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April 26, 2017

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the March 16, 2017 meeting of the FASB Emerging Issues Task Force (EITF).

On March 29, 2017, the Board ratified the Task Force consensus on Issue 16-C. The Accounting Standards Update is expected to be posted to the FASB website in the second quarter of 2017.

The next regular EITF meeting is scheduled for June 8, 2017. As of today, there are no open issues on the EITF agenda. The extra EITF meeting date reserved for May 18, 2017, will not be utilized.

Please call or email me if you have any questions.

Sincerely,

Robert Moynihan

FASB Practice Fellow

Financial Accounting Standards Board

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**Emerging Issues Task Force
Meeting Minutes
March 16, 2017**

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**MINUTES OF THE MARCH 16, 2017 MEETING
OF THE FASB EMERGING ISSUES TASK FORCE**

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, March 16, 2017

Starting Time: 8:30 a.m.

Concluding Time: 9:30 a.m.

Task Force Members Present:

Susan M. Cospers (Chairman)

John M. Althoff

Kimber K. Bascom

Paul Beswick (by telephone)

James G. Campbell (by telephone)

Terri Z. Campbell (by telephone)

Alexander M. Corl (by telephone)

Bret Dooley (by telephone)

Carl Kampel (by telephone)

Mark LaMonte (by telephone)

Mark Scoles (by telephone)

Ashwinpaul C. (Tony) Sondhi (by telephone)

Robert Uhl

Kevin Vaughn (SEC Observer) (by telephone)

James A. Dolinar (FinREC Observer) (by telephone)

Yan Zhang (PCC Observer) (by telephone)

Task Force Members Absent:

None

Others at Meeting Table:

Russell G. Golden, FASB Board Chairman
James L. Kroeker, FASB Board Member
Harold L. Monk, Jr., FASB Board Member
Marc A. Siegel, FASB Board Member
Larry W. Smith, FASB Board Member
R. Harold Schroeder, FASB Board Member
Christine A. Botosan, FASB Board Member
Lawrence N. Dodyk, Incoming Task Force Member
Robert O. Moynihan, EITF Coordinator
Thomas J. Faineteau, FASB Practice Fellow
Jaime Dordik, FASB Assistant Project Manager
Caro Baumann, FASB Postgraduate Technical Assistant

ADMINISTRATIVE MATTERS

- The EITF chairman introduced Mr. Kimber K. Bascom, KPMG LLP, replacing Mr. Robert B. Malhotra as a member of the Task Force effective with the March meeting. The EITF chairman also introduced Mr. Lawrence N. Dodyk, PwC LLC, replacing Mr. John Althoff as a member of the Task Force effective with the June meeting. The Chairman thanked Mr. Malhotra and Mr. Althoff for their contributions to the Task Force.
- The EITF chairman thanked Mr. Lawrence J. Salva, who resigned from Comcast Corporation and therefore from the EITF, for his contributions to the Task Force.
- The EITF chairman welcomed Ms. Yan Zhang, EisnerAmper LLP, as the new Private Company Council (PCC) Observer to the EITF.
- The EITF chairman welcomed Mr. Harold L. Monk, Jr., to his first EITF meeting as a FASB Board member. Mr. Monk was previously a partner at Carr, Riggs & Ingram, LLC, and a member of the PCC since April 2016.
- A FASB staff member provided an update on feedback received from the EITF Working Group on Implementation Costs Incurred in a Cloud Computing Arrangement That is Considered a Service Contract.
- The EITF Coordinator announced that the final consensus reached at this meeting will be considered by the Board for ratification at the March 29, 2017 Board meeting.
- The EITF Coordinator announced that the next regular EITF meeting is scheduled for June 8, 2017, and that the extra EITF meeting date reserved for May 18, 2017, will not be utilized.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 16-C

Title: Determining the Customer of the Operation Services in a Service Concession Arrangement

Dates Discussed: September 22, 2016; March 16, 2017

Background

1. At its August 31, 2016 meeting, the Board decided to add a project to its agenda to address the accounting for service concession arrangements. The Board decided to refer this project to the EITF.

Issue

2. A service concession arrangement (SCA) is an arrangement between a grantor (a government or public sector entity) and an operating entity whereby the operating entity will operate the grantor's infrastructure (for example, airports, roads, bridges, tunnels, prisons, and hospitals) for a specified period of time. The operating entity may also maintain the infrastructure, and may also be required to provide periodic capital-intensive maintenance (major maintenance) to enhance or extend the life of the infrastructure. The infrastructure may already exist or may be constructed by the operating entity during the period of the SCA.

3. The application of other Topics to the unique nature of SCAs has recently led to a number of accounting questions, including questions related to the application of Topic 605, Revenue Recognition, when accounting for construction and operation services, and major maintenance. Similar accounting issues also could arise under Topic 606, Revenue from Contracts with Customers. The primary issue the EITF decided to address is how to determine the customer of the operation services in a service concession arrangement within the scope of Topic 853.

Scope

4. This Issue applies to the accounting by operating entities for service concession arrangements within the scope of Topic 853.

Prior EITF Discussion

Determining the Customer of the Operation Services in an SCA

5. In a service concession arrangement, an operating entity may provide construction services when the infrastructure does not exist and may provide operation services (which include operation and general maintenance of the infrastructure). Other services also may be provided. It is generally accepted that the grantor is the customer of any construction services provided by the operating entity because the construction services create or enhance an asset that the grantor controls. However, the current lack of guidance in GAAP for operation services has led to diversity in practice, and some operating entities have looked to International Financial Reporting

Interpretations Committee (IFRIC) Interpretation 12, *Service Concession Arrangements* (IFRIC 12) for additional guidance. Accordingly, some operating entities have concluded that the customer of the operation services depends on the terms of the SCA, including who bears demand risk (that is, the ability and willingness of users to pay for the service), which is an evaluation consistent with IFRIC 12. In contrast, other operating entities have concluded that the customer of the operation services is the grantor in all cases after considering the scope of, and decisions reflected in, Topic 853.

6. At its September 22, 2016 meeting, the Task Force reached a consensus-for-exposure that the grantor is the customer of the operation services in all cases for service concession arrangements within the scope of Topic 853. Current guidance in Topic 853 states that both of the following conditions exist in a service concession arrangement:

- a. The grantor controls or has the ability to modify or approve the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price
- b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

The infrastructure that is the subject of an SCA within the scope of Topic 853 should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Accordingly, the Task Force determined that the customer of the operation services is the grantor because the operating entity is acting as the grantor's service provider (or outsourcer) to operate and maintain the infrastructure, which is controlled by the grantor, and the only parties to the executed SCA are the grantor and the operating entity.

7. One Task Force member noted that the conclusion that the grantor is the customer of the operation services in all cases is not consistent with IFRIC 12. That Task Force member observed that IFRIC 12 is similar in scope to Topic 853 and similarly concludes that the infrastructure in an SCA should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Yet, the customer of the operation services could be either the grantor or the third-party users in IFRIC 12 depending on the terms of the SCA, including who bears demand risk. However, that Task Force member also acknowledged that the Task Force could reach a different conclusion without contradicting IFRIC 12 because GAAP, unlike IFRIC 12, does not currently describe the operating entity's role and rights when it has demand risk in these arrangements. Other Task Force members, while understanding the notion of demand risk, noted that demand risk does not outweigh the fact that the grantor controls, or has the ability to modify or approve, the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price. Some Task Force members also observed that demand risk is only an economic variable considered in the negotiation and pricing of an SCA; it is not the determinant of who the customer is for accounting purposes.

8. While some Task Force members noted that the way in which the customer of the operation services is determined might be based on the facts and circumstances of a particular transaction (in part because SCAs can take many different forms), the Task Force ultimately decided that the grantor would be the customer of the operation services in all cases for the reasons previously discussed in paragraph 6.

9. Considering the consensus-for-exposure described in paragraph 6, the Task Force noted that it addressed the diversity in practice observed about the recognition of revenue from construction services in certain service concession arrangements in which the third-party users were considered the customer of the operation services by some stakeholders. Accordingly, the Task Force determined that no additional guidance was necessary for that particular aspect of the revenue guidance. The Task Force also considered whether it was necessary to clarify other aspects of the revenue guidance, such as determining whether major maintenance is a separate deliverable under Topic 605 (or a separate performance obligation under Topic 606) or evaluating whether major maintenance can be capitalized when it is not a separate deliverable (or a separate performance obligation). The Task Force noted that the clarification provided by the consensus-for-exposure described in paragraph 6 addresses the added complexity and resulting diversity in practice that were created by the uncertainty about the customer determination and observed in the application of those other aspects of the revenue guidance. The Task Force noted that sufficient accounting guidance exists in GAAP and, accordingly, concluded that no further standard setting is necessary.

Effective Date and Transition

10. At its September 22, 2016 meeting, the Task Force reached a consensus-for-exposure that an entity that has not adopted Topic 606 would be required to adopt the amendments resulting from this Issue at the same time that it adopts Topic 606 and would apply the same transition method elected for the application of Topic 606. An entity also would provide the same transition disclosures required in Topic 606. The Task Force also reached a consensus-for-exposure that an entity that has adopted Topic 606 would apply the amendments resulting from this Issue using either (a) a retrospective approach or (b) a modified retrospective approach by recording a cumulative-effect adjustment to equity at the date of initial application. The date of initial application is the start of the reporting period in which an entity would first apply the amendments resulting from this Issue. The transition disclosures would depend on which method the entity elects to apply those amendments.

11. One Task Force member observed that while the alignment of the effective date with the adoption timeline for Topic 606 may cause a delay in resolving the identified diversity in practice, the costs a reporting entity would incur to change its revenue accounting twice in a relatively short period of time would not be justified. That is, an operating entity that currently determines under Topic 605 that the customer of the operation services is the third-party users may need to adopt the amendments resulting from this Issue to align its accounting under Topic 605 with those amendments, only to perform another transition upon adoption of Topic 606 shortly thereafter. Accordingly, the transition provisions resulting from this Issue generally would require an operating entity to perform only one transition relating to its accounting for revenues for service concession arrangements in the near future.

12. The Task Force will determine the effective date for entities that have adopted Topic 606, and whether to permit early adoption of the amendments, after it considers stakeholder feedback on the proposed amendments resulting from this Issue.

Board Ratification

13. At its October 5, 2016 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the staff to draft a proposed Update reflecting the consensus-

for-exposure for vote by written ballot. The Board decided to expose the proposed Update for public comment for a period of 60 days.

Current EITF Discussion

Determining the Customer of the Operation Services in an SCA

14. In a service concession arrangement, an operating entity may provide construction services when the infrastructure does not exist and may provide operation services (which include operation and general maintenance of the infrastructure). Other services also may be provided. It is generally accepted that the grantor is the customer of any construction services provided by the operating entity because the construction services create or enhance an asset that the grantor controls. However, the current lack of guidance in GAAP for operation services led to diversity in practice, and some operating entities looked to IFRIC 12 for additional guidance. Accordingly, some operating entities concluded that the customer of the operation services depends on the terms of the service concession arrangement, including who bears demand risk (that is, the ability and willingness of users to pay for the service), which is an evaluation consistent with IFRIC 12. In contrast, other operating entities concluded that the customer of the operation services is the grantor in all cases after considering the scope of, and decisions reflected in, Topic 853.

15. At its March 16, 2017 meeting, the Task Force reached a consensus that the grantor is the customer of the operation services in all cases for service concession arrangements within the scope of Topic 853. Current guidance in Topic 853 states that both of the following conditions exist in a service concession arrangement:

- a. The grantor controls or has the ability to modify or approve the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price
- b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

The infrastructure that is the subject of a service concession arrangement within the scope of Topic 853 should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Accordingly, the Task Force determined that the customer of the operation services is the grantor because the operating entity is acting as the grantor's service provider (or outsourcer) to operate and maintain the infrastructure, which is controlled by the grantor, and the only parties to the executed service concession arrangement are the grantor and the operating entity.

16. One Task Force member noted that the conclusion that the grantor is the customer of the operation services in all cases is not consistent with IFRIC 12. That Task Force member observed that IFRIC 12 is similar in scope to Topic 853 and similarly concludes that the infrastructure in a service concession arrangement should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Yet, in IFRIC 12 the customer of the operation services could be either the grantor or the third-party users depending on the terms of the service concession arrangement, including who bears demand risk. However, that Task Force member also acknowledged that the Task Force could reach a different conclusion without contradicting IFRIC 12 because GAAP, unlike IFRIC 12, does not currently describe the operating entity's role and

rights when it has demand risk in a service concession arrangement. Other Task Force members, while understanding the notion of demand risk, noted that demand risk does not outweigh the fact that the grantor controls or has the ability to modify or approve the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price. Some Task Force members also observed that demand risk is only an economic variable considered in the negotiation and pricing of a service concession arrangement; it is not the determinant of who the customer is for accounting purposes.

17. While some Task Force members noted that the way in which the customer of the operation services is determined might be based on the facts and circumstances of a particular transaction (in part because service concession arrangements can take many different forms), the Task Force ultimately decided that the grantor is the customer of the operation services in all cases for the reasons described in paragraph 15.

Disclosure

18. The Task Force also considered whether to require additional disclosures about the identification of the customer of the operation services. Because the Task Force reached a consensus that the grantor is the customer of the operation services in all cases, the Task Force decided not to require any additional disclosures because those disclosures would not result in any incremental information to users.

Effective Date and Transition

Entity Has Not Yet Adopted Topic 606

19. At its March 16, 2017 meeting, the Task Force reached a consensus that an entity that has not adopted Topic 606 before the issuance of the amendments in the Update resulting from this Issue generally should adopt the amendments in the Update resulting from this Issue at the same time that it adopts Topic 606 (whether that is early or at the required date for Topic 606 adoption). Accordingly, an entity that adopts Topic 606 after the issuance of the amendments in the Update resulting from this Issue should adopt the amendments in the Update resulting from this Issue at the same time that it adopts Topic 606 and should apply the amendments in the Update resulting from this Issue using the same transition method elected for the application of Topic 606 (including applying the same practical expedients, to the extent applicable), unless the entity elects to early adopt the amendments in the Update resulting from this Issue as described in paragraph 20. An entity also should provide the same transition disclosures required by Topic 606. While the alignment of the effective date of the amendments in the Update resulting from this Issue with the adoption timeline for Topic 606 may cause a delay in resolving the identified diversity in practice, one Task Force member observed that the costs a reporting entity would incur by being required to change its revenue accounting twice in a relatively short period of time was not justified. That is, an operating entity that currently determines under Topic 605 that the customer of the operation services is the third-party users would have had to adopt the amendments in the Update resulting from this Issue to align its accounting under Topic 605 with the amendments in the Update resulting from this Issue, only to then perform another transition upon adoption of Topic 606 shortly thereafter. Accordingly, the transition provisions in the Update resulting from this Issue generally require an operating entity to perform only one transition relating to its accounting for revenues for service concession arrangements in the near future. The Task Force also considered

that the alignment of the effective date of the amendments in the Update resulting from this Issue with the adoption timeline for Topic 606 may result in situations in which an entity is required to adopt the amendments in the Update resulting from this Issue almost immediately (for example, if an operating entity with a fiscal year beginning on July 1, 2017, early adopts Topic 606 on July 1, 2017), but the Task Force determined that this scenario would be rare.

20. The Task Force also reached a consensus that earlier application of the amendments in the Update resulting from this Issue before an entity adopts Topic 606 should be permitted, including earlier application within an interim period. This is because the Update resulting from this Issue addresses the diversity in practice observed under Topic 605 about how an operating entity determines the customer of the operation services, and it addresses the added complexity and resulting diversity in practice that were created by the uncertainty about the customer determination and observed in the application of other aspects of the revenue guidance under Topic 605. An entity that early adopts the amendments in the Update resulting from this Issue before adopting Topic 606 should apply those amendments using either (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (b) a retrospective approach. The transition disclosures depend on the transition method that the entity uses for the amendments in the Update resulting from this Issue. If an entity early adopts the amendments in the Update resulting from this Issue in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Task Force also decided that an entity that early adopts the amendments in the Update resulting from this Issue before it adopts Topic 606 should not be permitted to use any of the practical expedients provided in paragraph 606-10-65-1(f). This is because those practical expedients were developed specifically for entities' transition to Topic 606, which introduces broad changes related to revenue accounting as compared with Topic 605, including changes on how an entity accounts for variable consideration. The election to apply the modified retrospective approach to either all contracts or only contracts that are not completed contracts at the date of initial application, as referred to in paragraphs 606-10-65-1(h) and 853-10-65-2-(g), is not considered a practical expedient for this purpose.

Entity Has Adopted Topic 606

21. For an entity that has adopted Topic 606 before the issuance of the Update resulting from this Issue, the Task Force decided to require that a public business entity (and certain other entities as described in paragraph 853-10-65-2(b)) apply the amendments in the Update resulting from this Issue for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the amendments in the Update resulting from this Issue are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Task Force also reached a consensus that an entity that already has adopted Topic 606 should apply the amendments in the Update resulting from this Issue using either (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (b) a retrospective approach, irrespective of the transition method that the entity used when initially applying the amendments in Topic 606. However, the Task Force decided to require an entity that has adopted Topic 606 before the issuance of the Update resulting from this Issue to use the same practical expedients when applying the amendments in the Update resulting from this Issue that the entity used in paragraph 606-10-65-1(f) when initially applying Topic 606, to the extent applicable. The

transition disclosures depend on the transition method that the entity uses for the amendments in the Update resulting from this Issue.

22. Earlier application of the amendments in the Update resulting from this Issue is permitted for all entities, including within an interim period. If an entity early adopts the amendments in the Update resulting from this Issue in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Board Ratification

23. At its March 29, 2017 meeting, the Board ratified the consensus reached by the Task Force on this Issue and directed the staff to draft a final Update reflecting the consensus for vote by written ballot.

Status

24. No further EITF discussion is planned.