MINUTES

To:	FASB Board Members
From:	Revenue Recognition Team (Biittner x462)
Subject:	November 4, 2010 Roundtable Minutes: Revenue Recognition
Date:	December 22, 2010

Topic:	Proposed Accounting Standards Update: *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*
Length of Discussion:	9:00 a.m. to 12:00 p.m.

Attendance:

Outside Participants

Paul Beswick	Securities and Exchange Commission
Richard Forrestel	Cold Spring Construction Company
Stacey Friday	Federated Investors, Inc.
Rob Kuehnau	Accenture, Plc.
David Levi	Bristol-Myers Squibb Company
Tamara Mathis	KPMG
Doug McCorkle	Biotechnology Industry Organization
Liesl Nebel	FEI's Committee on Corporate Reporting
Gregg Nelson	IBM
Nancy Salisbury	Ernst and Young
Lynne Triplett	Grant Thornton
Mike Wood	Raytheon Company

FASB & IASB Participants

Leslie Seidman	FASB Acting Chairman
Russ Golden	FASB Board Member
Tom Linsmeier	FASB Board Member
Marc Siegel	FASB Board Member
Larry Smith	FASB Board Member
Philippe Danjou (via video)	IASB Board Member
Patrick Finnegan (via video)	IASB Board Member

Prabhakar "PK" Kalavacherla	IASB Board Member
Jim Leisenring	FASB Senior Advisor
Peter Proestakes	FASB Assistant Director
Kenny Bement	FASB Project Manager
Henry Rees	IASB Technical Principal
Prasadh Cadambi	FASB Practice Fellow
Liz Gagnon	FASB Assistant Project Manager
Libby Biittner	FASB Postgraduate Technical Assistant
Stephanie Stoviak	FASB Postgraduate Technical Assistant

CONTROL

1. Many participants supported the development of a transfer-based model, but some expressed concern that the proposed control indicators are not sufficient for application to contracts for the provision of services. A participant in the public accounting industry noted that defining control of a service is difficult because a service is provided and consumed simultaneously. Several participants agreed that a viable principle for determining transfer of a service could be a concept involving continuous transfer of value to the customer. Others noted that they interpreted the control principle to mean *effective* control for services (for example, a customer may have effective control if it specifies design and has an unconditional obligation to pay). Another participant suggested that a possible way to refine the control principle as it is applied to services would be to look at whether the service is transferred on a permanent/non-temporary basis versus a permanent basis.

2. Participants discussed the difficulty of determining when continuous transfer is appropriate. Some argued that the proposed model would allow for continuous transfer in cases such as a service of providing shipment of goods from one country to another, while others argued that the customer does not have any benefit from that service until it is completed so no revenue should be recognized until delivery. Some participants thought that revenue recognition guidance should explicitly state when continuous recognition is allowed, and others thought that two revenue recognition models (one for goods and one for services) would be appropriate.

3. Several participants expressed a strong desire to have the Boards retain the guidance in AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. A participant in the construction industry noted that application of SOP 81-1 results in information about construction- and production-type contracts that is useful to and well understood by users of financial statement (primarily surety firms).

IDENTIFYING PERFORMANCE OBLIGATIONS

4. Several participants noted that the guidance on identifying separate performance obligations is unclear and that requiring combination/segmentation of contracts in addition to identifying separate performance obligations is overly complex. They stated that the Boards should modify the proposal such that there is only one segmentation step.

5. A participant in the construction industry said that the identification of performance obligations would require too much judgment and, therefore, would be very subject to manipulation. It would allow preparers to separate contracts however they want in order to achieve desired profit margins. He stated that a better basis for determining whether a performance obligation is distinct is whether it has distinct risk. He also reiterated that SOP 81-1 is very valuable to the industry and should be retained.

6. A participant in the technology industry noted that determining separate performance obligations using the proposed guidance would be straightforward because standalone prices are known for his company's products. A participant in the biotechnology and pharmaceutical industry indicated that it would be difficult to determine separate performance obligations for collaboration agreements because the license and research and development components are not always sold separately.

7. A participant in the asset management industry noted that accounting according to the proposed model would depend on whether base management fees and performance-based fees were accounted for together. If they were accounted for together because the performance-based fees cannot be estimated, the entire performance-based fee would be

deferred until the end of the year. That accounting would be very different from current practice.

8. A participant in public accounting indicated that if the Boards removed the language about distinct profit margins, the guidance regarding identification of performance obligations would be more operational.

DETERMINING TRANSACTION PRICE

Probability-Weighted Estimate

9. Most participants did not agree that using a probability-weighted estimate would provide useful information to users of financial statements because it often would not represent a possible outcome. They would rather be permitted to use management's best estimate. Some Board members asked participants to define the term *best estimate.*

10. Some participants stated that probability-weighted estimates would be manipulated to agree with management's best estimate, so performing the additional work and documentation would not result in a more useful or accurate number.

11. Some participants were not concerned with the difference between management's best estimate and the probability-weighted estimate, but expressed concern at the notion that events with a low probability of occurring (such as a 20 percent chance of receiving a performance bonus) could be included in the determination of the transaction price. They believe that there should be a probability threshold that must be met before an item can be included in the transaction price.

Collectibility

12. Some participants disagreed with the proposed model and thought that all effects of credit risk should be classified in the same place (either in revenue or other income/expense). That is, the effect of credit risk on the initial transaction price as well as subsequent changes in the assessment of credit risk should be shown in the same line item so that the true exposure to collection risk is clearly presented.

Time Value of Money

13. Many participants found the proposed time value of money guidance problematic. Based on the Exposure Draft, they believe that preparers would be required to perform complex calculations to determine the effect of the time value of money for every contract because it is unknown whether a contract includes a material financing component until that calculation has been performed. The cost of performing these calculations would outweigh the benefit of the information provided.

ALLOCATION OF TRANSACTION PRICE

14. Several participants expressed general support for the proposed allocation principles, but questioned the appropriateness of allocating changes in the transaction price to performance obligations that have already been fulfilled.

15. Additionally, a participant noted that in the case of a performance obligation for which the transaction price is not reasonably estimable, when the transaction price becomes reasonably estimable it should be allocated only to the performance obligation to which it relates.

16. Participants in public accounting reiterated that the Boards should eliminate the two-step approach (combining/segmenting contracts and identifying separate performance obligations) to allow for more flexibility in the allocation of the transaction price to performance obligations.

OTHER ISSUES

Collaborative Agreements

17. Participants in the biotechnology and pharmaceutical industry stated that collaborative arrangements are not customer/vendor relationships and should be removed from the scope of the final revenue recognition standard. A participant noted the importance of retaining multiple element guidance, which is currently applied by some preparers in the biotechnology and pharmaceutical industry with collaborative agreements with multiple elements.

Warranties

18. Some participants agreed with the conceptual basis for accounting for the two types of warranties. However, they expressed concerns about the practical application of this guidance. Specifically, they said that it would be difficult to differentiate between latent and post-transfer defects.

Transition and Effective Date

19. Many participants asked the Boards to reconsider the short project timeline and focus on issuing a quality standard rather than meeting a deadline.

20. Participants commended the Boards and the project team for the amount and quality of outreach that has been performed, but noted that significant field testing of the proposed standard is needed in order to minimize the risk of operational difficulties and unintended consequences.

21. Many participants commented on the difficulty of applying the proposed standard on a fully retrospective basis and indicated that accurate retrospective application would only be possible if the effective date was delayed enough to allow companies to keep dual accounting records during all years that would need to be presented retrospectively.