

MINUTES



MEMORANDUM

To: Board Members
From: FASB staff
Subject: Revenue Recognition Minutes of June 22, 2015 Joint Board Meeting
Date: June 29, 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—Principal versus agent (reporting revenue gross versus net)

Basis for Discussion: FASB Memo 2 / IASB Memo 7A: Principal versus Agent Considerations; FASB Memo 3: Estimating Gross Revenue as a Principal, FASB Memo 4: Cover Memo

Length of Discussion: 7:45 a.m to 10:00 a.m. EDT

Attendance:

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

Board members absent: Siegel

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

Other staff at Board table: Cosper, Floyd, and Willette

Outside participants: None

Type of Document:

The FASB and the IASB (the Boards) met to discuss implementation questions about the guidance on principal versus agent considerations in Topic 606, *Revenue from Contracts with Customers*, and IFRS 15, *Revenue from Contracts with Customers*. Those issues emerged from meetings of the Transition Resource Group for Revenue Recognition.

The FASB decided to propose some amendments to clarify the principal versus agent considerations guidance in Topic 606. The FASB also discussed whether an entity that is a principal in a contract with a customer should estimate gross revenue if it does not know the amount charged to the end customer. The IASB affirmed the clarifications to the Application Guidance and Illustrative Examples that it decided to propose at its May 2015 meeting. The IASB also decided to propose further amendments with respect to that guidance. As a result, the FASB and the IASB have tentatively agreed to similar amendments for Topic 606 and IFRS 15, respectively.

The following paragraphs set out the IASB's and the FASB's decisions reached in May and June 2015 with respect to the guidance on principal versus agent considerations.

Principal versus Agent Considerations

Principle for Determining Whether an Entity's Promise Is to Provide or to Arrange

The Boards reaffirmed the principle in Topic 606 and IFRS 15 that an entity's promise is to provide a specified good or service to a customer (that is, the entity is a principal) when it controls the specified good or service before that good or service is transferred to the customer. In contrast, the entity's promise is to arrange for another party to provide that good or service (that is, the entity is an agent) when it does not control the specified good or service before it is transferred to the customer.

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

Unit of Account for the Principal versus Agent Evaluation

The Boards decided to amend the guidance on principal versus agent considerations to clarify that a specified good or service is a distinct good or service (or distinct bundle of goods or services). Depending on the circumstances, a specified good or service may be a right to an underlying good or service to be provided by another party.

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

Application of the Control Principle

The Boards decided to amend the guidance on principal versus agent considerations to clarify the application of the control principle in the context of services.

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

Control Indicators

The Boards decided to amend the guidance on principal versus agent considerations to clarify the role of the indicators in paragraph 606-10-55-39 of Topic 606 and paragraph B37 of IFRS 15. In particular, those amendments would clarify:

1. That the indicators assist in the evaluation of control, rather than override or replace the control evaluation
2. How each indicator relates to the control principle
3. That one or more indicators may be more or less relevant to the control evaluation in different contracts.

The Boards also decided to reframe the indicators to indicate when an entity is a principal, rather than when an entity is an agent.

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

Illustrative Examples

The Boards decided to amend the principal versus agent examples in Topic 606 and IFRS 15, and to include some additional examples, to clarify the application of the principal versus agent guidance.

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

Estimating Gross Revenue as a Principal

The FASB discussed contracts in which the entity is a principal but is unaware of the price paid for its goods or services by the end customer to an intermediary (or agent). The FASB considered whether the entity should estimate the price paid by the end customer to the intermediary in determining the transaction price. No tentative decisions were reached. The Board instructed the staff to perform some additional analysis.

Next Steps

The FASB will discuss the topic of estimating gross revenue as a principal at a future Board meeting. After discussing that topic, the FASB plans to include that issue and principal versus agent considerations in a single Exposure Draft.

The IASB decided to incorporate its tentative decisions about the guidance on principal versus agent considerations within the Exposure Draft of proposed clarifications to IFRS 15 that the IASB plans to publish in July 2015.

General Announcements: None.