

MINUTES



To: Board Members
From: Skoglund (x462)
Subject: Minutes of July 19, 2012 Joint Board Meeting **Date:** July 23, 2012
cc: Sutay

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

Topics: Revenue Recognition: Identifying Separate Performance Obligations, Satisfying Performance Obligations over Time, Licenses, and Onerous Contracts

Basis for Discussion: FASB Memorandums 161A/7A, 161B/7B, 161C/7C, 161D/7D, and 161E/7E

Length of Discussion: 8:20 a.m. to 11:25 a.m. EDT

Attendance:

Board members present: **FASB:** Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith
IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Suh, and Zhang

Board members absent: None

Staff in charge of topic: **FASB:** Bauer, Skoglund, Harris, Bagwell
IASB: Brady, McManus, Dara

Other staff at Board table: **FASB:** Hood, Gagnon, Proestakes, Cospers, Breen, and Hegg
IASB: Rees, Lloyd and Eastman

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

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

Summary of Decisions Reached:

The FASB and the IASB commenced their redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (the 2011 ED), by discussing the following topics:

1. Identifying separate performance obligations (Step 2 of the proposed revenue model)
2. Performance obligations satisfied over time (Step 5)
3. Licenses
4. Losses arising from onerous obligations in contracts with customers.

Identifying Separate Performance Obligations (Step 2)

The Boards tentatively decided:

1. To retain the concept of a distinct good or service, which is used to determine whether a promise to transfer a good or service to a customer should be accounted for as a separate performance obligation;
2. To improve the assessment of whether a good or service is distinct that was proposed in paragraphs 28 and 29 of the 2011 ED by clarifying the criterion proposed at paragraph 28 and by replacing the proposed criterion in paragraph 29 of the 2011 ED with indicators; and
3. To remove the practical expedient in paragraph 30 of the 2011 ED (which permitted an entity to account for two or more distinct goods or services as a single performance obligation if those goods or services have the same pattern of transfer to the customer).

To retain and improve the distinct concept in the 2011 ED (paragraphs 28 and 29), the Boards tentatively decided that an entity should account for a promised good or service (or a bundle of goods or services) as a separate performance obligation only if:

1. The promised good or service is capable of being distinct because the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (this criterion is based on paragraph 28(b) of the 2011 ED); and
2. The promised good or service is distinct within the context of the contract because the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract.

The Boards tentatively agreed that the assessment of whether a promised good or service is distinct in the context of the contract should be supported by indicators, such as:

1. The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted. In other words, the entity is not using the good or service as an input to produce the output specified in the contract.
2. The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.
3. The good or service does not significantly modify or customize another good or service promised in the contract.
4. The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
 - a. The promises to transfer those goods or services to the customer are performance obligations that are satisfied over time (in accordance with paragraphs 35 of the 2011 ED); and
 - b. The entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer.

Performance Obligations Satisfied over Time (Step 5)

The Boards tentatively decided to make the following refinements to the criteria proposed in paragraph 35 of the 2011 ED for determining whether an entity satisfies a performance obligation over time and, hence, recognizes revenue over time:

1. Retain the criterion proposed in paragraph 35(a), which considers whether the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
2. Combine the "simultaneous receipt and consumption of benefits" criterion proposed in paragraph 35(b)(i) and the "another entity would not need to substantially re-perform" proposed criterion in paragraph 35(b)(ii) into a single criterion that would apply to "pure service" contracts; and
3. Link more closely the "alternative use" criterion in paragraph 35(b) and the "right to payment for performance completed to date" criterion in paragraph 35(b)(iii) by combining them into a single criterion.

The Boards also tentatively decided to clarify aspects of the “alternative use” and “right to payment for performance completed to date” criteria. For example:

1. The assessment of alternative use is made at contract inception and that assessment considers whether the entity would have the ability throughout the production process to readily redirect the partially completed asset to another customer.
2. The right to payment should be enforceable and, in assessing the enforceability of that right, an entity should consider the contractual terms as well as any legislation or legal precedent that could override those contractual terms.

Licenses

The Boards discussed possible refinements to the implementation guidance on licenses and rights to use. The Boards requested the staff to perform additional analysis and bring the topic back to a future meeting.

Losses Arising from Onerous Obligations in Contracts with Customers

The Boards tentatively decided to not develop new requirements for onerous contracts that would apply to contracts with customers in the scope of the revenue standard. As a result, the IASB tentatively decided that the requirements for onerous contracts in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, should apply to all contracts with customers in the scope of the revenue standard. The FASB tentatively decided to retain existing guidance related to the recognition of losses arising from contracts with customers, including the guidance relating to construction-type and production-type contracts in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. The FASB also indicated that it would consider whether to undertake a separate project to develop new guidance for onerous contracts.

Next Steps

The Boards expect to continue redeliberations in September 2012.

General Announcements: None