

STAFF PAPER

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Project	FASB/IASB Joint Transition Resource Group for Revenue Recognition		
Paper topic	January 2015 Meeting – Summary of Issues Discussed and Next Steps		
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Purpose

1. The third meeting of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) was held on January 26, 2015. The purpose of the meeting was for the TRG members to inform the FASB and the IASB about potential issues with implementing Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and IFRS 15 *Revenue from Contracts with Customers* (collectively referred to as the “new revenue standard”), to help the Boards determine what, if any, action may be needed to address those issues.
2. The purpose of this paper is to provide a summary of (a) the issues discussed at the January 26, 2015 meeting, (b) views expressed at the meeting by the TRG members and FASB-IASB staff views about those issues, and (c) the Boards’ planned next steps, if any, for each of those issues.

Background

3. The following topics were discussed at the January 26, 2015 meeting:
 - (a) *Topic 1:* Identifying promised goods or services
 - (b) *Topic 2:* Incremental costs to obtain a contract

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- (c) *Topic 3: Transition: Contract modifications*
 - (d) *Topic 4: Noncash consideration*
 - (e) *Topic 5: Stand-ready obligations*
 - (f) *Topic 6: Islamic Financing Transactions*
 - (g) *Topic 7: Collectibility*
 - (h) *Topic 8: Variable consideration*
 - (i) *Topic 9: Material rights*
 - (j) *Topic 10: Consideration payable to a customer*
 - (k) *Topic 11: Significant financing component.*
4. The staff papers for each of those topics were made public to all stakeholders before the TRG meeting and are available on the [FASB's](#) and the [IASB's](#) websites. A direct link to the staff papers is also included within each topic below. This summary should be read in conjunction with those staff papers which contain a more detailed description of the issues, views, and staff analysis.
5. A replay of the entire meeting is available on the FASB's and the IASB's websites. The websites also contain a [log](#) of questions submitted to the TRG.

Topic 1: Identifying promised goods or services ([TRG Agenda Ref No. 12](#))

6. The TRG discussed potential implementation issues related to how an entity identifies promised goods or services in a contract with a customer. Step 2 of the model in the new revenue standard requires an entity to identify the performance obligations in a contract with a customer. Before an entity can identify its performance obligations in a contract with a customer, the entity first assesses the promised goods or services in that contract. A performance obligation is a promised good or service that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. If a promised good or service is not distinct, it is combined with other promised goods or services until a bundle of promised goods or services is considered distinct.

7. The TRG discussed whether members thought that entities should be identifying a significantly greater number of promised goods or services compared to the number of deliverables under current guidance.
8. TRG members generally agreed that they did not think that the new revenue standard was intended to significantly increase the number of promised goods or services identified relative to the number of deliverables, components or elements of a contract under existing guidance. However, TRG members noted that any promised goods or services in a contract that are considered to be marketing incentives (and not deliverables) under current guidance should be evaluated as potential performance obligations under the new revenue standard. That is because a marketing incentive promised in a contract is a promise made as part of the negotiated exchange between the entity and its customer. In addition, TRG members agreed that judgment must be exercised when assessing the promised goods or services in a contract with a customer for the purposes of identifying performance obligations, and that entities should consider the nature of the promise to the customer.
9. The staff agrees with the views of TRG members that the new revenue standard was not intended to significantly increase the number of promised goods or services identified relative to the number of deliverables, components or elements of a contract under existing guidance and that judgment is required to perform this assessment. This conclusion is consistent with the Boards' considerations, as explained in paragraph BC84, which states that the notion of a performance obligation is similar to the notion of a deliverable.
10. Although most TRG members agreed that they understand the Boards' intentions, some TRG members noted that under current U.S. GAAP, entities are permitted to recognize all of the revenue in a contract if the seller's remaining obligations are inconsequential or perfunctory. Those TRG members noted that paragraph BC90 in the new revenue standard states the Boards decided not to exempt an entity from accounting for performance obligations that may be considered inconsequential or perfunctory.

11. However, the staff noted that this sentence in the basis for conclusions should not be read in isolation. Paragraph BC90 also states that “an entity should assess whether those performance obligations are immaterial to its financial statements as described in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, or IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.” The full paragraph, including the references to materiality, should be considered when assessing promised goods or services and identifying performance obligations. Some TRG members based in the United States noted that demonstrating whether promised goods or services are immaterial at the financial statement level might involve cost and complexity.
12. The discussion helped to inform the Boards about the challenges that are expected to arise in applying the new revenue standard with respect to identifying promised goods or services. The feedback from the TRG on this issue was considered by the Boards as part of the Boards’ discussion on ‘identifying performance obligations’ at a joint Board meeting on February 18, 2015.

Topic 2: Incremental costs to obtain a contract ([TRG Agenda Ref No. 23](#))

13. The TRG discussed the recognition of incremental costs of obtaining a contract (for example, sales commissions) and determining the amortization period. Entities often pay sales commissions in respect of obtaining a contract. Determining the incremental cost is straightforward when the commission is a fixed amount or a percentage of contract value on a contract that is not expected to be renewed. However, more complex arrangements might require the exercise of judgement in applying the principles of the new revenue standard.
14. The TRG discussion focused broadly on the high-level principles for applying the guidance. The staff paper includes some examples of how to apply the guidance in the following scenarios:
- (a) Commission paid on renewals after the initial contract is obtained (*Issue 1*)
 - (i) Capitalization of the commission (*Issue 1a*)
 - (ii) What is the amortization period? (*Issue 1b*)

(iii) How should entities evaluate whether a commission paid for a renewal is “commensurate with” a commission paid on the initial contract? (*Issue 1c*)

- (b) Should commissions earned on contract modifications that are not treated as separate contracts be capitalized? (*Issue 2*)
- (c) Are the costs incremental if they are contingent on future events? (*Issue 3*)
- (d) Should commission payments subject to clawback be capitalized as an incremental cost of obtaining a contract? (*Issue 4*)
- (e) Should commissions based on achieving cumulative targets be capitalized? (*Issue 5*)
- (f) Should entities consider fringe benefits in the assessment of determining the amount of commissions to record as incremental costs? (*Issue 6*)
- (g) How should entities determine the pattern of amortization for a contract cost asset that relates to multiple performance obligations that are satisfied over disparate points or periods of time? (*Issue 6*)

15. During the meeting, TRG members discussed the framework for answering the questions above, but did not discuss each example in detail. Most TRG members agreed that in many cases existing guidance outside of the revenue standard will be relevant in determining whether a liability should be recognized for the costs of obtaining a contract and how that liability should be measured. If an entity concludes that a liability should be recognized under other U.S. GAAP (such as Topic 405) or IFRS (such IAS 37), an entity then should evaluate whether the cost should be recognized as an asset in accordance with Topic 340 or IFRS 15, paragraphs 91 through 104. Entities will need to apply judgment in this area, including in determining the amortization period.

16. The staff agree with the view of most TRG members that an entity should refer to the liability guidance to determine if a liability should be recognized and then refer to the new revenue standard to determine whether the cost should be recognized as an asset or as an expense as incurred. The staff agrees with TRG members that judgment is required in this area.

17. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent with the standard, the staff do not recommend that the Boards take any further action at this time.

Topic 3: Evaluating Contract Modifications Prior to the Date of Initial Application ([TRG Agenda Ref No. 24](#))

18. The TRG discussed some potential complexity in applying the contract modification guidance to modifications that occur before the date of initial application of the new revenue standard. A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract.
19. Some preparers have asserted that requiring, on transition to the new revenue standard, an evaluation of contract modifications that occurred before the date of initial application could be challenging especially if there are many long-term contracts with frequent modifications to those contracts.
20. TRG members did not discuss any specific potential practical expedients. Several TRG members offered to consider specific ideas for practical expedients after the meeting and provide input to the staff.
21. Board members directed the staff to perform additional research on this topic. The focus of the research is to identify specific practical expedients that would reduce cost and complexity at transition without significantly impacting the quality of information provided to financial statement users. Research updates will be provided to all stakeholders.

Topic 4: Noncash consideration ([TRG Agenda Ref No. 15](#))

22. When consideration is promised in a form other than cash, the new revenue standard requires an entity to determine the transaction price by measuring the noncash consideration at fair value. The noncash consideration could be in the form of goods

or services, and may also be in the form of a financial instrument or property, plant and equipment.

23. TRG members discussed the following issues related to implementing this guidance:
- (a) What is the measurement date for noncash consideration received (or receivable) from a customer? (*Issue 1*)
 - (b) How is the constraint on variable consideration applied to transactions in which the fair value of noncash consideration might vary due to both the form of the consideration and for reasons other than the form of the consideration? (*Issue 2*)
24. On Issue 1, TRG members agreed that the standard is unclear about the measurement date of noncash consideration. TRG members discussed the following three potential measurement dates:
- (a) *View A*: Measurement at contract inception
 - (b) *View B*: Measurement when noncash consideration is received (or receivable)
 - (c) *View C*: Measurement at the earlier of (i) when the noncash consideration is received (or receivable) and (ii) when the related performance obligation is satisfied (or as the performance obligation is satisfied).
25. On Issue 2, the following two views were discussed by TRG members:
- (a) *View A*: Constraint applies to variability resulting from both the form of consideration and for reasons other than the form
 - (b) *View B*: Constraint applied *only* to variability resulting from reasons other than the form of consideration.
26. Several TRG members noted that the bifurcation of the effects of variability required under View B might be challenging in some circumstances. In contrast, some members noted that the bifurcation of noncash consideration under View B might be the more conceptual approach and might avoid some unintended consequences.
27. Some TRG members, although acknowledging the lack of clarity about the measurement date, observed that in their experience transactions involving noncash considerations may arise more frequently in the U.S. than in other jurisdictions.

28. The TRG discussion informed the Boards about the different interpretations that have arisen in determining the measurement date for noncash consideration received (or receivable) and the complexities in applying the constraint on transactions involving noncash consideration. Board members directed the staff to perform additional research and outreach on the topic. The focus of the additional research and outreach is to understand whether there are specific improvements the Boards could make that would reduce the potential diversity in the measurement date for noncash consideration received (or receivable) from a customer and clarify the application of the constraint. Research updates will be provided to all stakeholders.

Topic 5: Stand-ready performance obligations ([TRG Agenda Ref No. 16](#))

29. The TRG discussed potential implementation issues with guidance related to how an entity identifies and accounts for stand-ready performance obligations. A stand-ready performance obligation is one in which the entity provides a service of “standing ready” to provide goods or services. The customer consumes and receives benefit from a stand-ready obligation from the assurance that a scarce resource (for example, snow removal equipment during the winter) is available to it when-and-if needed or called-upon.

30. The TRG discussed the following two issues:

(a) What is the nature of the entity’s promise in a stand-ready obligation?

(Issue 1)

(b) How should an entity measure progress towards the complete satisfaction of a stand-ready obligation that is satisfied over time? (Issue 2)

31. For Issue 1, TRG members generally agreed with the position put forth by the staff in the TRG Agenda Paper that, in some cases, the nature of the entity’s promise in a contract is to “stand-ready” for a period of time, rather than to provide the goods or services underlying the obligation (for example, the actual act of removing snow in the snow removal example included in paragraph 33(a)). The TRG Agenda Paper notes that the Boards acknowledged this as well in the Basis for Conclusions to the revenue standard. Several TRG members emphasized that judgment must be

exercised when determining whether the nature of the entity's promise is (a) that of standing ready to provide goods or services or (b) to actually provide specified goods or services. It was further discussed that whether the entity's obligation is to provide a defined good or service (or goods or services) or, instead, to provide an unknown type or quantity of goods or services might be a strong indicator as to the nature of the entity's promise.

32. Some examples of stand-ready obligations that were discussed by the TRG include promises to transfer unspecified software upgrades at the software vendor's discretion, provide when-and-if-available updates to previously licensed intellectual property based on advances in research and development of pharmaceuticals, and snow removal from an airport's runways in exchange for a fixed fee for the year. In contrast, a promise to deliver a specified number of goods or increments of service would not be a stand-ready obligation (for example, a promise to deliver one or more specified software upgrades).

33. For Issue 2, TRG members agreed with the position put forth by the staff in the TRG Agenda Paper that judgment should be exercised in determining the appropriate method to measure progress towards satisfaction of a stand-ready obligation over time, and the substance of the stand-ready obligation must be considered to align the measurement of progress towards complete satisfaction of the performance obligation with the nature of the entity's promise. Members generally agreed that the new revenue standard does not permit an entity to default to a straight-line measure of progress, but that a straight-line measure of progress (for example, one based on the passage of time) will be reasonable in many cases. Some TRG members observed that a straight-line measure of progress might not always be conceptually pure, but they acknowledged that a straight-line measure might be the most reasonable estimate an entity can make for a stand-ready obligation. The staff put forth the following two examples that were discussed by the TRG members:

- (a) In a snow removal scenario, the entity does not know, and it would likely not be able to reasonable estimate, how often (or how much) and/or when it will snow. This suggests the nature of the entity's promise is to stand ready to provide these services when-and-if it is needed. In this scenario, the entity may conclude that the customer does not benefit evenly

throughout the one-year contract period. As a result, the entity would select a more appropriate measure of progress (for example, one based on its expected efforts to fulfill its obligation to stand ready to perform, which may be substantially greater during the winter months than during the summer months).

- (b) In a scenario in which an entity promises to make unspecified (that is, when-and-if available) software upgrades available to a customer, the nature of the entity's promise is fundamentally one of providing the customer with a guarantee. The entity stands ready to transfer updates or upgrades when-and-if they become available, while the customer benefits evenly throughout the contract period from the guarantee that any updates or upgrades developed by the entity during the period will be made available. As a result, a time-based measure of progress over the period during which the customer has rights to any unspecified upgrades developed by the entity would generally be appropriate.

34. A few U.S. based TRG members questioned whether paragraph 14 in TRG Agenda paper 16 (related to the identification of specified and unspecified software upgrades) could potentially change current practice with respect to identifying specified upgrades. The FASB staff does not think that the new revenue standard requires entities to change how they determine what constitutes a specified upgrade right; the staff think that is established in practice and that it was not an intention of the new revenue standard to change practice in that regard. Rather, the staff clarified that the purpose of paragraph 14 in TRG Agenda paper 16 was to emphasize that additional, specified promises to a customer, whether specified software upgrades or any other specified good or service, must be evaluated as additional promises to the customer in the contract.

35. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent with the standard, the staff do not recommend that the Boards take any further action at this time.

Topic 6: Islamic Financing Transactions ([TRG Agenda Ref No. 17](#))

36. An Islamic financial institution (IFI) enters into contracts for sale of goods with deferred payment. The mark-up in these transactions is consistent with a market perception of compensation for time value. TRG members discussed whether these contracts should be first accounted for under the new revenue standard before applying the standard on financial instruments. Some TRG members highlighted that accounting for these contracts under the new revenue standard would not result in a faithful depiction of the IFI's activities. Those TRG members focused on the substance of the contract as a lending arrangement or that the contractual sale may not be part of the IFI's 'ordinary activities' as contemplated in the new revenue standard. Some TRG members suggested that the guidance in the new standard on principal versus agent considerations would apply to the substance of the contracts. U.S. stakeholders of the TRG did not comment on the issue because they were of the view that the issue is not a question on transition to the new revenue standard.
37. The IASB staff will report back to the Shariah-Compliant Instruments and Transactions Consultative Group. Because the comments from the TRG members indicated that the relevant guidance in the standard could help an IFI reach conclusions on the applicability of the new revenue standard to those contracts, the IASB staff does not recommend that the IASB take any further action at this time.

Topic 7: Collectibility ([TRG Agenda Ref No. 13](#))

38. The TRG discussed the following four questions on the guidance on collectibility in the new revenue standard.
- (a) How should an entity assess collectibility for a portfolio of contracts?
(*Issue 1*)
 - (b) When should an entity reassess collectibility? (*Issue 2*)
 - (c) How should an entity recognize revenue on contracts that are subsequently reassessed as not probable of collection (that is, after being addressed as collectible at contract inception)? (*Issue 3*)
 - (d) How should an entity assess whether a contract includes a price concession?
(*Issue 4*)

39. On Issue 1, TRG members agreed that if an entity considers collectibility of the transaction price to be probable for a portfolio of contracts, then the entity should recognize the transaction price as revenue when (or as) the performance obligations are satisfied. The resultant contract asset or receivable should then be assessed for impairment under other U.S. GAAP (Topic 310) or IFRS (IFRS 9).
40. On Issue 2, guidance in the new revenue standard requires entities to determine whether collectibility of the transaction price is probable at contract inception and also when there is an indication of a significant change in facts and circumstances. TRG members noted that the new revenue standard emphasizes that the determination of whether there is a significant change in facts or circumstances will be situation-specific and will often be a matter of judgment. Additionally, Example 4 in the new revenue standard illustrates when the change in the customer's financial condition is so significant that a reassessment of the criteria for identifying a contract is required resulting in the collectibility criterion not being met and the contract failing Step 1 of the new revenue standard. Example 4 also illustrates that it was not the Boards' intent to capture changes of a more minor nature (that is, those that do not call into question the validity of the contract) that might reasonably fluctuate during a contract term, especially a long-term contract.
41. On Issue 3, TRG members noted that a pure cash basis accounting method is not permitted under the new revenue standard when collectibility is deemed to be not probable, which represents a change from current practice for some entities. Some members asserted the resulting accounting might in some cases be punitive, especially when an entity cannot terminate a contract and is required to continue to provide services.
42. On Issue 4, TRG members agreed that judgment should be exercised when assessing whether a contract includes a price concession, noting that similar judgements are required under existing U.S. GAAP and IFRS.
43. The staff agrees with the view of most TRG members about how the new revenue standard should be applied to issues one through four.
44. The discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent

with the standard for all of the issues discussed. However, in view of the discussion on Issue 3, Board members directed the staff to perform additional research on this area. Research updates will be provided to all stakeholders.

Topic 8: Variable consideration ([TRG Agenda Ref No. 14](#))

45. The TRG discussed potential implementation questions related to the guidance on variable consideration in the new revenue standard. In Step 3 of the new revenue standard, an entity considers the terms of the contract and its customary business practices to determine the transaction price. In determining the transaction price, an entity is required to consider variable consideration and constraints on estimates of variable consideration.
46. The TRG discussed the following two issues:
- (a) When should an entity recognize consideration payable to a customer?
(Issue 1)
 - (b) Should the constraint on variable consideration be applied at the contract level or the performance obligation level? *(Issue 2)*
47. For Issue 1, TRG members generally supported the outcome of the view in the staff paper. This view would require an assessment of the guidance for both variable consideration and consideration payable to a customer. However, some TRG members noted that while the outcome of the view is reasonable, they were uncertain whether the standard was entirely clear about this outcome. TRG members also raised some questions on timing of recognition when the consideration payable to a customer is fixed, rather than variable.
48. On Issue 1, TRG members' feedback was informative to the staff. The staff plans to further analyse the issue in light of TRG member feedback and further discuss the issue at the TRG meeting in March 2015.
49. For Issue 2, TRG members generally agreed that the constraint on variable consideration should be applied at the contract level. Therefore, the assessment of whether a significant reversal of revenue will occur in the future (the constraint)

should consider the estimated transaction price of the contract rather than the amount allocated to a performance obligation.

50. On Issue 2, because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent with the standard, the staff does not recommend that the Boards take any further action on Issue 2 at this time.

Other Topics ([TRG Agenda Ref No. 18](#), [TRG Agenda Ref No. 19](#), [TRG Agenda Ref No. 20](#))

51. The TRG had initial discussions about submissions to the TRG related to material rights, consideration payable to a customer, and significant financing components. The purpose of those discussions was to provide the Boards and staff with preliminary feedback in preparation for the March 2015 TRG meeting.
52. No conclusions were drawn by the TRG on these potential implementation issues. The staff plans to perform additional research and outreach on those topics, and a staff paper discussing each issue will be discussed at the March 2015 TRG meeting.

Research Update

53. The staff provided a research update on issues raised at previous TRG meetings. Specifically, the staff updated the TRG on the status of research on licenses of intellectual property, identifying performance obligations, principal versus agent considerations, a potential deferral of the effective date, and stakeholders' suggestions for practical expedients (for example, presentation of taxes collected from customers and remitted to governmental authorities). The staff plans to provide research updates to all stakeholders at future TRG meetings.
54. The Boards discussed two topics, licenses and identifying performance obligations, at a joint Board meeting on February 18, 2015. Refer to the [FASB's Tentative Board Decisions](#) and the [IASB Update](#) for further details. The Boards plan to discuss the other issues described in the previous paragraph at Board meetings in March and April 2015.