FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: April 29, 2015
Comments Due: May 29, 2015

Revenue from Contracts with Customers (Topic 606)

Deferral of the Effective Date

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 606 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2015-240, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by May 29, 2015. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2015-240
- Sending written comments to “Technical Director, File Reference No. 2015-240, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Do not send responses by fax.

All comments received are part of the FASB’s public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB’s website.

FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

Revenue from Contracts with Customers (Topic 606)

Deferral of the Effective Date

April 29, 2015

Comment Deadline: May 29, 2015

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with an effective date for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, for public business entities, certain not-for-profit entities, and certain employee benefit plans. The effective date for all other entities is for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

In response to stakeholders' requests to defer the effective date of the guidance in Update 2014-09, the FASB added a research project to its agenda to help the Board assess whether a deferral of the effective date was warranted. The Board is proposing to defer the effective date of the guidance in Update 2014-09 on the basis of stakeholders' feedback received through the research project.

What Are the Main Provisions?

The amendments in this proposed Update would defer the effective date of Update 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans would apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application would be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

All other entities would apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Application would be permitted earlier only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period, or an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance in Update 2014-09.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed amendments as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the amendments in this proposed Update are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Should the effective date of the guidance in Update 2014-09 be deferred for one year for public business entities, certain not-for-profit entities, and certain employee benefit plans? Please explain why.

Question 2: Should the effective date of the guidance in Update 2014-09 be deferred for one additional year for all other entities? Please explain why.

Question 3: In addition to providing a one-year deferral of the effective date of the guidance in Update 2014-09, should the Board also provide an optional two-year deferral for all entities that apply that guidance retrospectively to each reporting period presented? Please explain why.

Question 4: Should earlier application of the guidance in Update 2014-09 be permitted as of the effective date originally included in Update 2014-09? Please explain why.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraph 2. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 606-10

2. Amend paragraph 606-10-65-1 as follows:

Revenue from Contracts with Customers—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*

606-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606):*

a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, <u>2017</u>~~2016~~, including interim reporting periods within that reporting period. Earlier application is ~~not~~ permitted <u>only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period</u>.
b. All other entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, <u>2018</u>~~2017~~, and interim reporting periods within annual reporting periods beginning after December 15, <u>2019</u>~~2018~~. However, all other entities may elect to apply the pending content that links to this paragraph earlier only as of:

1. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period ~~(public entity effective date)~~.
2. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the pending content that links to this paragraph~~December 15, 2017~~.
3. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~An annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period.~~

c. For the purposes of the transition guidance in (d) through (i):
    1. The date of initial application is the start of the reporting period in which an entity first applies the pending content that links to this paragraph.
    2. A completed contract is a **contract** for which the entity has transferred all of the goods or services identified in accordance with revenue guidance that is in effect before the date of initial application.

d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
    1. Retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 subject to the expedients in (f).
    2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (h) through (i).

e. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-3 in the period of adoption.

f. An entity may use one or more of the following practical expedients when applying the pending content that links to this paragraph retrospectively in accordance with (d)(1):
    1. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
    2. For completed contracts that have variable consideration, an entity may use the **transaction price** at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
    3. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining **performance obligations** and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 606-10-50-13).

g. For any of the practical expedients in (f) that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:

1. The expedients that have been used
2. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

h. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(2), the entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity shall apply this guidance retrospectively only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018~~2017~~, for an entity with a December 31 year-end).

i. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if the pending content that links to this paragraph is applied retrospectively in accordance with (d)(2):

1. The amount by which each financial statement line item is affected in the current reporting period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change
2. An explanation of the reasons for significant changes identified in (i)(1).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Update 2014-09 was issued on May 28, 2014, with an effective date of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, for public business entities, certain not-for-profit entities, and certain employee benefit plans. All other entities were required to apply the guidance in Update 2014-09 in annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Those other entities also were permitted to adopt the guidance in Update 2014-09 as of the effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans.

BC3. Before and after the issuance of Update 2014-09, the FASB received unsolicited comment letters and stakeholders' informal requests to defer the effective date of the guidance in that Update. In response to stakeholders' requests, the Board added a research project to its agenda to help the Board assess whether a deferral of the effective date was warranted.

BC4. The research project commenced in November 2014 and concluded in March 2015. The staff, with active participation from Board members, met with preparers across a wide spectrum of industries. Preparers included public business entities, private entities, and not-for-profit entities. The staff and Board members also met with representatives from large and small audit firms. Additionally, the staff performed outreach with users of financial statements.

BC5. A majority of stakeholders included in the outreach stated that a deferral of the effective date of the guidance in Update 2014-09 was advisable. Common concerns expressed by those stakeholders included the extended time period that elapsed between when the Board determined the effective date of the guidance in Update 2014-09 and when it was issued, the timing of when the Board would complete the improvements to the new revenue standard that are currently under consideration, the lack of available information technology solutions, and the need to design and implement new internal controls. However, some stakeholders stated that a deferral was unnecessary because the guidance in Update 2014-09 does not significantly affect them or because they expect to complete implementation of the new revenue standard by the original effective date. Those stakeholders requested that, if the Board defers the effective date, it permit application of the guidance in Update 2014-09 as of the original effective date.

Deferral of the Effective Date

BC6. The Board decided to defer the effective date of the guidance in Update 2014-09 for the following reasons:

a. Update 2014-09 was issued approximately nine months later than the Board had anticipated when it selected the effective date. Consequently, the implementation period intended by the Board was less than expected.
b. The Board is proposing amendments to certain aspects of Update 2014-09, including the accounting for licenses of intellectual property and identifying performance obligations.
c. As of the date of the Board's deliberations on this proposed Update, complete information technology solutions to facilitate implementation of the guidance in Update 2014-09 generally are unavailable. Therefore, many entities would have to manually process transactions to apply the guidance in that Update by the original effective date, which could increase the cost of implementation.
d. Internal controls over new systems and processes resulting from the guidance in Update 2014-09 generally cannot be fully designed and fully implemented until information technology solutions to facilitate implementation of the new revenue standard are available and the proposed amendments to certain aspects of Update 2014-09 have been finalized.

BC7. While Board members unanimously voted to defer the effective date of the guidance in Update 2014-09, they had different views on the length of the deferral. Some Board members indicated that a one-year deferral would be sufficient because the implementation challenges stakeholders are facing were anticipated by the Board when establishing the effective date. Those Board members believe that a one-year deferral would be appropriate because of the extended time period between when the Board determined the effective date of the guidance in Update 2014-09 and when it was issued. Those Board members also believe that a deferral of longer than one year would be unwarranted, particularly because the Board plans to propose a number of changes to the guidance in Update 2014-09 that are intended to provide clarity, reduce complexity, and reduce implementation costs (for example, adding practical expedients for contract modifications at transition and shipping and handling costs). Those Board members also expressed the view that a one-year deferral would minimize the period of noncomparability resulting from different effective dates under International Financial Reporting Standards and generally accepted accounting principles (GAAP), as well as noncomparability resulting from the election to early adopt as of the original effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans. Other Board members support a one-year deferral because of the additional clarifications the Board currently is considering. Those Board members noted that the implementation efforts of some entities have been delayed because of implementation questions, particularly those related to licenses of intellectual property and identifying performance obligations.

BC8. Other Board members suggested that a two-year deferral would be necessary to adequately implement information technology systems and to evaluate and implement any changes resulting from several improvements that the Board is proposing to make to Update 2014-09. Board members who support a two-year deferral also believe that a longer deferral period would be required for entities planning to retrospectively apply the guidance in Update 2014-09 to each prior period presented, which would benefit users of financial statements by providing additional comparative financial information.

BC9. The Board discussed the potential for a two-year deferral only for entities applying the guidance in Update 2014-09 retrospectively to each prior reporting period presented. The Board decided to solicit feedback from stakeholders on that approach through this proposed Update.

BC10. The Board also decided to propose an additional one-year deferral for entities that are not public business entities, certain not-for-profit entities, or certain employee benefit plans. Some Board members believe that the additional one-year deferral would allow those entities to learn from the experiences of entities that adopt the guidance earlier and would help to ensure that sufficient resources are available to assist those entities with their implementation of the guidance in Update 2014-09. Those Board members also stated that an additional one-year deferral for those entities would be consistent with the FASB's and the Private Company Council's *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*.

Early Adoption

BC11. The Board is proposing to permit all entities to adopt the guidance in Update 2014-09 early, but not before the original effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans. The Board believes that early adoption should be allowed as of the original effective date so those entities that are prepared to adopt the new guidance as of that date are not negatively affected. The Board believes that absent the ability to apply the guidance in Update 2014-09 as of the original effective date, those entities might incur additional implementation costs resulting from running dual reporting systems during the deferral period. The Board acknowledges that permitting early adoption could result in noncomparability across entities but that noncomparability would occur for a fairly short period. Additionally, the Board notes that because different entities have different year-ends, there would be some degree of noncomparability during the transition period.

Benefits and Costs

BC12. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC13. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update. The proposed amendments would defer the effective date of GAAP that is not yet effective, while permitting application of that GAAP as of the original effective date. Based on outreach with stakeholders, the Board expects that the amendments in this proposed Update would reduce implementation costs for some organizations.

BC14. The Board believes that the amendments in this proposed Update could potentially and temporarily increase costs for users of financial statements because of noncomparability resulting from different effective dates. However, the Board believes that absent a deferral of the effective date, some entities may have insufficient time to implement the guidance in Update 2014-09, which could affect the quality of financial information provided to users of financial statements and could be more costly for those users in the long term.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.