FASB Emerging Issues Task Force

Issue No. 08-1

Title: Revenue Arrangements with Multiple Deliverables

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FASB Staff: Cadambi (ext. 358)/Bonn (ext. 226)/Bement (ext. 233)

EITF Liaison: Bob Uhl

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Previously distributed EITF materials: Issue Summary No. 1, dated February 29, 2008; Issue Summary No. 2, dated October 20, 2008; Working Group Report No. 1, dated June 9, 2008; Working Group Report No. 2, dated August 13, 2008; Issue Summary No. 2, Supplement No. 1, dated February 12, 2009; Issue Summary No. 2, Supplement No. 2, dated May 14, 2009

References:

FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections* (Topic 250)

FASB Accounting Standards Codification Topic 310, *Receivables* (Topic 310)

FASB Accounting Standards Codification Topic 360, *Property, Plant, and Equipment* (Topic 360)

FASB Accounting Standards Codification Topic 605, *Revenue Recognition* (Topic 605)

FASB Accounting Standards Codification Topic 730, *Research and Development* (Topic 730)

FASB Accounting Standards Codification Topic 840, *Leases* (Topic 840)

*** 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.**

FASB Accounting Standards Codification Topic 926, *Entertainment—Films* (Topic 926)

FASB Accounting Standards Codification Topic 985, *Software* (Topic 985)

FASB Statement No. 13, *Accounting for Leases* (currently under Topic 840) (Statement 13)

FASB Statement No. 45, *Accounting for Franchise Fee Revenue* (currently under Topic 605) (Statement 45)

FASB Statement No. 48, *Revenue Recognition When Right of Return Exists* (currently under Topic 605) (Statement 48)

FASB Statement No. 66, *Accounting for Sales of Real Estate* (currently under Topic 360) (Statement 66)

FASB Statement No. 68, *Research and Development Arrangements* (currently under Topic 730) (Statement 68)

FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (currently under Topic 310) (Statement 91)

FASB Statement No. 154, *Accounting Changes and Error Corrections* (currently under Topic 250) (Statement 154)

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

FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* (currently under Topic 605) (Technical Bulletin 90-1)

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

FASB Preliminary Views, *Revenue Recognition in Contracts with Customers*, December 19, 2008 (Revenue Recognition Discussion Paper)

AICPA Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts* (currently under Topic 605) (ARB 45)

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (currently under Topic 605) (SOP 81-1)

AICPA Statement of Position 97-2, *Software Revenue Recognition* (currently under Topic 985) (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* (currently under Topic 926) (SOP 00-2)

SEC Staff Accounting Bulletin No. 104, Topic 13, *Revenue Recognition* (SAB 104, Topic 13)

EITF Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables" (currently under Topic 605) (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)" (currently under Topic 605) (Issue 01-9)

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

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. At the June 18, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on Issue 08-1 and directed the staff to issue a draft abstract for public comment.

2. A draft abstract was posted to the FASB website on July 7, 2009, with a comment period that ended August 14, 2009. Comment letters received on the draft abstract have previously been distributed to Task Force members and are analyzed below. At the September 9-10, 2009 EITF meeting, the Task Force will have the opportunity to consider these comment letters as it redeliberates the consensus-for-exposure.

3. Constituents were specifically requested to provide comments on the following questions**:**

   1. Do you agree with the Task Force's decision to address this Issue considering the potential overlap between this Issue and the FASB and IASB joint project on revenue recognition?

   2. Do you agree with the Task Force's decision to eliminate the residual method of allocation and require a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables in the arrangement using the relative-selling price method? Is the relative-selling price method operational and does it provide a principle that could be applied consistently?

   3. Issue 08-1 significantly expands the disclosures that are required relating to multiple-deliverable revenue arrangements (including those arrangements affected by Issue 09-3).

      a. Do you agree that the disclosures in the consensus-for-exposure would provide useful information for financial statement users? If you do not believe those disclosures would provide useful information, what disclosures should be required and why would they be useful?

      b. Are there additional disclosures that would provide useful information for financial statement users relating to multiple-deliverable revenue arrangements that the Task Force should consider requiring?

   4. The Task Force discussed whether these disclosures should also include the effects of changes in selling prices, allocation methods, or assumptions if they have a significant affect on profit margins but decided not to require such disclosure. Should the disclosure requirements of Issue 08-1 be expanded to include disclosure of the effects of changes in selling prices, allocation methods, or assumptions on profit margins, if significant?

5. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

6. The consensus-for-exposure requires an entity to disclose in the year Issue 08-1 and/or Issue 09-3 are adopted, the amount of revenue recognized under those Issues and the amount of revenue that would have been recognized had the entity applied Issue 00-21 and/or SOP 97-2. The Task Force believes that this information is necessary to describe the affect of the adoption of these Issues to financial statement users. Do you agree with that decision?

Summary of Comment Letters

4. The thirty-two comment letters received on the draft abstract are summarized below.

Respondent Profile

Type of Respondent	**Number of Letters**
Preparers	16
Industry Organizations	2
Accounting Firms/Organizations	6
Users	6
Others	3
Total Number of Letters	33

5. The staff has identified and analyzed the more significant comments in the section that follows. While the staff believes that the Task Force considered a majority of these comments during its initial deliberation of this Issue, the staff recommends that the Task Force consider these comments as it redeliberates this Issue. Note that respondents referenced pre-Codification accounting guidance and the language in the draft abstract when providing their comments. For

ease of discussion and reference to the applicable comments, the staff's summary and analysis of these comments also references the pre-Codification guidance and draft abstract. However, any changes the staff is recommending as a result of these comments will be included in the Amendments to the Codification rather than in a revised draft abstract.

Comment - Overall

6. Most respondents were supportive of the consensus-for-exposure overall; although some respondents did not support certain aspects of the consensus-for-exposure. In general, respondents believed that Issue 08-1 was operational and would significantly improve financial reporting under U.S. GAAP. Most respondents were supportive of the Task Force addressing the issue now rather than waiting for the Board to complete the broader revenue recognition project. Several respondents commented that they were supportive of the direction of the Board's project to move towards a single revenue model but that they believed that Issue 08-1 provided significant incremental improvement that warranted immediate action. The following comment from a preparer (CL#8) is representative of many such comments received:

> Yes we agree with the Task Force's decision to address this Issue. Although the Board's joint project on revenue recognition will ultimately address these specific issues as well as many others, we do not believe it is prudent to stop all incremental improvements to the current revenue recognition standards. We believe this is a significant improvement that will improve the comparability and usefulness of financial statements.

7. Four respondents, a preparer, two CPA societies, and a consulting firm, (CL's #21, #25, #30, and #33), however, were not supportive of the Task Force issuing the guidance in Issue 08-1 and Issue 09-3 because of the overlap with the Board's joint revenue recognition project. These respondents believed that implementing Issues 08-1 and 09-3 could be costly and require significant system changes. They did not believe it was cost-efficient to pursue these issues now while the Board has an overlapping project that also is addressing these same issues on a broader scale. They expressed concerns that the Board could reach a different conclusion than the Task Force does in these Issues possibly causing preparers to change their accounting and systems twice and, therefore, unnecessarily duplicating the costs associated with such efforts. Another respondent, a preparer, stated that they were supportive of the Task Force pursuing these Issues

but only if the Task Force was fairly certain that these decisions would be consistent with the outcome in the Board's project.

Staff Analysis and Recommendation

8. The staff recommends that the Task Force continue to pursue addressing this Issue separate from the Board's joint revenue recognition project. The staff notes that a large majority of the respondents was supportive of these decisions including all six user respondents. Further, the staff received unsolicited informal comments from three users who were also supportive of these decisions. Each of these users as well as most of the preparers, accounting firms, and others believed that this guidance would significantly improve financial reporting and that this improvement was necessary and needed as soon as possible. These respondents appeared to believe that the benefits of improved financial reporting outweighed both the costs to apply the new guidance and the risk that the Board may reach a different conclusion in its joint project. The staff does not believe any additional information was received from respondents that was not already considered during the Task Force's deliberations on this Issue or that would warrant a change to the previous decisions.

Issue 1, Question 1 – Does the Task Force agree with the staff recommendation to continue with this Issue?

<u>*Comment – Elimination of the Residual Method of Allocation*</u>

9. Responses were mixed regarding the Task Force's decision to eliminate the residual method of allocation and require the use of the relative selling price method. Fifteen respondents were supportive of the Task Force's decision and generally believed that the relative selling price method would result in financial reporting that better reflected the economics of a transaction. Several of those respondents, including preparers, specifically commented that the relative selling price method is operational. The following comment from a preparer (CL#5) illustrates this view:

> We believe the elimination of the residual method of allocation and ability to use estimated selling prices in the allocation of revenue will produce results that are more consistent with the economic substance of multiple element arrangements. Multiple element arrangements are often priced to a customer through the development of estimated selling prices for the individual elements

> with consideration of standalone pricing and competitive pricing to the extent available. Accordingly, we definitely believe use of estimated selling prices in the allocation of revenue under the relative-selling price method would be operational and can be consistently applied. Elimination of the residual method will result in a proportionate allocation of any inherent discount in a multiple element arrangement to each deliverable, which we believe provides a better reflection of the underlying economics of an arrangement.

10. Six respondents were not supportive of eliminating the residual method. Those respondents were concerned that requiring the relative selling price method would not be operational because of cost and information systems limitations. Three of those respondents, a preparer, an accounting firm, and a consulting firm (CL's #16, #24, and #28), believed that the residual method should be an acceptable optional model in situations in which vendor specific objective evidence (VSOE) or third-party evidence (TPE) of selling price of the delivered items does not exist to alleviate this cost-benefit concern. The following comment from a preparer (CL#19) is representative of many such comments received:

> We strongly believe that there are significant operational challenges in using the relative price allocation method and as such we believe the decision to eliminate the residual method should be revisited…. The majority of ERP systems today do not have the functionality to accommodate the relative price allocation method without undergoing a significant amount of investment in time, resources and dollars in order to automate the proposed allocation method. Until the proposed allocation method can be automated most companies…, would have to perform the relative selling price allocation manually……implementing the relative selling price method likely would present more operational challenges due to the higher volume of transactions…. Although the residual method allocation today can also be a manual process, it is much easier to implement since only those transactions that fall outside the VSOE discount ranges require adjustment…. Even if a customized ERP is currently available to allow for relative selling price, there would be an overlap period where the ERP system would have to handle both the residual method (for old contracts) and the relative selling price allocation method (for new contracts)…it is very questionable whether any ERP system could handle both scenarios. Also, given the proposed upcoming new changes from the IFRS Joint Project in the next 3-5 years, spending significant dollars to change the system now, and again in the future, would not be the most cost-effective decision.

11. Three respondents, an accounting firm and two consulting firms (CL's #16, #25, and #28), also suggested that the Task Force require selling prices to be "reasonably estimable" in order to qualify for the use of the relative selling price method. In situations in which only the selling

price of the delivered item is not considered reasonably estimable, the residual method should be required. In addition, one respondent (CL#16) also suggested that if reasonable estimates of the selling prices of undelivered prices are not available, then the respondent suggests that all revenue be deferred (presumably retaining the existing separation criteria within Issue 00-21).

Staff Analysis

12. The staff notes that the Task Force previously considered whether to require selling price to be "reasonably estimable" at the March 19, 2009 EITF meeting. In its deliberations, the Task Force observed that separating deliverables into separate units of accounting to recognize revenue upon delivery of a product or performance of a service better reflects the economics of most transactions than not having that ability because the deliverables are required to be accounted for as one unit of accounting. The staff does not believe any additional information was received from respondents that was not already considered during the Task Force's deliberations on this Issue or that would warrant a change to the previous decisions.

13. The staff believes that the Task Force has also previously considered the comments received against the elimination of the residual method. However, given the number of respondents that were not supportive of eliminating the residual method, the staff believes that the Task Force should consider whether it wishes to affirm its consensus-for-exposure to eliminate the residual method. The staff notes that these constituents were concerned with the costs associated with requiring the use of the relative selling price method particularly for those companies that had only used the residual method previously because they did not have VSOE or TPE for the delivered items in their arrangement. The staff also notes that although the Board's preliminary view in the joint Revenue Recognition project is to require the use of the relative selling price method, the Board is expected to redeliberate that topic at a future Board meeting in response to comments received on the Revenue Recognition Discussion Paper. If the Task Force decides to retain the residual method, the existing residual method in Issue 00-21 would be modified such that estimated selling price would be required for undelivered items if VSOE or TPE did not exist for those items, consistent with the consensus-for-exposure in the draft abstract from the November 2008 EITF meeting.

14. If the Task Force were to decide to retain the residual method of allocation, the Task Force should consider whether it wishes to modify the language in the Codification amendments to address the informal question previously received and included in Issue Summary No. 2, Supplement No. 1, which was distributed for discussion of this Issue at the March 2009 EITF meeting. That informal question from a constituent during the exposure period of the November 2008 draft abstract asked how the consensus-for-exposure should be applied to transactions in which some or all of the deliverables are delivered over time; for example, when the deliverables are services rather than products. The concern raised was that the use of the residual method could be interpreted in different ways or result in accounting that did not reflect the economics of the transactions because of a lack of clarity regarding how that method should be applied. The respondent indicated that the following are some of the questions (which were also included in Issue Summary No. 2, Supplement No. 1) constituents must answer before being able to properly apply the residual method of allocation, :

a. Should a deliverable that is delivered over time (i.e., a service deliverable) be accounted for as having a delivered and undelivered portion for purposes of applying the residual method?

b. Should arrangement consideration be allocated all at once at the inception of the arrangement or should arrangement consideration be allocated as each item is delivered? (Allocating consideration at inception would require a Company to estimate the delivery pattern of each item in the arrangement.)

c. If the allocation is to be performed only once at the inception of the arrangement, which would require an allocation based on an estimate of timing of delivery, should that allocation be revised if actual performance or delivery differs from the estimate?

d. If the allocation is performed at the inception of the arrangement and the arrangement consideration is less than the aggregate selling prices of the undelivered units, should the arrangement consideration be allocated among the undelivered units based on relative selling price of the undelivered units?

15. In addition, the December 2008 consensus-for-exposure places greater importance on whether an element is considered delivered or undelivered. For example, are services that are provided evenly over a term of 12 months considered delivered, undelivered, or both at the mid-point of the arrangement?

16. The following example provided by a respondent illustrates some of the difficulties in applying the residual method of allocation:

> Vendor A enters into an agreement with a customer to deliver the following for a total consideration of $1,000:
>
> - Two units of Hardware H,
> - Installation Services I to install the two units of Hardware H, and
> - Services S to maintain the hardware for a period of one year.
>
> Both units of Hardware H are delivered at different times but both are expected to be delivered before commencement of Services S. At the time each unit of Hardware H is delivered, Installation Services I are expected to be provided. Vendor A has VSOE of selling price for the hardware and TPE for Installation Services I, but has neither VSOE nor TPE of selling price for Services S. VSOE of selling price for each unit of Hardware H is $400. TPE of selling price for each unit of Installation Service I is $100. Vendor A's best estimate of selling price for Services S is $200.

17. When applying the residual method of allocation, should the revenue allocated to the first unit of Hardware H be equal to that allocated to the second unit of Hardware H? In other words, should the arrangement consideration allocated to Hardware H be calculated at each point in time as each unit of Hardware H is delivered (that is, $200 for the first unit of Hardware H and $400 for the second unit of Hardware H) or should the arrangement consideration allocated to Hardware H be calculated such that multiple units of the same deliverable are allocated the same consideration per unit (that is, $333)? Depending on when the allocation is performed (for example, before any element is delivered or after the first element is delivered) both answers are possible under the prior consensus-for-exposure. Additionally, the allocation could change in

situations in which Services S commence at the inception of the arrangement as compared to after Hardware H is delivered.

18. If the Task Force chooses to maintain the residual method consistent with the prior consensus-for-exposure, it may be necessary to clarify the application of that method.

19. For example, the Task Force might consider the following revisions to paragraph 8 and the addition of paragraph 12A to the December 2008 consensus-for-exposure, which was included in Issue Summary No. 2, Supplement No. 1, and distributed for discussion at the March 2009 EITF meeting:

> 8. A vendor should evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. That evaluation must be performed at the inception of the arrangement and<u>, if deliverables cannot be accounted for separately at inception,</u> as each item in the arrangement is delivered<u>. However, the allocation of the arrangement consideration among the deliverables should be performed at the inception of the arrangement based on their expected delivery patterns. The allocation should only be reperformed if actual delivery patterns are different from expected delivery patterns.</u>
>
> 12. If there is vendor specific objective evidence (VSOE) or third-party evidence (TPE) of selling price (as discussed in paragraph 16) for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative selling price (the relative selling price method), except as specified in paragraph 13. However, in the absence of VSOE or TPE of selling price for all units of accounting in the arrangement, the residual method should be used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered unit(s) of accounting equals the total arrangement consideration less the aggregate selling price of the undelivered unit(s) of accounting (as discussed in paragraph 17). When allocating the arrangement consideration using the vendor's best estimate of selling price for the undelivered unit(s) of accounting, the amount allocated to the delivered unit(s) of accounting shall not exceed VSOE or [acceptable] TPE [of the selling price] of the delivered unit(s) of accounting, if VSOE or [acceptable] TPE [of the selling price] are known for the delivered unit(s) of accounting. The "reverse" residual method (that is, using a residual method to determine the selling price of an undelivered unit(s) of accounting) is not an acceptable method of allocating arrangement consideration to the separate units of accounting, except as described in paragraph 13.
>
> <u>12A. In some arrangements, some or all of the deliverables in the arrangement may be delivered over time. This frequently occurs when the deliverables are services rather than products. When applying the residual method to these</u>

> arrangements, VSOE, TPE, or best estimate of [the] selling price should be used to determine the selling prices for the undelivered elements (including the undelivered portions of the units of accounting delivered over time). If the arrangement consideration allocable to the undelivered elements is less than the aggregate selling price of the undelivered elements, that difference shall be allocated to the undelivered elements based on the relative selling price of the undelivered elements (including the ability to estimate the selling price for such elements).

20. The staff notes that the paragraph 12A addition would result in allocating arrangement consideration using the relative selling price method in situations in which the arrangement consideration allocable to the undelivered elements is less than the aggregate selling price of the undelivered elements. This was one of the reasons why the Task Force ultimately decided to eliminate the residual method and require the relative selling price method.

Issue 2, Question 1 – Does the Task Force agree with the staff's recommendation not to specify that "reasonable estimates" must exist in order to apply either the relative selling price method or the residual method?

Issue 2, Question 2 – Does the Task Force wish to affirm its consensus-for-exposure to eliminate the residual method of allocation and require the use of the relative selling price method?

Issue 2, Question 3 – If the answer to Issue 2, Question 2 is no and the Task Force decides to retain the residual method, does the Task Force agree with the staff's recommended revisions to clarify the application of the residual method?

Comment – Ongoing Disclosures

21. Respondents that specifically commented on the ongoing disclosure requirements were mixed on their support of those requirements. Some preparers stated that the disclosures would be useful to financial statement users but noted that there may be challenges in providing the information in a summarized manner. Several respondents referenced the requirement to provide the required disclosures for "similar arrangements." The following comment from a preparer (CL#1) highlights this concern:

> We believe that most of the disclosures would provide useful information to financial statement users. The challenge will be to provide essential information in a narrative that is short enough that financial statement users will read the disclosure. We do not recommend any further disclosures. However, it would be helpful to clarify the objective of the disclosures so that the notion of "similar arrangements" does not result in an overly granular discussion and does not lead to significant debate about the grouping of arrangements for disclosure purposes…. We believe these arrangements are sufficiently similar as to warrant grouping into one discussion. However, we can envision situations where this conclusion is subject to debate and second guessing. In particular, absent some clarity regarding the disclosure's objective, it is possible that some might read the phrase "similar arrangements" as suggesting that disaggregated information by arrangement is necessary absent substantially identical terms and conditions.

22. Most of the preparer respondents stated that they believed the incremental disclosures were "excessive," burdensome to preparers, would not be cost-effective, and were not particularly useful for users. Several respondents stated that the disclosures should be limited to the qualitative disclosures. One preparer (CL#5) expressed the following concerns with the disclosures, which is consistent with the concerns raised by many of the other disclosure opponents:

> Since many companies will have several different types of multiple element arrangements, the requirement to disclose information by each "similar type of arrangement" will be difficult to apply in practice and will possibly lead to lengthy boilerplate disclosures that distract a user from key information…..The requirement to discuss the significant factors, inputs, assumptions and methods used to determine selling price for the significant deliverables appears to require companies to disclose what many could deem to be competitively sensitive information…. Separately disclosing the effect of changes in either the selling price or the method and/or assumptions used to determine selling price for a specific unit of accounting (if either one of those changes has a significant effect on the allocation of arrangement consideration) would frequently render the application of the relative selling price method as non-operational. In many cases, changes in selling prices to a customer are largely due to changes in sale and marketing strategies responding to competitive and business environment factors and not due to changes in accounting estimates. Further, many companies have different strategic pricing strategies, e.g. different prices for different strata of customers e.g. federal government vs. a Fortune 500 customer vs. a small business. Therefore, the price lists might not change from period to period but the mix of business will. Identifying and disclosing the effects of those changes will be difficult to capture and we do not believe it provides any meaningful information to a financial statement user. We believe the SEC's current MD&A

> requirements already sufficiently address disclosure needs about changes in revenues.

23. Only two respondents, a consulting firm and a CPA society (CL's #25 and #31) were supportive of expanding the disclosures to significant effects of changes in selling prices, allocation methods, or assumptions on profit margins. Most respondents believed such a discussion was better suited for MD&A and expressed concerns with the operationality of such a requirement as noted by a preparer (CL#5):

> Companies routinely change selling prices and target profit margins for a variety of reasons including promotions, competitive pricing strategies, response to market conditions, introduction of new versions of a product, etc. The effects of changes on profit margins are highly subjective and variable based on the specific assumptions that are incorporated into the analysis. Therefore it would not be practical to attempt to isolate the effect of changes in estimated selling prices on profit margins.

Staff Analysis

24. The staff does not believe that it is necessary to clarify the meaning of the term "similar arrangements." The staff believes that determining similar arrangements will require the use of judgment and consideration of the significance and relevance of the arrangements to the overall financial statements. In addition, the staff believes that it is best to allow practice an opportunity to apply the guidance to assess if any practice issues arise.

25. The staff believes that some of the confusion in the amount of financial information that needs to be disclosed for similar arrangements is caused by the sample disclosure in Example 11. One of the respondents (CL#20), an accounting firm, noted the following:

> We believe the sample disclosure included in Example 11 is vague. Paragraphs 20 and 21 appear to provide disclosure requirements in sufficient detail for a preparer to understand, which may deem the need for a sample disclosure to be unwarranted.

26. The staff agrees with the suggestion in CL#20 and recommends that the Task Force delete the sample disclosure. The staff believes that including this example in the guidance appeared to cause more confusion than it was helpful. The staff also believes that extent of the disclosures

needed to comply with the disclosure requirements will be different for each company and that including the example may have the unintended consequence of establishing a boilerplate-type disclosure rather than a company focusing on its own specific arrangements.

27. Most of the preparer respondents stated that they believed that the incremental disclosures were “excessive,” were burdensome to preparers, and might possibly lead to lengthy boilerplate disclosures that distract a user from key information. Therefore, the Task Force is being asked to reconsider whether it wishes to modify the consensus-for-exposure for ongoing disclosures. The user respondents did not specifically comment on whether they believed that the disclosures would provide useful information. Considering the comments received, the staff is performing additional outreach to users to determine their views regarding these disclosures as to whether it provides meaningful and useful information to financial statement users. The staff will update the Task Force with the results of this outreach at the September 2009 EITF meeting.

Issue 3, Question 1 – What ongoing disclosures does the Task Force wish to require in this Issue?

View A: Affirm the consensus-for-exposure.

View B: Require qualitative and quantitative disclosures based on prior consensus-for-exposure.

> A vendor should 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 estimated selling price when neither VSOE nor TPE of selling price exists. Information related to individually significant arrangements should be separately disclosed.

View C: Require disclosures based on prior consensus-for-exposure but remove reference to qualitative and quantitative.

> 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 enables users of its financial statements to understand the inputs and methodologies used to develop estimated selling price when neither VSOE nor TPE of selling price exists.

<u>Comment – Transitional Disclosures</u>

28. There was mixed support on the transitional disclosures from the 19 respondents who specifically commented on those disclosures. Thirteen respondents were not supportive of the requirement to disclose the amount of revenue that would have been recognized under Issue 00-21 during the initial year an entity applies Issue 08-1. Opponents of this disclosure generally stated that the benefits of providing this disclosure did not outweigh the cost of maintaining two sets of books. Some opponents stated that systems may not be able to handle accounting for two revenue methods and that costly manual systems would need to be implemented to comply with this disclosure. Other opponents questioned why such information would be useful for users. One respondent (CL#23), a preparer, believed that a vendor's business practice and policies might change after the adoption of Issue 08-1 and/or Issue 09-3, and, as such, the disclosure could be misleading to the users of the financial statements since it assumes business practices and policies would be consistent before and after the adoption of this Issue. The following comment from a preparer (CL#14) highlights these concerns:

> We do not believe that the quantitative transition disclosures will provide users of the financial statements decision-useful information on the impact of adopting EITF 08-1. In addition, we believe the transition disclosures will be unnecessarily burdensome for financial statement preparers as it will require financial statement preparers to maintain dual accounting records for transactions to determine revenue on transactions under both EITF 00-21 and EITF 08-1. Further, as the Task Force has noted, the accounting under EITF 00-21 does not provide users of the financial statements an accurate reflection of the economics of the underlying

> transactions and to continue to provide this information may be more confusing and distracting than meaningful to the user of the financial statements.

29. Six preparer respondents were supportive of the transitional disclosures. One of these respondents stated that they believed the information would be useful to users. The respondent noted that although this disclosure would be burdensome, it would be manageable for the limited one-year period.

30. The user respondents did not specifically comment on whether they believed that the transition disclosures would provide useful information. Considering the comments received, the staff is performing additional outreach to users to determine their views regarding these transition disclosures as to whether they provide meaningful and useful information to financial statement users.

Staff Analysis and Recommendation

31. The staff will provide a recommendation to the Task Force at the September 2009 EITF meeting after receiving additional input from users

Issue 4, Question 1 – Does the Task Force wish to retain or eliminate the transition disclosure requirements?

Comment – Transition Method and Effective Date

32. Most respondents were supportive of applying the consensus-for-exposure prospectively to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Several respondents specifically stated that this provided sufficient time to prepare for adoption of the Issue including system modifications that may be necessary. Thirteen respondents were not supportive of not allowing early adoption of the Issue if an entity has already issued financial statements for any period within a fiscal year. Most of these respondents believed that Issue 08-1 would significantly improve financial reporting and that entities should be permitted to adopt the Issue mid-year as long as it was adopted on a retrospective basis to the beginning of the year. Five of the six users who submitted written responses stated that entities should be allowed to adopt the guidance "as soon as possible."

33. One respondent (CL#16), an accounting firm, was not supportive of the transition approach. This respondent suggested that the Task Force allow companies to elect retrospective application or adopt on a cumulative-effect basis. This respondent was also concerned that entities that were allowed to early adopt this Issue could have a competitive advantage over those that are required to wait.

Staff Analysis and Recommendation

34. The staff recommends that the Task Force allow entities to elect earlier application of this Issue, if the first reporting period after adoption is not the first reporting period in an entity's fiscal year. Input has been received previously from users who state that they do not support mid-year adoptions of accounting standards because they do not receive restated information for the quarters preceding adoption until the 10-K is filed (in summarized quarterly date) or the following year in the 10-Q's. Given the user respondents' responses and most preparers suggesting that entities be allowed to adopt this Issue as soon as possible, the staff believes these concerns can be overcome with the following disclosures:

> *This Issue shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Earlier application is permitted. If a vendor elects earlier application and the first reporting period after adoption is not the first reporting period in the vendor's fiscal year, the guidance in this Issue must be applied through retrospective application from the beginning of the vendor's fiscal year. Vendors shall disclose at a minimum, revenue, income before income taxes, net income, and earnings per share for the retrospective application from the beginning of the vendor's fiscal year for all prior reporting periods.*

Issue 5, Question 1 – Does the Task Force agree with the staff recommendation to affirm the transition date and method in the consensus-for-exposure except that early adoption would be permitted?

Issue 5, Question 2 – Does the Task Force agree with the staff recommendation on disclosures that would be required if a company adopts this Issue mid-year?