MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Hegg (x233)
Subject:	Minutes of the September 27, 2012 Joint Board Meeting: Revenue Recognition
Date:	October 2, 2012
cc:	Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Boards' deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topics: collectibility, time value of money, and contract issues: contract combinations and distribution networks

Basis for Discussion: FASB Memorandums 162B/7B, 162D/7D, and 162E/7E

Length of Discussion: 8:16 a.m. to 12:03 p.m. EDT

Attendance:

Board members present:	FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Siegel, and Smith
	IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Edelmann, Engström, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Suh, and Zhang
Board members absent:	None
Staff in charge of topic:	FASB: Bauer, Schilb, Skoglund, Harris, and North
	IASB: Brady, Berchowitz, and McManus
Other staff at Board table:	FASB: Hegg, Gagnon, Brickman, Proestakes, and Cosper
	IASB: Rees, Dara, Lloyd, and Eastman
Outside participants:	None

<u>Type of Document and Timing Based on the Technical Plan</u>:

The Board met to discuss issues relating to the development of a final standard. The Boards' technical plan calls for that document to be issued early 2013.

<u>Summary of Decisions Reached</u>:

The IASB and the FASB discussed the following topics as they continued their redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (2011 ED):

1. Constraining the cumulative amount of revenue recognized
2. Collectibility, including accounting for contracts with customers that contain nonrecourse, seller-based financing
3. Time value of money
4. Contract issues—distribution networks.

Constraining the Cumulative Amount of Revenue Recognized

The Boards tentatively decided that, consistent with the proposal in the 2011 ED, an entity should evaluate whether to constrain the cumulative amount of revenue recognized if the amount of consideration to which an entity expects to be entitled is variable. Paragraph 53 of the 2011 ED identified examples of variable consideration. The Boards tentatively decided to clarify the meaning of *variable consideration* to indicate that the constraint should apply to a fixed-price contract in which there is uncertainty about whether the entity would be entitled to that consideration after satisfying the related performance obligation.

Additionally, the Boards discussed the application of the constraint in the revenue proposals and asked the staff to perform further analysis and bring the topic back at a future meeting.

Collectibility

The Boards discussed whether:

1. To affirm their proposals in the 2011 ED that if a contract with a customer does not include a significant financing component, the consideration promised by the customer should not be adjusted for the customer's credit risk and that any impairment loss arising from that contract should be presented as a separate line item adjacent to the revenue line item; or

2. To consider other approaches for accounting for a customer’s credit risk, including:

    a. Modifying the 2011 ED proposals to require that all impairment losses arising from contracts with customers (regardless of whether the contract has a significant financing component) be presented adjacent to the revenue line item; or

    b. Introducing a revenue recognition threshold for collectibility.

Following that discussion, the Boards requested the staff to analyze further those other approaches for accounting for customer credit risk and to discuss that analysis at a future meeting.

Additionally, the Boards tentatively decided:

1. To present any impairments recognized in the current period or in a subsequent period in a consistent manner; and
2. To provide additional guidance in the standard on determining whether a contract with a customer exists based on the customer’s commitment to perform its obligations under the contract.

Time Value of Money

The Boards tentatively affirmed the proposal in the 2011 ED that an entity should adjust the amount of promised consideration for the effects of the time value of money if the contract with a customer has a significant financing component.

The Boards also tentatively decided:

1. To clarify the application of the indicators in paragraph 59 of the 2011 ED for determining whether a contract has a significant financing component;
2. To clarify that if the transfer of goods or services to a customer is at the discretion of the customer, an entity should not adjust advance payments for the effects of the time value of money;
3. To retain the proposed practical expedient and clarify that the practical expedient should also apply to contracts with a duration of greater than one year if the period between performance and payment for that performance is one year or less; and
4. To clarify that the proposed revenue standard would not preclude an entity from presenting as revenue interest income that is recognized from contracts with a significant financing component.

Contract Issues—Distribution Networks

The Boards discussed the application of the proposals in the 2011 ED to arrangements that arise in distribution networks. In those arrangements, an entity (such as a manufacturer) may transfer control of a product to its customer (who may be an intermediary, such as a dealer or retailer). The manufacturer may also promise other goods or services as sales incentives to encourage the sales of those products that have become part of the intermediary's inventory.

If the promise to transfer those goods or services that are regarded as sales incentives was made in the contract or implied in the circumstances described in paragraph 24 of the 2011 ED, the Board affirmed that those promised goods or services should be accounted for as a performance obligation. However, if the promise was made after the transfer of control of the product to the intermediary, the Boards affirmed that the promise would not be a performance obligation.

Next Steps

The Boards expect to continue redeliberations in October 2012.

<u>General Announcements</u>: None