FASB Emerging Issues Task Force

Issue No. 08-1

Title: Revenue Arrangements with Multiple Deliverables

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Previous Disclosure Group Meeting: None

Previously distributed Disclosure Group materials: None

References:

FASB Statement No. 13, *Accounting for Leases* (Statement 13)

FASB Statement No. 45, *Accounting for Franchise Fee Revenue* (Statement 45)

FASB Statement No. 48, *Revenue Recognition When Right of Return Exists* (Statement 48)

FASB Statement No. 66, *Accounting for Sales of Real Estate* (Statement 66)

FASB Statement No. 68, *Research and Development Arrangements* (Statement 68)

FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (Statement 91)

FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*

FASB Statement No. 154, *Accounting Changes and Error Corrections* (Statement 154)

FASB Statement No. 157, *Fair Value Measurements (Statement 157)*

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (Statement 162)

* **The alternative views presented in this Disclosure Group Report 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.**

FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* (Technical Bulletin 90-1)

FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* (Concepts Statement 5)

AICPA Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts* (ARB 45)

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1)

AICPA Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2)

AICPA Statement of Position 98-9, *Modification of SOP 97-2,* Software Revenue Recognition, *With Respect to Certain Transactions* (SOP 98-9)

AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films* (SOP 00-2)

SEC Staff Accounting Bulletin 104, Topic 13, *Revenue Recognition* (SAB 104, Topic 13)

EITF Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables" (Issue 00-21)

EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" (Issue 01-9)

EITF Issue No. 08-9, "Milestone Method of Revenue Recognition"

EITF Issue No. 09-3, "Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements" (Issue 09-3)

Background

1. Entities often enter into revenue arrangements that provide for multiple payment streams. For example, a service provider may receive an up-front payment upon signing a service contract with a customer and then receive additional payments as services are provided to that customer. Other examples can be more complex, such as in biotechnology and pharmaceutical research and development arrangements, because they may involve multiple deliverables, up-front payments, payments for specific services, and payments upon achievement of certain clinical milestones. If delivery of a single unit of accounting spans multiple accounting periods or includes multiple deliverables, an entity needs to determine how to allocate the multiple payment streams (arrangement consideration) to the unit(s) of accounting and when the arrangement consideration should be recognized as revenue.

2. The determination of when to recognize revenue can be further complicated when multiple deliverables are required by Issue 00-21 to be accounted for as a single unit of accounting. Current guidance does not explicitly address many of the issues encountered by entities in practice as a result of having to account for multiple deliverables as one unit of accounting. Some constituents contend that having to account for multiple deliverables as one unit of accounting often results in accounting that they believe does not reflect the underlying economics of a transaction. One common reason entities are unable to separate deliverables in an arrangement under Issue 00-21 is because of the absence of objective and reliable evidence of fair value (selling price) for the undelivered item in an arrangement. Issue 08-1 was added to the EITF's agenda for the purpose of determining whether certain aspects of Issue 00-21 should be modified.

3. At the March 19, 2009 EITF meeting, the Task Force reached a tentative conclusion to modify Issue 00-21 by eliminating the residual method of arrangement allocation, requiring vendors to allocate arrangement consideration using the relative-selling-price method and allowing for the use of estimated selling price (ESP). The Task Force also reiterated its commitment to address the need for enhanced disclosures of management estimates of selling price. The Task Force discussed several possible disclosure proposals intended to provide users with sufficient information to understand the extent to which revenue was being recognized

using a vendor's best estimate of selling price and the degree to which those estimates may change over time. However, the Task Force was unable to reach a consensus on disclosures and requested that the FASB staff develop a proposal for disclosures with the assistance of both users and preparers. The staff agreed to meet with users and preparers to explore possible disclosures and to present the alternatives to the Task Force at a future meeting. As a result, the Issue 08-1 Disclosure Group was formed to explore the issue in detail.

Disclosure Group Discussion

4. The Disclosure Group met on May 1, 2009 and included representatives from various entities, public accounting firms, financial statement users, and an observer from the SEC. The objective of the meeting was to assist the FASB staff in developing possible disclosure requirements. Before exploring possible disclosure requirements under this Issue, the Disclosure Group discussed the ultimate objective of disclosure guidance.

5. The Disclosure Group discussed the fact that the use of ESP may result in a more frequent separation of deliverables (and allocation of arrangement consideration) than previously allowed when separation could be achieved only through the existence of vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of selling price. And that as a result, the timing and amount of a vendor's revenue recognition may be affected by the more frequent separation of deliverables. The Disclosure Group acknowledged the fact that the elimination of the residual method of allocation may also result in a change in timing or amount of a vendor's revenue recognition, as any discount in an arrangement will be allocated ratably to all deliverables/units of accounting in the arrangement. Furthermore, the Disclosure Group also noted that the allocation under Issue 08-1 and resulting timing of revenue recognition could be affected by changes in a vendor's estimate selling price. As a result, the Disclosure Group considered it important that the disclosure requirements include information regarding any significant changes to a vendor's judgments used in estimating selling price for an arrangement or similar arrangements with multiple deliverables that, in turn, result in changes to the timing or amount of revenue recognition.

6. The Disclosure Group also discussed the fact that some constituents may be concerned that the determination of ESP may be more subjective than selling price determined using VSOE or

TPE, and therefore believe that ESP may be more susceptible to bias or error. The view that ESP may be more susceptible to bias or error was further supported by comments received from analysts and presented at the Disclosure Group meeting by a Senior Investor Liaison on the FASB staff. Overall, analysts suggested that the objective of Issue 08-1 disclosures should be to help analysts understand the extent to which management judgments affect revenue recognition. Analysts indicated that they want to know why TPE of selling price and ESP are used, how they are used, and their impact on revenue recognition. In essence, analysts want to know if management judgments are reasonable.

7. While bias or error in ESP can affect revenue recognition, the Disclosure Group discussed several matters that may reduce the ultimate effect of that bias or error on revenue recognition. First, the allocation of arrangement consideration is affected by the relative interaction of the various units of accounting in the arrangement. That is, any miscalculation in ESP may be partially offset by the allocation of arrangement discount to all units of accounting in the arrangement. Second, to the extent performance or delivery for all units of accounting in an arrangement occurs in the same period, any miscalculation of ESP will be limited to possible classification within the income statement (for example, product versus service revenues). In addition, the Disclosure Group discussed the fact that certain checks and balances exist to mitigate the effect of bias or error in management judgment on ESP. For example, an allocation that results in the acceleration of revenue could result in a loss on any undelivered units of accounting. Additionally, Issue 00-21 specifies that "[t]he amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the noncontingent amount)." Disclosure Group members indicated that they believe these "governors" would be a factor in assessing whether ESP is reasonable. In addition, vendors are subject to various external scrutiny. Therefore, management is not simply allowed to select an ESP solely for the purpose of achieving a desired accounting consequence.

8. The Disclosure Group also discussed the fact that the concern of constituents appears to stem from the degree to which management judgments are required in the determination of selling price. However, there was general agreement by the Disclosure Group that VSOE and TPE of selling price also require the use of management judgments. For example, VSOE of

selling price is often discussed in the context of a single price for a specific product or service. However, the price at which a product or service is sold can vary depending on the customer, location, competition or other economic factors. As a result, the price a vendor may receive for a product or service may vary significantly from transaction to transaction. Accordingly, management must make certain judgments about those factors in determining whether VSOE of selling price exists or not. And in many cases, if VSOE of selling price cannot be established, revenue may end up being deferred. As a result, management judgments have a significant impact on the timing and amount of revenue recognition regardless of whether selling price is established based on VSOE, TPE, or ESP. As a result of the above views, the Disclosure Group considered it important that the disclosure requirements include information regarding the significant judgments made in the application of Issue 08-1.

9. Based on the above, the Disclosure Group generally agreed with the following disclosure objective:

> To disclose information regarding the significant judgments made about application of Issue 08-1 and significant changes in those judgments or the application of Issue 08-1 that may affect the timing or amount of revenue recognition.

10. Because Issue 08-1 is effective only for revenue arrangements entered into or materially modified after the effective date of Issue 08-1, many entities will continue to recognize revenue for which the allocation of arrangement consideration was performed in accordance with Issue 00-21. The Disclosure Group discussed continuing or ongoing disclosure separately from those disclosures that may be necessary as a result of transition from Issue 00-21.

Ongoing Disclosures

11. For the purpose of facilitating its discussion, the Disclosure Group was provided with the following four possible ongoing disclosure proposals, each of which was discussed at the March 19, 2009 EITF meeting. It was also communicated to members of the Disclosure Group that they were not limited to the alternative disclosures presented in Disclosure Group Discussion Document No. 1, but were free to explore other possible alternatives. View A represents the proposed disclosure requirements that were included in the draft abstract, which

was exposed for public comment. View B is the staff's recommendation for disclosures presented at the March EITF meeting as a result of respondents' comments on that draft abstract. View C and View D are two of the alternative views discussed at the March EITF meeting.

View A:

> A vendor shall disclose (a) its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting) and (b) the description and nature of such arrangements, including performance-, cancellation-, termination-, or refund-type provisions.
>
> A vendor shall also disclose both qualitative and quantitative information on an aggregated basis that enables users of its financial statements to understand the inputs and methodologies used to develop ESP when neither VSOE nor TPE of selling price exists. Information related to individually significant arrangements should be separately disclosed.

View B:

> A vendor shall disclose (a) its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting) and (b) the description and nature of such arrangements, including performance-, cancellation-, termination-, and refund-type provisions.
>
> A vendor shall also disclose information on an aggregated basis and in sufficient detail by major product type to enable users of its financial statements to understand the inputs and methodologies used to develop ESP.

View C:

> A vendor shall disclose (a) its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting) and (b) the description and nature of such arrangements, including performance-, cancellation-, termination-, and refund-type provisions.

For those products to which arrangement consideration was allocated based on ESP, a vendor shall disclose the amount of revenue recognized based on ESP by product type in the period. In addition, to the extent the ESP for any product type materially changes, a vendor shall also disclose the expected effect of the change, if practicable.

A vendor shall also disclose information on an aggregated basis and in sufficient detail by major product type to enable users of its financial statements to understand the inputs and methodologies used to develop ESP.

View D:

A vendor shall disclose (a) its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting) and (b) the description and nature of such arrangements, including performance-, cancellation-, termination-, and refund-type provisions.

At each balance sheet date, a vendor shall disclose, on an aggregated basis, the total amount of recognized and unrecognized revenue for multiple-element revenue arrangements with undelivered items at the reporting date. This disclosure shall further disaggregate both the recognized and the unrecognized revenue amounts to show whether the associated allocation of arrangement consideration was determined using verifiable objective evidence (VSOE of selling price and TPE of selling price) or a vendor's best estimate of selling price.

A vendor shall also disclose information on an aggregated basis and in sufficient detail by major product type to enable users of its financial statements to understand the inputs and methodologies used to develop ESP.

12. A Senior Investor Liaison on the FASB staff presented a collection of suggested disclosure requirements received from analysts. In addition, a member of the Disclosure Group who is an analyst from a large institutional money manager was asked to present his perspective on the issue of disclosures. The following is a summary of the suggested disclosures received from analysts:

a. Accounting policy for recognition of revenue from multiple deliverable arrangements (for example, whether deliverables are separable) and the description and nature of the arrangements, including performance-, cancellation-, termination-, and refund-type provisions.

b. Qualitative and quantitative information by major product type to enable users to understand the use of third-party evidence of selling price (characteristics of third-party products used) and the inputs and methodologies used to develop ESP (average contract period, assumed markup). In addition, this information should be supplemented with an explanation of any significant changes in the assumptions used to develop ESP from period to period.

c. The total amount of revenue recognized in the period from multiple element revenue arrangements, summarized by whether the associated selling price was determined using VSOE, TPE, or ESP.

d. Various disclosures related to deferred (unrecognized) revenue, including a rollforward of unrecognized revenue and amounts expected to be recognized as revenue over the next four quarters. [See discussion below under qualitative disclosures regarding the Disclosure Group's discussion of whether deferred (unrecognized) revenue is outside of the scope of this Issue.]

13. The analyst on the Disclosure Group from a global asset management firm indicated that an important disclosure that would be beneficial to his analysis is information that provides visibility into a vendor's timing of revenue recognition, including sufficient information to analyze the consistency and comparability of revenue from period to period and between different entities. He further indicated that the FASB runs the risk of requiring disclosure of information that is not fully understood by users of the financial statements. For example, he stated that many analysts outside the software industry do not understand what VSOE of selling price represents or how VSOE differs from TPE and ESP. As a result, it was his opinion that disclosing revenue by these categories would not be helpful. When questioned whether qualitative disclosures could be sufficient to allow him to analyze a vendor's operations, he

indicated that such disclosures might be sufficient if robust. Consistent with the other analysts' comments, he also indicated that disclosure of unrecognized revenue would be helpful.

14. Based on the above, the Disclosure Group chose to discuss qualitative disclosures first and then to discuss what quantitative disclosures should be required, if any.

Qualitative Disclosures

15. Because the first paragraph of each of the views is consistent with the existing disclosure requirements under Issue 00-21 and because the second paragraphs of both View C and View D are more quantitative in nature, the majority of the Disclosure Group discussion regarding qualitative disclosures focused on revising the second paragraph of View B to be consistent with the previously discussed disclosure objective (see paragraph 11).

16. Some Disclosure Group members expressed a view that the disclosures should address management judgments and require disclosure of information regarding the subjective nature and reliability of estimated selling price, as well as capture the other significant judgments in the application of Issue 08-1. As discussed earlier in this Disclosure Report, the Disclosure Group generally agreed that the use of management judgment was not limited to the determination of ESP but was embedded throughout the application of Issue 08-1. Therefore, the Disclosure Group did not believe that qualitative disclosures should be limited solely to judgments around the use of estimated selling price but should be expanded to include all significant judgments. Some of the judgments the Disclosure Group identified for potential disclosure included the process for identifying deliverables, whether the deliverables qualify as separate units of accounting, the timing of revenue recognition for the significant deliverables, and the judgments involved in determining selling price (including determination of VSOE, TPE, and ESP).

17. The Disclosure Group also discussed the level of operation at which the disclosure information should be provided. View B stipulates that the disclosure should be made at the level of *major product type*. Several Disclosure Group members commented that requiring disclosure at the level below the major product type, could result in disclosure of proprietary information, particularly as it relates to the company's go-to-market and pricing strategies that were used in determining the estimated selling price. The Disclosure Group also expressed concern over the

requirement to disclose information by major product type because major product type is not a defined term within GAAP. The Disclosure Group discussed the possibility of defining major product type to be consistent with Statement 131. However, there was general agreement among Disclosure Group members that disclosure at that level may not result in sufficiently robust disclosures. Rather, the Disclosure Group agreed that a more useful requirement would be to disclose information regarding similarly types of multiple-deliverable arrangements. It was generally believed that disclosures at this level would provide more useful information to users of the financial statements regarding the vendor's operations and how management evaluates its multiple-deliverable arrangements.

18. As the discussion of potential disclosures became more focused, the Disclosure Group agreed that the existing requirement to disclose a vendor's accounting policy for recognition of revenue from multiple-deliverable arrangements should be revised. Disclosure Group members noted that the disclosure requirement generally results in a vendor simply reciting certain language from Issue 00-21. The Disclosure Group agreed instead that what should be disclosed is the nature of the vendor's multiple-deliverable arrangements, including a description of the arrangements, how an entity identifies deliverables within the arrangements, the timing of delivery of those deliverables and performance-, cancellation-, termination-, and refund-type provisions.

19. The Disclosure Group also discussed the suggestions received from users for information regarding deferred revenue. After discussion with the analyst, it was clarified that what most users would like to know relates more to unrecognized revenue as opposed to deferred revenue. For the purpose of this discussion, unrecognized revenue refers to the total amount of arrangement consideration minus amounts previously recognized as revenue. Unrecognized revenue includes amounts historically recognized on the balance sheet as deferred revenue, such as (a) arrangement consideration related to performance by a vendor for which recognition of revenue has been deferred or (b) situations in which the customer has paid for a product or service in advance of performance by the vendor. However, unrecognized revenue also includes off balance sheet amounts such as consideration related to situations in which the vendor has not yet performed or in which the vendor has not been paid in advance of performance. While the Disclosure Group recognized that users may benefit from an understanding of unrecognized

revenue, there was agreement among Disclosure Group members that disclosures about unrecognized revenue is outside of the scope of this Issue. In addition, there was some question as to whether unrecognized revenue is an item that could be easily audited. The Disclosure Group noted that Issue 08-1 relates solely to the allocation of arrangement consideration to units of accounting and not the recognition of revenue for those units of accounting, which is addressed through various other accounting literature.

20. As to the question of deferred revenue, the Disclosure Group also agreed that deferred revenue balances often provide limited predictive value in assessing the future results of the vendor, for two reasons. First, the deferred revenue balance is a product of several factors including timing of cash receipts, performance, applicable revenue recognition guidance, and contractual terms. Second, the deferred revenue balance does not reflect off balance sheet amounts as discussed above regarding unrecognized revenue. While the adoption of Issue 08-1 may result in a decrease in deferred revenue balances because of a greater separation of deliverables, without a detailed analysis as to whether the change is due solely to the adoption of Issue 08-1 versus timing of cash receipts or other factors, disclosure of the deferred revenue balances provides limited incremental benefit to users of the financial statements.

21. Therefore, the Disclosure Group agreed that deferred revenue and unrecognized revenue should not be included in the recommended disclosure provisions. The Disclosure Group agreed that any consideration of disclosure related to those items should be addressed through the broader FASB revenue recognition project.

22. Based on the above, the Disclosure Group provided a framework for qualitative disclosures, which the staff drafted into the following disclosure. The staff received the Disclosure Group's generally agreement with the following qualitative disclosures through the Disclosure Group's review of this Disclosure Group Report:

> The objective of this disclosure guidance is to provide information regarding the significant judgments made about the application of this Issue and changes in those judgments or the application of this Issue that may significantly impact the timing or amount of revenue recognition. Therefore, in addition to the required disclosures, a vendor shall also disclose other information as necessary to comply with this objective.

A vendor shall disclose the nature of its multiple-deliverable arrangements, including a description of the arrangements by similar type, how it identifies deliverables within the arrangements, the general timing of delivery or performance of service for those deliverables, and performance-, cancellation-, termination-, and refund-type provisions. A vendor shall also disclose information aggregated by similar types of arrangements regarding the significant judgments, inputs, and methodologies used in its evaluation of the arrangements. This information shall include a discussion of whether the major deliverables within the arrangement qualify as separate units of accounting, and for the significant units of accounting, the significant factors and estimates used to determine selling price (whether VSOE, TPE, or ESP) and the general timing of revenue recognition.

Significant changes in the vendor's judgment necessary to apply this Issue, including significant changes to the selling price or changes in the method used to determine selling price for a specific unit of accounting, shall be disclosed in sufficient detail to communicate the expected effect on the amount and timing of revenue recognition.

Quantitative Disclosures

23. The Disclosure Group considered various quantitative disclosures for multiple-deliverable arrangements, including the following:

a. Disclosure of revenue recognized in the period for those products or services where selling price was determined using ESP (View C).

b. Disclosure of revenue recognized in the period disaggregated by whether selling price was determined using VSOE, TPE, or ESP.

c. Disclosure of recognized and unrecognized revenue at the reporting date disaggregated by whether selling price was determined using VSOE, TPE or ESP (View D).

24. The level at which the above information would need to be aggregated (for example, by major product type or by significant units of accounting within similarly bundled arrangements)

was not discussed by the Disclosure Group. The Disclosure Group discussion focused on whether quantitative disclosures should be required.

25. Certain Disclosure Group members raised the issue that estimates are an integral part of financial statements, including the recognition of revenue, and that it appeared unusual that disclosures are being requested under this Issue when similar disclosures are not required by other accounting literature, specifically revenue recognition literature. It was also noted that this additional emphasis on quantitative disclosures appears to stem from some constituents' concerns over the degree of management judgment in the determination of selling price. However, the Disclosure Group had agreed that VSOE and TPE of selling price also require the use of management judgment and that judgments related to ESP should be treated no differently from the other judgments.

26. As discussed earlier in this report, several matters may exist to reduce the ultimate effect of bias or error in management judgment, including the relative interaction of the various units of accounting and the extent to which that performance or delivery occurs in the same period. In addition, certain checks and balances also exist to mitigate the effect of bias or error in management judgment, including whether the undelivered units of accounting will result in a loss, limiting the allocation of revenue to the amount that is not contingent, auditor scrutiny, and, for a public company, SEC and PCAOB scrutiny.

27. In addition, some Disclosure Group members also noted that public companies are already required to make certain disclosures under the SEC's rules and regulations and questioned whether additional disclosures within this Issue are warranted. The SEC's required disclosures would include information regarding the impact of recently issued accounting standards and ongoing disclosures within the vendor's MD&A related to presently known material changes, trends, and uncertainties that have had or that the registrant reasonably expects will have a material impact on future sales, revenues, or income from continuing operations.

28. The Disclosure Group also discussed the analyst's comment that the FASB runs the risk of requiring disclosure of information that is not fully understood by users of the financial statements because most users do not understand the difference between VSOE, TPE, and ESP. It was also noted that disclosure in these various categories may incorrectly communicate to the

users that there is no judgment involved in determination of VSOE, TPE, or the general application of Issue 08-1. As a result, the analyst did not consider disclosure of revenue by these categories to be very helpful.

29. Several members of the Disclosure Group commented that they believe that the quantitative disclosures being proposed would not provide users with meaningful information. For example, the disclosure of revenue recognized in the period in which selling price was based on ESP provides no information to the users as to the interaction with other units of accounting in terms of arrangement allocation or other aspects of the vendor's operations that might mitigate bias or error. Other Disclosure Group members commented that requiring a vendor to disclose quantitative information may help to ensure that vendors' maximize the use of VSOE and TPE. Otherwise, without that incentive, vendor's may no longer try to identify VSOE and TPE but rather will use ESP. Other Disclosure Group members noted that there are constraints that should help to prevent management from overlooking the requirement of this Issue to use VSOE and ESP if they exist (as noted above), and that it should not be the place of the EITF to include disclosures for the sole purpose of preventing abuse.

30. In addition to a general question as to whether quantitative disclosures provide users with any useful information, preparers on the Disclosure Group indicated that there would be a high cost to comply with any quantitative disclosure requirement. They indicated that current systems are not configured to track and collect this information and that for the larger multi-national organizations, that process may involve disparate revenue systems around the world. Because of these disparate revenue systems, once an organization establishes that the accounting for a new arrangement complies with Issue 00-21 and the applicable revenue recognition literature, there is little consideration as to whether selling price was established based on VSOE or TPE. In order to track whether allocation of revenue was based on VSOE, TPE, or ESP, a significant revision would be required to many organizations' revenue systems.

31. It was also noted that preparers represented on the Disclosure Group represent larger multi-national organizations and that quantitative disclosures may be more easily achieved for smaller organizations. However, it should also be noted that there is no exception to the disclosure requirements based on the size of the organization or the number of revenue arrangements.

32. As noted earlier under the discussion of qualitative disclosures, the Disclosure Group agreed that deferred revenue and unrecognized revenue should not be included in the recommended disclosure. The Disclosure Group agreed that any consideration of disclosure related to these items should be addressed through the broader FASB revenue recognition project.

33. The Disclosure Group did not reach agreement on a quantitative disclosure recommendation.

Transition Disclosures

34. The majority of the Disclosure Group's discussion at the May 1, 2009 meeting focused on ongoing disclosure requirements. The Disclosure Group was provided with the following possible transition disclosures for its consideration. View A is the proposed disclosure included in the draft abstract and View B is the staff's recommendation as a result of respondents' comments on the draft abstract.

View A:

> A vendor shall separately disclose the amount of its revenue recognized each reporting period under Issue 00-21 and Issue 08-1 until the amount of revenue reported under Issue 00-21 is no longer material to the entity. A vendor shall also separately disclose the amount of deferred revenue as of the end of the period, which is recognized in accordance with Issue 00-21 and Issue 08-1.

View B:

> For both interim and annual periods in the initial year of adoption, a vendor shall disclose the amount of its revenue and related costs recognized under Issue 08-1 and the amount of revenue and related costs that would have been recognized during the period under Issue 00-21.

35. While the Disclosure Group spent only a limited amount of time discussing transition disclosures, several key matter were discussed. First, the Disclosure Group did not believe a final recommendation could be reached for transition disclosures until resolution of ongoing

disclosure requirements. That is, the more robust the ongoing disclosures, the less transition information that would be needed

36. Second, preparers commented that the quantitative disclosures required by the alternatives would be as costly to determine as the quantitative disclosures discussed under ongoing disclosures. As discussed earlier in this Report, preparers indicated that current systems are not configured to track and collect the information being requested. In addition, some Disclosure Group members questioned the amounts that should be captured in a disclosure of revenue recognized under Issue 00-21 versus Issue 08-1. For example, if all of the consideration from an arrangement was reported in one reporting period, would that revenue be considered to have been recognized under either Issue 00-21 or Issue 08-1? Or if an SOP 81-1 deliverable is separated from other deliverables under Issue 00-21 or Issue 08-1, should the SOP 81-1 revenue be included in the disclosure?

37. Third, the requirement to disclose revenue recognized under Issue 00-21 versus Issue 08-1 is not limited to only those vendors for whom the adoption of Issue 08-1 has a significant effect on the timing or amount of revenue recognition. So while the adoption of Issue 08-1 may not affect the operations of a vendor (for example, because selling price is always determined using VSOE), the vendor would still be required to incur the time and cost to track revenue separately for Issue 00-21 versus Issue 08-1.

38. Fourth, the Disclosure Group also discussed whether there is a benefit from knowing the amount of revenue recognized under Issue 00-21 versus Issue 08-1 without also understanding how the vendor's timing or amount of revenue recognition was affected by the adoption of Issue 08-1. For example, the disclosure of revenue recognized in the period under Issue 08-1 provides no information to users without an understanding as to the amount of revenue that would have been recognized under Issue 00-21. While the effect of adopting Issue 08-1 is required by View B, preparers were split as to the degree of difficulty and time and expense that would be necessary to maintain two sets of accounting records.

39. And lastly, as noted earlier under the discussion of qualitative disclosures, the Disclosure Group agreed that deferred revenue and unrecognized revenue should not be included in the recommended disclosure. The Disclosure Group agreed that any consideration of disclosure

related to these items should be addressed through the broader revenue recognition project. The Disclosure Group also agreed that related cost, as used in View B, was not an appropriate disclosure under this Issue.

40. The Disclosure Group did not reach agreement on a transition disclosure recommendation.