

MINUTES



MEMORANDUM

To: Board Members
From: FASB staff
Subject: Minutes of February 18, 2015 Joint Board Meeting
Date: February 26, 2015
cc: Stacey Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's 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.

Topic: Revenue Recognition—Licenses and Identifying Performance Obligations

Basis for Discussion: FASB Memo 1: Licenses of Intellectual Property and 1: Identifying Performance Obligations; IASB Memo AP07: Revenue-Cover Paper, AP07-A: Revenue-Wider Implications, AP07-B: Revenue-Licensing, AP07-C: Revenue-Performance obligations

Length of Discussion: 8:00 a.m to 12:15 p.m. EST

Attendance:

Board members present: FASB: Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and Smith
IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Finnegan, Gomes, Kabureck, Lloyd, Ochi, Scott, Suh, Tokar, and Zhang

Board members absent: N/A

Staff in charge of topic: Mazzella, Muir, and Walsh

Other staff at Board table: Willette

Outside participants: None

Type of Document:

The FASB and the IASB (the Boards) met to discuss issues emerging from the discussions of the Transition Resource Group for Revenue Recognition (TRG). The FASB and the IASB each decided to propose some improvements in order to clarify the guidance in Topic 606, Revenue from Contracts with Customers, and IFRS 15, *Revenue from Contracts with Customers* (collectively, the new revenue standard), with respect to the following topics:

1. Licenses of intellectual property
2. Identifying performance obligations.

Licenses of Intellectual Property

The Boards discussed each of the application issues for licenses outlined below.

Determining the Nature of the Entity's Promise in Granting a License

The Boards decided to improve the operability and understandability of the implementation guidance in the new revenue standard. To do so, the Boards propose clarifying that the entity's promise to the customer in granting a license is to provide a right to access the entity's intellectual property (which is satisfied over time) when the contract requires or the customer reasonably expects the entity to undertake activities (that do not transfer a good or service to the customer) that significantly affect the utility of the intellectual property to which the customer has rights. The utility of the intellectual property to which the customer has rights is significantly affected when either:

1. The expected activities of the entity are expected to change the form (for example, the design) or the functionality (for example, the ability to perform a function or task) of the intellectual property to which the customer has rights; or
2. The value of the intellectual property to the customer is substantially derived from, or dependent upon, the expected activities of the entity. For example, the value of a brand or logo is typically derived from, and dependent upon, the entity's ongoing activities that support or maintain the intellectual property.

In addition, the Boards clarified that when intellectual property has significant standalone functionality (that is, the ability to process a transaction, perform a function or task, or be played or aired), such as software or media content, a substantial portion of its utility is derived from that functionality and is unaffected by activities of the entity that do not change that functionality (such as promotional activities).

(FASB: 7-0; IASB: 11-3)

The FASB further decided to clarify in the guidance that when an entity grants a license to symbolic intellectual property (that is, intellectual property that does not have significant standalone functionality, such as brands, team or trade names, or logos), it is presumed that the entity's promise to the customer in granting a license includes undertaking activities that significantly affect the utility of the intellectual property to which the customer has rights.

(FASB: 4-3)

Determining When an Entity Should Assess the Nature of the Entity's Promise in Granting a License

The FASB decided to clarify in Topic 606 that, in some cases, an entity would need to determine the nature of a license that is not a separate performance obligation in order to appropriately apply the general guidance on whether a performance obligation is satisfied over time or at a point in time and/or to determine the appropriate measure of progress for a combined performance obligation that includes a license.

(FASB: 5-2)

The IASB decided that a clarification to the application guidance in IFRS 15 in respect to this issue was not necessary because there is adequate guidance in IFRS 15 and the accompanying Basis for Conclusions. In reaching this conclusion the IASB noted the analysis in paragraphs 59–64 of Agenda Paper 7B.

(IASB: 14-0)

Sales-Based and Usage-Based Royalties

The Boards decided to clarify the scope and applicability of the implementation guidance on sales-based or usage-based royalties promised in exchange for a license of intellectual property as follows:

1. An entity should not split a single royalty into a portion subject to the sales-based and usage-based royalties exception and a portion that is not subject to the royalties constraint (and, therefore, would be subject to the general guidance on variable consideration, including the constraint on variable consideration).
2. The sales-based and usage-based royalties exception should apply whenever the predominant item to which the royalty relates is a license of intellectual property.

(FASB: 7-0; IASB: 13-1)

Contractual Restrictions in License Arrangements

The FASB decided to clarify in Topic 606 that contractual restrictions of the nature described in paragraph 606-10-55-64 are attributes of the license and, therefore, do not affect the identification of the promised goods or services in the contract. For example, an entity would not identify a different number of promised licenses in a contract that grants a customer unlimited rights to use specified intellectual property for a defined period of time than it would in a contract that grants a license that restricts how often the intellectual property may be used during the license period.

(FASB: 5-2)

The IASB decided that a clarification to the application guidance in IFRS 15 in respect to this issue was not necessary because there is adequate guidance in IFRS 15 and the accompanying Basis for Conclusions. In reaching this conclusion, the IASB noted the analysis in paragraphs 68–73 of Agenda Paper 7B.

(IASB: 14-0)

Identifying Performance Obligations

The Boards decided to add some illustrative examples to the new revenue standard to clarify how the Boards intend the guidance on identifying performance obligations to be applied.

(FASB: 7-0; IASB: 14-0)

In addition, the FASB decided to incorporate further amendments in Topic 606 to address implementation issues about (1) identifying promised goods or services that would be subject to the separation guidance, (2) application of the distinct guidance, and (3) accounting for shipping and handling activities, as well as to make some technical corrections to Topic 606 in this area.

Promised Goods or Services

The FASB decided that an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract. *Optional* goods or services should continue to be accounted for in accordance with paragraphs 606-10-55-41 through 55-45. An entity would not be required to accumulate goods or services assessed as immaterial to the contract and assess their significance at the financial statement level. The IASB decided not to incorporate similar guidance into IFRS 15.

(FASB: 5-2; IASB: 12-2)

“Distinct in the Context of the Contract”

In addition to providing additional illustrative examples, the FASB decided to amend the guidance in Topic 606 about when an entity’s promise to transfer a good or service is separately identifiable (that is, distinct in the context of the contract) by both:

1. Expanding upon the articulation of the separately identifiable principle in the Codification, and
2. Enacting revisions to the factors in paragraph 606-10-25-21 to more closely align those factors to the re-articulated separately identifiable principle.

The IASB decided not to amend this guidance in paragraphs 27 and 29 of IFRS 15. However, in addition to including illustrative examples (as noted above), the IASB also noted that the discussion and the analysis of the issues relating to “distinct in the context of the contract” in paragraphs 34–43 of Agenda Paper 7C could help educate and inform practice.

(FASB: 7-0; IASB: 14-0)

Shipping and Handling Activities

The FASB decided to clarify the guidance in Topic 606 as it applies to shipping and handling activities. The revised guidance would clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfillment activities. In addition, the FASB decided to permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities.

(FASB: 5-2)

Technical Corrections

The FASB decided to make some technical corrections to the guidance on identifying performance obligations in Topic 606.

(FASB: 7-0)

Next Steps

The FASB staff will begin drafting a proposed Update based on the tentative decisions reached.

The IASB decided that it would develop a single Exposure Draft of proposed clarifications to IFRS 15. This Exposure Draft will include the clarifications that the IASB tentatively decided to make at this meeting, together with any other

clarifications that the IASB considers necessary in the light of the discussions at the TRG meetings in January 2015 and March 2015. The IASB expects to approve the clarifications to be included in the Exposure Draft at its meeting in June 2015.

General Announcements: None.