MINUTES

To:	Board Members		
From:	Passalugo (x462)		
Subject:	Minutes of the July 24, 2013 Board Meeting	**Date:**	July 30, 2013
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: Collectibility, accounting for contracts that do not meet Step 1 of the revenue model, and constraint—minimums requirements

Basis for Discussion: FASB Memorandums 173A/7A, 173B/7B, and 173C/7C

Length of Discussion: 6:15 a.m. to 8:25 a.m. EDT

Attendance:

Board members present:	FASB: Golden, Buck, Linsmeier, Schroeder, Siegel, and Smith
	IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kabureck, Kalavacherla, McConnell, Ochi, Scott, Tokar, Suh, and Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Bauer and Schilb
	IASB: Brady and McManus
Other staff at Board table:	FASB: Cosper, Harris, Nguyen, North, Passalugo, and Proestakes
	IASB: Dara, Lloyd, and Rees
Outside participants:	None

Type of Document and Timing Based on the Technical Plan:

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

Summary of Decisions Reached:

The IASB and the FASB discussed the following topics raised in the drafting of the final standard on Revenue from Contracts with Customers:

1. Collectibility
2. Accounting for contracts that do not meet Step 1 of the revenue model
3. Constraint—minimums requirements.

Collectibility

The Boards tentatively decided to clarify the determination of the transaction price by including additional guidance to enable an entity to distinguish between doubts about collectibility arising from customer credit risk that should be accounted for as either (1) variable consideration (that is, a price concession or discount) or (2) an impairment loss (that is recognized in accordance with financial instruments standards). In particular, the guidance will state that, in determining whether the promised consideration is variable (and therefore subject to the constraint on estimates of variable consideration), an entity should:

1. Assess all relevant facts and circumstances related to the contract and the customer's credit risk that might indicate that the entity would grant a price concession and, therefore, expects to be entitled to an amount that is less than the contractually stated price; and
2. Consider whether attributes of the contract with a customer might indicate that the promised consideration is variable (because, for example, the incremental cost to the entity to transfer the good or service to the customer is negligible or the good that transfers to the customer is not expected to substantially diminish in value and it therefore serves as adequate collateral).

Step 1 of the revenue model (that is, paragraph 14 of the 2011 Exposure Draft, *Revenue from Contracts with Customers,* as amended) specifies criteria that must be met in order for an entity to apply the revenue model to a contract with a customer. The Boards tentatively decided that an entity should make an overall qualitative assessment of the facts and circumstances of the contract with the customer to determine whether "the parties are committed to perform their respective obligations and they intend to enforce their respective contractual rights." In relation to that criterion, the Boards also tentatively decided to clarify that:

1. The assessment of the commitment and intention of the parties to the contract is to identify whether the contract is a substantive arrangement. A contract can be substantive even if the entity does not intend to enforce all of its rights under the contract.
2. The assessment about the amount of consideration to which the entity expects to be entitled is considered when determining the transaction price. That assessment does not affect whether a contract meets the criteria in paragraph 14.

Accounting for Contracts That Do Not Meet Step 1 of the Revenue Model

The Boards tentatively decided that if a contract does not meet the criteria in paragraph 14, consideration received by the entity should not be recognized as revenue until the entity's performance is complete and either:

1. All of the consideration in the arrangement has been collected and is nonrefundable; or
2. The contract is cancelled and the consideration received is nonrefundable.

The Boards also tentatively decided to clarify that the criteria in paragraph 14 should be reassessed if they are initially not met.

Constraint—Minimums Requirements

The Boards discussed the application of the constraint on including estimates of variable consideration in the transaction price, specifically when an entity should include some, but not all, of an estimate of variable consideration (that is, a minimum amount) in the transaction price.

The Boards tentatively decided:

1. To specify that for all contracts an entity should include a minimum amount of variable consideration in the estimate of the transaction price, when including that amount would not result in a significant revenue reversal; and
2. Not to specify the circumstances when that minimum amount would be zero, nor to specify an exception for sales-based royalties on licenses of intellectual property.

Next Step

The staff are drafting the final revenue standard. In the near future, the FASB staff will present an analysis of the FASB's due process undertaken on the project.

General Announcements: None