

MINUTES



To: Board Members

From: Booth (x273)

Subject: Minutes of the October 30, 2013 Board Meeting

Date: November 5, 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: Constraint on Estimates of Variable Consideration, Implementiaton
Guidance: Licenses, Collectibility

Basis for Discussion: FASB Memorandums 175/7, 175A/7A, 175B/7B, 175C/7C

Length of Discussion: 10:30 a.m. to 12:00 p.m. EDT

Attendance:

Board members present: FASB: Golden, Buck, Kroeker, Linsmeier, Siegel, Schroeder, 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: McManus

Other staff at Board table: FASB: Cosper, Booth, Nguyen, 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 early in the first quarter of 2014.

Summary of Decisions Reached:

The IASB and the FASB discussed the following topics to be included in the final standard on Revenue from Contracts with Customers:

1. Constraint on estimates of variable consideration
2. Implementation guidance: licenses
3. Collectibility.

Constraint on Estimates of Variable Consideration

The Boards discussed the application of the constraint on estimates of variable consideration (that is, when those estimates should be included in the transaction price). Specifically, the Boards discussed the objective of the constraint, reassessment, and the application of the constraint to sales- and usage-based royalties on licenses of intellectual property.

Objective of the Constraint

The Boards tentatively decided to specify a confidence level in the objective of the constraint of probable. (For the IASB, the confidence level will be expressed as "highly probable." The Boards acknowledge that different terms were necessary to convey the same outcome because of existing definitions in U.S. GAAP and IFRS.)

The Boards also tentatively decided that if an entity expects that including some, but not all, of the estimated amount of variable consideration (that is, a minimum amount) in the transaction price would not result in a significant revenue reversal, the entity should include that amount in the estimate of the transaction price. The objective of the constraint should be stated in the final revenue standard broadly as follows:

An entity shall include an estimate of variable consideration in the transaction price to the extent it is probable that a significant revenue reversal will not occur. A significant revenue reversal will occur if there is a significant downward adjustment on the amount of cumulative revenue recognized from that contract with that customer.

Reassessment

The Boards tentatively decided that an entity should update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period.

Sales and Usage-Based Royalties on Licenses of Intellectual Property

The Boards discussed the pattern of revenue recognition that would result from the application of the constraint to licenses of intellectual property with sales or usage-based royalties. In light of the resulting revenue pattern, the Boards tentatively decided to include a specific requirement for licenses of intellectual property in which the consideration is in the form of a sales or usage-based royalty. That requirement specifies that an entity should include consideration from the sales or usage-based royalty in the transaction price when or as the uncertainty has been resolved (that is, when the subsequent sales or usage occurs).

Implementation Guidance: Licenses

The Boards discussed improvements to the implementation guidance for licenses and to the criteria for distinguishing between two types of licenses—licenses that provide access to the entity’s intellectual property (that is, a performance obligation satisfied over time) and licenses that provide a right to use the entity’s intellectual property (that is, a performance obligation satisfied at a point in time). The Boards suggested further drafting improvements and tentatively decided to:

1. Place greater emphasis in the implementation guidance on the importance of identifying performance obligations before applying the criteria to distinguish between the two types of licenses.
2. Include additional rationale in the implementation guidance that explains the intent of the criteria.
3. Provide further examples to clarify the objective and application of the criteria.

Collectibility

The Boards discussed assessments of customer credit risk (that is, collectibility) in the revenue model. The Boards affirmed previous tentative decisions to measure the transaction price, and therefore revenue, at the amount of consideration to which the entity is entitled (that is, an amount that is not adjusted for customer credit risk). The Boards also tentatively decided to clarify the

requirements relating to estimates of variable consideration, specifically as they relate to assessing whether an entity has provided a price concession.

The Boards also tentatively decided to clarify the criteria that must be met before an entity can apply the revenue model to a contract with a customer by including an explicit collectibility threshold. To meet that threshold and apply the revenue model, an entity must conclude that it is probable that it will collect the consideration to which it will be ultimately entitled to in exchange for the goods or services that will be transferred to the customer. In making that assessment, the Boards noted that an entity would only consider customer credit risk and not other uncertainties, such as those related to performance or measurement, which would be accounted for in the timing of recognition and measurement of revenue. In setting the threshold, the Boards also acknowledged that the term *probable* has different meanings in U.S. GAAP and IFRS; however, the Boards tentatively decided to set the threshold at a level that is consistent with current practice and existing standards for revenue recognition in U.S. GAAP and IFRS.

Next Steps

This meeting marks the completion of the planned joint Board discussions on revenue. The staff will continue drafting the final standard and confirm with each Board the finalization of the remaining due process steps.

General Announcements: None