MINUTES

Financial Accounting Standards Board

To:	FASB Board Members
From:	Revenue Recognition (Theilken x471)
Subject:	June 10, 2009 Board Meeting Minutes: Revenue Recognition
Date:	August 27, 2009
cc:	Bielstein, Golden, Stoklosa, Proestakes, Posta, Lott, Bement, Bonn, Zeyher, C. Smith, Glotzer, Mechanick, Gabriele, Chookaszian, Klimek, McGarity, Sutay, Van Eperen, FASB Intranet, Leisenring, Rees, Pitman, Hickey, Upton, Clark, Peerless, Knubley, Wright, Paul, Reese

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Topic:	Revenue Recognition: Gross versus Net Presentation of Revenue; Combination, Segmentation, and Modification of Contracts; Noncash Consideration
Basis for Discussion:	Board Memorandum dated June 4, 2009
Length of Discussion:	9:00–9:48 a.m.
Attendance:	
Board members present:	FASB: Herz, Linsmeier, Siegel, Seidman, and L. Smith
Board members present:	IASB: Leisenring
Board members absent:	None
Board members participating by phone:	None
Staff in charge of topic:	Bement
Other staff at Board table:	Golden, Proestakes, Van Eperen, and Bonn
Other staff at Board table:	IASB: Wright (by phone) and Rees (by phone)

Summary of Decisions Reached:

The Board discussed three topics that have not yet been addressed in the proposed revenue recognition model: (a) gross versus net presentation of revenue, (b) the combination, segmentation, and modification of contracts, and (c) nonmonetary exchanges.

Gross versus Net presentation of Revenues

When other parties are involved in providing goods and services to an entity's customer, the entity must determine what amounts to recognize as revenue; that is, whether to recognize revenue in the gross amount collected from the customer or the net amount the entity retains after compensating those other parties for their goods and services.

The Board decided that the amount an entity recognizes as revenue depends on the identification of performance obligations. In other words, the entity must determine whether its performance obligation is to provide goods and services itself or to arrange for another party to provide those goods and services. The Board directed the staff to further develop application guidance that would help entities to identify performance obligations consistently.

The Board decided that an entity should disclose separately revenue in the same line of business from (a) providing goods and services itself and (b) arranging for the provision of goods and services. The Board also decided that an entity should disclose the basis for its assessment and any significant judgment in identifying performance obligations when other parties are involved in providing goods and services to the entity's customer.

The Board also agreed that if an entity transfers a performance obligation to another party so that the entity is no longer obliged to provide the underlying good or service to the customer, the entity should not recognize revenue for that performance obligation.

Combination, Segmentation, and Modification of Contracts

The Boards' proposed revenue recognition model applies to contracts with customers. In most cases, a single contract gives rise to a single net contract position when applying the proposed model. However, in some cases, an entity's pattern of revenue (and profit) recognition can vary depending on how an entity combines contracts (or segments of a contract) into net contract positions.

The Board tentatively decided that two or more contracts with the same customer should be accounted for as a single net contract position if the prices of those contracts are interdependent. An entity should consider various indicators and exercise judgment when determining whether prices are interdependent.

The Board tentatively decided that an entity should account for a single contract with a customer as multiple contracts only if each contract segment is priced independently. At future meetings, the Board will further discuss some related issues involving the identification and measurement of performance obligations.

The Board also decided that when an entity modifies an existing contract, the modification should be accounted for as a separate contract if it is priced independently from the original contract. If the prices are interdependent, an entity should account for the original contract and modification as a single net contract position, recognizing the effect of the modification on a cumulative catch-up basis.

Nonmonetary Exchanges

The Board decided that an entity should recognize revenue for a nonmonetary exchange transaction only if the transaction has commercial substance. The Board also decided an entity should not recognize revenue from a nonmonetary exchange transaction if the purpose was to facilitate a sale to another party.

The Board decided that an entity should measure the nonmonetary consideration received at its fair value or, if it cannot be estimated reliably, by reference to the selling price of the promised goods and services. If neither of those amounts can be estimated reliably, then the transaction would not generate revenue. The Board also decided that a new revenue recognition standard should not provide additional guidance on specific barter transactions.

Objective of Meeting:

The objective of the meeting was to discuss three topics: (a) gross versus net presentation of revenue, (b) the combination, segmentation, and modification of contracts, and (c) noncash consideration. The staff sought to acquire the Board's tentative decisions on how the model proposed within the joint FASB-IASB Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers,* should address issues related to those topics. The objectives were met.

Matters Discussed and Decisions Reached:

TOPIC 1: GROSS VERSUS NET PRESENTATION OF REVENUE

1. The following four issues were discussed in relation to the presentation of revenue: (a) how an entity would apply the Boards' proposed model when other parties provide goods and services to the entity's customer, (b) factors to consider when identifying the performance obligation, (c) transferring a performance obligation, and (d) disclosure requirements.

2. Ms. Wright explained that entities often use other parties to fulfill contractual obligations to customers. The objective of this discussion is to help the Board decide what amounts the entity should recognize as revenue when this is the case, and more specifically whether the entity should recognize revenue as the gross amount that is billed to the customer or the net amount that is retained after other parties have been paid.

Issue 1A: Application of the Boards' Model

3. Ms. Wright stated that the staff's opinion is that the proposed model determines the amount that an entity should recognize as revenue by requiring the entity to identify whether its performance obligation is to provide goods and services itself or to arrange for another party to provide those goods and services.

4. **Staff Recommendation:** The staff recommended that the identification of performance obligations should determine what amount an entity recognizes as revenue.

5. **Board Vote:** The Board voted in favor of the staff's recommendation that the identification of performance obligations should determine what amount an entity recognizes as revenue. All Board members agreed.

Issue 1B: Factors to Identify the Performance Obligation

6. Ms. Wright expressed the staff's perspective that there may be some situations in which it is difficult for an entity to determine whether it or another party is obliged to provide a particular good or service to the customer.

7. **Staff Recommendation:** The staff recommended that the revenue recognition standard provide indicators to assist entities in identifying performance obligations when it is not clear what goods or services an entity is obliged to transfer.

8. The staff recommended the following indicators of an entity that has the obligation to provide the goods or services:

   a. Primary responsibility for fulfillment
   b. Inventory risk
   c. Discretion in establishing prices
   d. Customer credit risk.

9. The staff recommended the following indicators of an entity that has the obligation to arrange the provision of goods or services on behalf of another party:

   a. Consideration amount is predetermined
   b. No continuing involvement.

10. Mr. Linsmeier expressed dissatisfaction with the indicators as listed. The first indicator that an entity has the obligation to provide goods or services, "primary responsibility for fulfillment," seems to be the objective of Issue 1A. The rest of the list are not indicators of fulfillment, but rather are related to other sorts of relationships within the arrangement. There should be no judgment problems related to the identification of performance obligations if primary responsibility for fulfillment is determined to be the objective. Mr. Bement noted that there is a difference between the responsibility to transfer a specific good or service and the responsibility to fulfill a contract.

11. Mr. Herz expressed the view that the indicators make a difference when it becomes necessary to focus on the substance of a contract rather than solely on the legal aspects of that contract. Messrs. Leisenring, Siegel, and Linsmeier agreed. Mr. Bement added that much of the uncertainty regarding the substance over form argument will be clarified when the guidance over the transfer of assets is clarified.

12. Ms. Seidman stated that the indicators will be very helpful in situations in which an entity must identify whether it is acting as an agent with regard to particular contracts. She expressed support for what has been done so far and stressed that the issue might need to be revisited once there is more clarity on the issue of when control of a good has been surrendered.

13. **Board Vote:** The Board determined that indicators such as those listed are necessary, but identification of what indicators will be the most appropriate depends on the notions of control and the identification of performance obligations, generally. The Board directed the staff to further develop application guidance that would help entities to identify performance obligations consistently. All Board members agreed.

Issue 1C: Transferring a Performance Obligation

14. Ms. Wright indicated that entities also need guidance regarding how they would recognize revenue when they transfer a performance obligation to another party after contract inception.

15. **Staff Recommendation:** The staff recommended that if an entity transfers a performance obligation to another party, that entity should not recognize revenue for that performance obligation.

16. Mr. Linsmeier commented that if an entity's business model is designed to lay off performance obligations (for example, contract to perform a service and then find subcontractors to perform that service on its behalf), then that entity's performance obligation will still exist but will be different from the original service. Mr. Siegel agreed and stated that this would constitute an agency relationship. Mr. Herz and Ms. Seidman raised the point that the entity might sometimes still be obligated to satisfy the original performance obligation if a subcontractor cannot be found to satisfy it.

17. Mr. Linsmeier questioned whether satisfying a performance obligation by ensuring that it is appropriately laid off to a subcontractor would result in fee revenue. Mr. Golden and Ms. Seidman affirmed that fee revenue will still be earned in some situations. Mr. Linsmeier then pointed out that without specifying that the entity should not recognize gross revenue from the original performance obligation, the staff's recommendation would preclude the collection of fee revenue.

18. Mr. Bement clarified that the situation in which a performance obligation is laid off to another party would not include subcontracting because the general contractor would still have responsibility for the subcontractor's activities. The performance obligation in such a case would remain with the general contractor.

19. Mr. Linsmeier questioned whether the staff's recommendation would still allow for the recognition of net revenue when the performance obligation is laid off. Mr. Leisenring and Ms. Seidman affirmed that net revenue recognition is still possible.

20. **Board Vote:** The Board voted in favor of the staff's recommendation that if an entity transfers a performance obligation to another party so that the entity is no longer obliged to provide the underlying good or service to the customer, the entity should not recognize revenue for that performance obligation. All Board members agreed.

Issue 1D: Disclosure Requirements

21. Ms. Wright explained that when an entity's performance obligation is to arrange for another party to provide goods and services rather than to provide them itself, the entity has fee or commission revenues. In such cases requiring the reporting of gross revenue amounts is, in effect, requiring the entity to report the revenues of other parties in the arrangement, which is inconsistent with the Boards' principle. However, in borderline cases in which identification of the performance obligations is difficult, additional disclosures about the assessment of those performance obligations might be helpful to users.

22. **Staff Recommendation:** The staff recommended that an entity disclose separately revenues in the same line of business from (a) providing goods and services on its own account and (b) arranging for the provision of goods and services on behalf of another entity. Additionally, the staff

recommended that an entity disclose the basis for its assessment and any significant judgment when determining whether it is obliged to provide goods and services to a customer or to arrange for provision of goods and services on behalf of another entity.

23. **Board Vote:** The Board agreed with the staff's recommendations.

TOPIC 2: COMBINATION, SEGMENTATION, AND MODIFICATION OF CONTRACTS

24. The following three topics were discussed in relation to the combination, segmentation, and modification of contracts: (a) combination of contracts, (b) segmentation of contracts, and (c) modifications of contracts. Note: because of the close relationship between those topics, Issues 2A, 2B, and 2C were discussed by the Board simultaneously.

25. Mr. Bement explained that the Boards' proposed revenue recognition model applies to contracts with customers. A contract is defined in the Discussion Paper as the combination of the remaining rights and performance obligations within a contract. In most cases, those rights and performance obligations relate to a single contract. However, entities can structure contracts in various ways to achieve the same economic results. This means that an entity's pattern of revenue and profit recognition may vary, depending on whether the entity chooses to combine multiple contracts into a single net contract position or to segment one contract into multiple net contract positions.

Issue 2A: Combination of Contracts

26. **Staff Recommendation:** The staff recommended that two or more contracts with the same customer should be combined into a single net contract position if the prices of those contracts are interdependent. In providing the principle for the combination, the staff also recommended that the Board provide indicators or characteristics of contracts with interdependent prices. For example, contracts with interdependent prices typically are contracts that:

a. Are entered into simultaneously with the same customer
b. Are negotiated as a package with a single commercial objective

c. Constitute a single project with interrelated activities, products, services, costs, technologies, locations, and so on

d. Are performed either concurrently or continuously.

27. Mr. Linsmeier stated that it was clear that the staff sought combination or segmentation of contract positions based on the ability to apply the model within the Discussion Paper (that is, the contracts should be segregated when independent prices can be identified and contracts should be combined when independent pricing creates difficulty). Thus, price interdependence is really the important factor to utilizing the allocation mechanism. However, he believes that the indicators listed in paragraph 26 are not strongly related to price interdependence, but instead are indicators that the satisfaction of performance obligations can be more easily determined if the contracts in question are combined.

28. Mr. Herz expressed the view that the criterion for combination could be price interdependence or interdependence of the customer consideration. Price interdependence is difficult to ascertain unless the contract specifically states such interdependence. As such, the list of indicators purports to represent typical signs of linkage, or in other words, circumstantial evidence of price interdependence.

29. Mr. Smith stated that interdependence of consideration is a different issue from price interdependence, and that interdependence of consideration relates much more to the question of when to recognize the satisfaction of a performance obligation.

30. Mr. Herz stated that the first step is to determine whether price interdependency should actually be considered the guiding principle. Ms. Seidman noted that price interdependence is the appropriate principle for combining a contract, as it is the only significant consequence of linking or not linking. Messrs. Siegel and Smith agreed.

31. Mr. Smith questioned why it mattered whether the performance obligations within a contract were separated or combined when the outcome reflected in the contract price provides the entity with the same amount of revenue in either case. Mr. Linsmeier stated that the contract combination issue was essentially related to those instances in which the sum of the prices of individual items within a contract does not equal the price of the contract.

32. Mr. Bement clarified that there is an issue within the Discussion Paper regarding how to allocate the transaction price of a contract and measure individual performance obligations when the bundled package within the contract includes a discount. The focus of this discussion, however, is centered on determining when multiple contracts should be combined. He also noted that in the case of a contract with multiple performance obligations with no discount, the segmentation or combination of the contract would not matter. However, if the Board approves the proposed combination principle, then the Board's affirmation of the proposed criteria for contract segmentation is almost implicit.

33. Mr. Leisenring stated that the concerns expressed by Messrs. Herz and Linsmeier are valid. He mentioned AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, which was written with the construction industry in mind. In particular, when writing SOP 81-1 the AICPA was concerned about segmenting or combining contracts when the end economic result is the same. He urged the staff to research this subject within the audit guidelines for defense contractors, because such research might help define exactly when price interdependence is identified. It is one thing to combine the different components of a ship that it is being built and another to combine the sale of automobiles and helicopters within one contract. The listed indicators may not work well to meet the objective of properly identifying the point where prices are interdependent.

34. Mr. Golden noted that combination of contracts is important in SOP 81-1 contract accounting because SOP 81-1 effectively smoothes margin. If a government contract calls for 10 airplanes this year and 10 airplanes the next year, combining those contracts into one contract for 20 airplanes will smooth the contracts' margins over 2 years. Under the proposed model, segmentation is not limited to the contract level, but may need to occur within each contract to separate performance obligations. Mr. Leisenring stated that the objective of SOP 81-1 is to

prevent the majority of the revenue from a contract from being assigned to initial phases of a contract and consequently recognized before it is appropriate to recognize that revenue.

35. Mr. Smith stated that it was his understanding that change orders related to a contract were not intended to be treated as separate net contract positions. Messrs. Leisenring and Golden agreed.

36. Mr. Linsmeier stated that the proposed model seemed to imply that if the sum of the values of each performance obligation within a contract is equal to the contract price, a change order would only affect one performance obligation. Without segmentation of that specific performance obligation at contract inception, that same change order would affect the entire contract value. Mr. Leisenring agreed and also stated that the accounting for change orders should be similar to the accounting for sales incentives.

37. Mr. Bement explained that for typical change orders, treatment as a separate net contract position would be difficult because of the inability to obtain evidence that the change order for a specific type of contract had been sold separately. If confusion arises regarding whether individual pricing is available, a preparer would use the indicators listed in paragraph 26 to determine whether the prices of the change order and the original contract were interdependent. Price interdependence, if established, would preclude treatment of the change order as a separate net contract position.

38. Mr. Siegel questioned whether contracts could be combined if they were not signed concurrently, for example, a design phase and a build phase for a building in two different projects. Ms. Seidman noted that in such a case one would not necessarily link the prices of the two contracts because a designer would quote two separate clients the same price for an individual phase. Mr. Herz suggested that the prices would be interdependent if the price of the initial phase was explicitly contingent upon the second contract. Mr. Smith added that price interdependency would also exist if the initial phase was non-transferrable.

39. Mr. Leisenring stated that the real focus of the topic should be on costs, not on revenues. In situations in which acquisition costs are high for initial project phases, entities will want to claim that there is a high probability of completing the entire project for the customer. Mr.

Linsmeier added that such entities will also want to defer their contract acquisition costs. He also stated his belief that forcing contract combination is the right principle, but forced segmentation may not be correct. Using the proposed indicators, in situations in which interdependent performance obligations have independent pricing, the performance obligations will be unduly separated. Independent prices alone might not justify segmentation. The principle may need to focus on performance obligation interdependence, as opposed to price interdependence.

40. Mr. Linsmeier noted that the most practical use of combination is in circumstances with uncertain consideration. In instances in which performance obligations are combined in a contract and a portion of those obligations have unknown values, subsequent clarification of those values will retrospectively and prospectively affect the revenue of the contract. If the performance obligations are isolated, the revenue will be assigned to potentially the wrong performance obligation. Ms. Seidman questioned how there can be price independence in situations with uncertain consideration. Mr. Linsmeier explained that such situations can arise when there is a possibility that the contract will be subject to change orders, but the contract performance is begun under the assumption that there will not be change orders.

41. Mr. Bement stated that it is difficult to isolate the contract segmentation issue from the issue of margin segmentation. This is especially so when speaking with some industry representatives who claim that their bundles of products and services require one margin spread across the entire contract, while others claim that margin segmentation across a contract is appropriate. The ease of segmenting margin within a contract clearly affects the willingness of an entity to combine or segment a contract. What will be helpful is to come to an agreement on the combination principle. Mr. Linsmeier stated that a further analysis of the effects of uncertain consideration on the contract(s) in each scenario of the combination question would be helpful.

42. Mr. Linsmeier asked if the focus of the list of indicators was meant to be on price interdependence or on interdependence of activities. Mr. Golden expressed his view that the focus was on interdependence of activities, of which price interdependence is part. Mr. Linsmeier stated that he feels the indicators in paragraph 26 have value, but that the connection between the indicators and price interdependence is not a fully direct relationship. More thought needs to be put into whether the objective and the indicators function well together.

43. Mr. Golden stated that it seems as if everyone is in agreement that the indicators are relevant, but that the wording of the objective and what is given preeminence within the objective may need to be reconsidered. Interdependence seems relevant and should be the objective, but how much emphasis should be placed on pricing versus activity, and so forth is the question being raised. Mr. Bement emphasized that if contract activities are interdependent, it is likely that the prices are interdependent.

44. Messrs. Siegel and Golden asked whether it might be appropriate to expand the objective to include interdependency of either pricing or activities. Ms. Seidman stated that she is not concerned about whether the contract prices are independent. Mr. Golden responded that the contract prices are important for which pieces of a contract need to be segmented, and that the question is whether and how those same prices are important for contract combination.

45. Mr. Rees informed the Board that the pricing of performance obligations is the key issue because the performance obligations are measured via allocation, as opposed to direct observation. Thus, the question of whether to combine or segment is truly a linkage question, as the price of an overall contract does not represent the value of individual performance obligations. The need to weigh multiple contracts together arises from the need to accurately represent the value of the performance obligations within those contracts.

46. **Board Vote:** The Board tentatively decided that two or more contracts with the same customer should be accounted for as a single net contract position if the prices of those contracts are interdependent. An entity should consider various indicators and exercise judgment when determining whether prices are interdependent.

Issue 2B: Segmentation of Contracts

47. **Staff Recommendation:** The staff recommended that a single contract with a customer should be segmented into more than one net contract position only if each segment is priced independently. The best evidence of independent pricing is when each segment is subject to a separate proposal to the customer and the customer has the right either to accept the entire contract or any combination of the segments.

48. **Board Vote:** The Board tentatively decided that an entity should account for a single contract with a customer as multiple contracts only if each contract segment is priced independently. At future meetings, the Board will further discuss some related issues involving the identification and measurement of performance obligations.

Issue 2C: Modification of Contracts

49. **Staff Recommendation:** The staff recommended that modification of an existing contract should be accounted for as a separate contract if it is priced independently. If the prices are interdependent, the contract modification and the original contract should be accounted for as a single net contract position. Changes in a net contract position because of price-interdependent contract modifications should be applied to the net contract position on a cumulative catch-up basis.

50. **Board Vote:** The Board agreed with the staff's recommendation.

TOPIC 3: NONCASH CONSIDERATION

51. The following three issues were discussed in relation to noncash consideration: (a) exchange transactions, (b) commercial substance, and (c) barter transactions.

52. Mr. Bonn explained that at the April 1, 2009 Board meeting, the Board tentatively agreed to the general principle that noncash consideration should be measured at the fair value of the consideration received or should be based upon the selling price of the asset that was surrendered if the fair value of the noncash consideration could not be estimated reliably. The Boards also decided that some exchange-type transactions are not revenue-generating transactions, and asked the staff to further consider the issue and to obtain user input on what types of information would be useful.

Issue 3A: Exchange Transactions

53. Mr. Bonn explained that the staff had solicited feedback from users in the oil and gas and chemical industries and from oil and chemical practitioners. Their feedback was universally aligned in agreement that exchange transactions typically do not generate revenue. The users viewed such transactions as supply-oriented transactions as opposed to customer-oriented transactions. Users were concerned that allowing gross revenue or gains for such transactions would result in economic distortions in gross margin and manipulation of period-to-period results.

54. Mr. Bonn further explained that the staff had identified two possible approaches to the issue: either (a) providing a definition of a customer that would preclude unordinary nonmonetary exchange transactions from being included in the model or (b) providing an explicit scope exception for these types of transactions.

55. **Staff Recommendation:** The staff recommended an explicit scope exception, similar to that in APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* to exclude some transactions from the proposed model. That exception would focus on the entity's reason for entering into a transaction. If the purpose of an exchange transaction is to facilitate sales of an asset to another customer in the ordinary course of business, that transaction should not generate revenue.

56. Mr. Linsmeier inquired as to what is the current definition of a customer. Mr. Bement explained that the Boards' Discussion Paper defined a customer as a party who has contracted for the output of the entity's ordinary activities.

57. Mr. Leisenring suggested that the solution to this issue might be included within FASB Statement No. 157, *Fair Value Measurements*, regarding primary market activities. What the industries in question are asserting is that there is a difference between immediate customers and the ultimate consumer. Since sales to non-ultimate customers occur normally on a daily basis, the definition of a customer should not apply.

58. Mr. Smith stated that he generally agrees with the scope exception, but that it must be made clear that an entity that receives a nonmonetary payment that is also something that it uses in the ordinary course of business should not necessarily be subject to the scope exception. Mr. Siegel and Ms. Seidman confirmed that their interpretation of the scope exception as written allowed for such a scenario. Mr. Leisenring noted that Mr. Smith's scenario is closer to a barter transaction. Mr.

Bement explained that the close association of the two ideas is the reason why the staff recommends including both topics within the same guidance.

59. Ms. Seidman stated that the key issue was whether or not the transaction represents a substantive procurement for the entity. Mr. Linsmeier agreed and stated that the barter principle implies that since a dissimilar asset is being received, revenue recognition is possible depending upon the scenario. Nonmonetary assets can be currency, but the question is which side of the transaction should be treated as the currency.

60. Mr. Leisenring again noted that the issue of revenue recognition in any circumstance should not depend on whether the transaction is monetary in nature, but rather should depend upon the principal and most advantageous market. Mr. Proestakes responded that often an entity will have several different principal markets, dependent upon the variety of their product lines, and that perhaps an analysis of the business purpose of the transaction would be more useful.

61. **Board Vote:** All Board members agreed with the staff's recommendation that an entity should not recognize revenue from a nonmonetary exchange transaction if the purpose was to facilitate a sale to another party.

Issue 3B: Commercial Substance

62. Mr. Bonn explained that the staff had previously recommended that the evaluation of exchange transactions should include a test for commercial substance. The Board asked the staff to gather feedback on whether the commercial substance concept had been adequately tested in practice by auditors. Auditor feedback was fairly consistent, with most auditors stating that although commercial substance issues were not seen frequently in practice, evaluating commercial substance for exchange type transactions would not be overly difficult. Overall the feedback indicated that it will probably be helpful, but certainly not harmful, to include the recommendation within the standard.

63. **Staff Recommendation:** The staff recommended that the Board affirm the previous recommendation that an exchange transaction have commercial substance for it to be considered revenue generating.

64. Mr. Linsmeier stated that an analysis of whether the transaction has commercial substance provides no assistance in distinguishing whether the transaction constitutes a purchase using existing assets as currency or a sale of those assets. Mr. Bonn clarified that the analysis would need to be twofold for revenue to be recognized (Issue 3A would still be addressed). Mr. Bement further clarified that commercial substance is arguably a valid analysis for any contract, but that as the assets traded become more similar the need for the analysis of commercial substance becomes more important.

65. **Board Vote:** The Board agreed with the staff's recommendation that an entity recognize revenue for a nonmonetary exchange transaction only if the transaction has commercial substance. All Board members agreed.

Issue 3C: Barter Transactions

66. Mr. Bonn explained that current U.S. GAAP and IFRS provide for situations in which no revenue is recognized in barter transactions or in which the assets being bartered are not recognized at their fair value. The reason for the inclusion of such provisions within current literature is due to the occasional difficulty in determining a reasonable estimate of the fair value of the assets being traded. The staff feels that the principle for exchange transactions should be consistent in practice regardless of what assets are being exchanged.

67. **Staff Recommendation:** the staff recommended that for contracts in which barter credits are received in exchange for goods and services, an entity should measure the noncash consideration received at fair value (if reliably estimable) or indirectly by reference to the selling price of the promised goods and services. If neither of those amounts can be estimated reliably, then the transaction would not generate revenue. Furthermore, the staff recommended that a new revenue recognition standard should not provide specific guidance on barter transactions.

68. Mr. Linsmeier mentioned that the decision has recently been reached by the Board that when consideration is uncertain, revenue recognition is delayed until reasonably and reliably estimable. He questioned whether this is the case with the staff's new recommendation or if the staff's recommendation should never be recognized in barter situations in which neither asset is

estimable. Mr. Bonn clarified that revenue would never be recognized in such situations because there may never be a reliable estimate of the value of either side of the barter transaction.

69. **Board Vote:** The Board agreed with the staff's recommendation that an entity should measure the nonmonetary consideration received at its fair value or, if it cannot be estimated reliably, by reference to the selling price of the promised goods and services. If neither of those amounts can be estimated reliably, then the transaction would not generate revenue. The Board also decided that a new revenue recognition standard should not provide additional guidance on specific barter transactions.

General Announcements:

Mr. Bement noted that there are three discussion topics that the staff plans to bring to the upcoming Board meetings in July: (a) how to identify the boundaries of a contract when the customer can renew or cancel that contract, (b) possible exceptions to the net presentation of rights and obligations, and (c) a summary of responses to the Discussion Paper, including the staff's preliminary analysis on key issues addressed within the comment letters.