

MINUTES



MEMORANDUM

To: Board Members
From: FASB staff
Subject: Minutes of the October 5, 2015 Board Meeting
Date: October 8, 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—Identifying Performance Obligations and Licensing

Basis for Discussion: FASB Memo 4: Redeliberations – Cover Memo and Comment Letter Summary
FASB Memo 5: Redeliberations – Identifying Performance Obligations
FASB Memo 6: Redeliberations – Licenses

Length of Discussion: 9:00 a.m to 11:30 a.m. EDT

Attendance:

Board members present: Golden, Buck, Kroeker, Linsmeier, Schroeder, Siegel, and Smith

Board members absent: None

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

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

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to redeliberate its May 2015 proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*.

The Board affirmed most of the amendments in the proposed Update. The Board also made additional decisions within the scope of the following topics:

1. Identifying performance obligations
2. Licensing.

The Board's technical plan calls for a final Accounting Standards Update to be issued in the fourth quarter of 2015.

Identifying Performance Obligations

The Board reached decisions about (1) identifying promised goods or services that would be subject to the separation guidance, (2) application of the distinct guidance, (3) accounting for shipping and handling activities, (4) the series provision, and (5) disclosure of the transaction price allocated to remaining performance obligations.

Promised Goods or Services

The Board affirmed its proposal that an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract with a customer. Optional goods or services will continue to be accounted for in accordance with paragraphs 606-10-55-41 through 55-45. An entity will not be required to accumulate goods or services assessed as immaterial in the context of the contract and assess their significance at the financial statement level.

(Vote: 5 to 2)

In addition, the Board decided that if, as a result of not identifying promised goods or services that are immaterial in the context of the contract, revenue is recognized before all of the good or services promised in the contract are transferred to the customer, the related costs to transfer those goods or services should be accrued.

(Vote: 4 to 3)

Separately Identifiable (or “Distinct Within the Context of the Contract)

The Board affirmed its previous decisions to:

1. Improve upon the articulation of the separately identifiable principle in paragraph 606-10-25-19(b) by clarifying in paragraph 606-10-25-21 that the objective when assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable is to determine whether the nature of the entity’s overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the promised goods or services are inputs.
2. Revise the factors in paragraph 606-10-25-21 to align those factors to the re-articulated separately identifiable principle.
3. Revise the existing illustrative examples and provide additional illustrative examples to clarify how the Board intends the guidance on identifying performance obligations to be applied.

(Vote: 7 to 0)

Shipping and Handling Activities

The Board affirmed its decision to amend the guidance in Topic 606 as it applies to shipping and handling activities. The amendments to Topic 606 will clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfillment activities. In addition, the amendments would 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.

(Vote: 5 to 2)

The Board also decided that the guidance in Topic 606 should specify that if revenue is recognized before contractually-agreed shipping and handling activities occur, the related costs of those shipping and handling activities should be accrued.

(Vote: 4 to 3)

Series Provision

The Board decided not to make optional the guidance in paragraphs 606-10-25-14(b) through 25-15 that requires an entity to account for a series of distinct goods or services as a single performance obligation if (1) each distinct good or service would be a performance obligation satisfied over time and (2) the same

method would be used to measure the entity's progress towards complete satisfaction of each distinct good or service (collectively, the "series provision"). Consequently, the series provision remains a requirement of Topic 606.

(Vote: 6 to 1)

Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

The Board decided not to amend the disclosure requirements in paragraphs 606-10-50-13 through 50-14. Rather, the Board directed the staff to perform additional research about the effect of introducing an additional disclosure practical expedient that would permit entities to not provide the disclosures about transaction price required by paragraph 606-10-50-13 if doing so would require the entity to accumulate information solely for disclosure purposes when those amounts are not needed to recognize and measure revenue. The Board asked the staff to report the results of the research separate from this Identifying Performance Obligations and Licensing project.

(Vote: 6 to 1)

Licensing

The Board reached decisions about (1) determining the nature of the entity's promise in granting a license, (2) when an entity should determine the nature of its promise in granting a license, (3) sales-based and usage-based royalties, and (4) contractual restrictions in licensing arrangements.

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

The Board affirmed that an entity's promise to transfer a license to functional intellectual property (that is, intellectual property that has significant standalone functionality—for example, the ability to process a transaction, perform a function or task, or be played or aired) that is a separate performance obligation is satisfied at the point in time the license is granted unless both of the following criteria are met:

1. The functionality of the intellectual property to which the customer has rights is expected to substantively change during the license period as a result of activities of the entity that do not transfer a promised good or service to the customer.
2. The customer is contractually or practically required to use the updated intellectual property resulting from criterion (1).

(Vote: 5 to 2)

The Board also affirmed that an entity's promise to transfer a license to symbolic intellectual property (that is, all intellectual property that does not have significant standalone functionality) is satisfied over time because the entity's promise to the customer includes continuing to support or maintain the intellectual property to which the customer has rights.

(Vote: 5 to 2)

The Board decided not to enact a provision that would recognize licenses of symbolic intellectual property at the point in time the license is granted if it is reasonably certain the entity will not undertake any activities to support or maintain the intellectual property during the license period.

(Vote: 4 to 3)

When an Entity Should Determine the Nature of Its Promise in Granting a License

The Board affirmed its decision to clarify that, in some cases, an entity would need to determine the nature of its promise in granting 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.

(Vote: 7 to 0)

Sales-Based and Usage-Based Royalties

The Board affirmed its decision 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 recognition exception and a portion that is not subject to the exception (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.

(Vote: 7 to 0)

In addition, the Board decided all of the following:

1. To clarify application of the sales-based and usage-based royalties exception to performance obligations satisfied over time through revisions to the relevant examples and the basis for conclusions of the final Accounting Standards Update **(Vote: 7 to 0)**
2. Not to expand the scope of the royalties exception to include *sales* of intellectual property **(Vote: 6 to 1)**
3. An entity should not attempt to discern whether a license to intellectual property is an “in-substance sale” of that intellectual property in deciding whether or not the royalties exception applies. **(Vote: 7 to 0)**

Contractual Restrictions in Licensing Arrangements

The Board decided to affirm its decision to clarify in Topic 606 that contractual restrictions of the nature described in paragraph 606-10-55-64 are attributes of a license and, consequently, do not define whether the entity satisfies its performance obligation at a point in time or over time or change the number of promises in the contract. The Board also affirmed its view that differentiating attributes of a promised license from other promises to the customer in the contract often will require judgment.

(Vote: 7 to 0)

Next Steps

The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot.

Two Board members plan to dissent on the basis of concerns related to promised goods or services that are immaterial in the context of the contract, shipping and handling activities, and determining the nature of the entity’s promise in granting a license. **(Vote: 5 to 2)**

General Announcements: None.