 through 121) D. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123) E. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128). Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

6. For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply the proposed guidance on control to determine when to derecognize the asset and apply the proposed measurement guidance when determining the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

A1. Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend and why?

A2. Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why?

ClarifyingComments. Please provide any additional comments on the proposed Update:

I have a question about the timing of revenue recognition that may have relevance beyond what I often encounter in the investment securities industry:

Company C&C, a securities broker-dealer, provides carrying and clearing services through a formal clearing agreement to introducing securities broker-dealers which manage the client relationship but need back-office service support. In this regard, Company C&C carries the clients' securities accounts [handles a client's funds, houses the client's securities, provides the client with periodic account statements] and clears and settles the clients' trades. Company C&C realizes revenue from its services from the commissions generated from the clients' trades and other fees, such as margin interest, obtained from managing the clients' securities accounts.

Company IB decided to seek a new back-office service provider for its clients' securities accounts. Company C&C is seeking to expand the number of securities accounts it services and wants to offer such services to Company IB. In order to induce Company IB to enter into a five year clearing agreement, Company C&C offers Company IB \$500,000 for "marketing efforts". This is disclosed in an appendix to the clearing agreement which lists fees and other charges. (Note, the clearing agreement includes a provision that if Company IB terminates the arrangement early, it would need to pay Company C&C a fixed sum which declines by an amount each year during the five year term. If Company IB terminates the arrangement during the initial year; it must pay Company C&C \$500,000. The language in the clearing agreement does not tie the termination provision to Company IB's receipt of the \$500,000.)

Company IB agrees to the arrangement, signs the clearing agreement and Company C&C pays Company IB \$500,000. Company C&C initiates the transfer of Company IB clients' securities accounts from Company IB's current back-office service provider; all of the accounts are transferred within a two week period.

Should Company IB recognize the \$500,000 as revenue upon signing the contract with Company C&C, since the purpose of the payment was to provide Company IB with an immediate inducement to enter into the agreement, and transfer its clients' accounts to Company C&C, (also the clearing agreement contractual language is too vague to require Company IB's to contemplate a future obligation with respect to the receipt of the \$500,000), or does the payment carry an implicit obligation ("promise implied" as referred to in slide 14 of the January 12th FASB, IFRS AND CFA Institute presentation) and accordingly, Company IB should recognize \$500,000 as revenue ratably over the five year term of the agreement or as commission and fee amounts are earned by Company C&C?

[Some other considerations: Is Company C&C a "customer" of Company IB or vice-versa? Generally clearing agreements indicate that a back-office service provider, such as Company C&C is acting as an "agent" of Company IB, and more formally, the clients are those of Company IB for all purposes except for the handling of client funds and securities and preparing and maintaining the related records. However, clearing agreements generally are offered to introducing broker-dealers such as Company IB on a "take-it-or-leave-it" basis.]

OtherComments. Please provide any comments on the electronic feedback process:
