MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Hegg (x233)
Subject:	Minutes of December 17, 2012 Joint Board Meeting
Date:	December 18, 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: Revenue Recognition: Allocating the transaction price, contract costs, effect of the revenue recognition model on some of bundled arrangements, and constraining the cumulative amount of revenue recognized- licenses

Basis for Discussion: FASB Memorandums 165A/7A, 165B/7B, 165C/7C, 165D/7D

Length of Discussion: 8:31 a.m. to 11:27 a.m. EST

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, North, Schilb, Skoglund, and Hegg
	IASB: Brady, Berchowitz, and McManus
Other staff at Board table:	FASB: Harris, 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 met on 17 December to continue their joint redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (the 2011 ED). They discussed the following topics:

1. Allocating the transaction price
2. Contract costs
3. Effect of the revenue recognition model on some bundled arrangements
4. Constraining the cumulative amount of revenue recognized—licenses.

Allocating the Transaction Price

The Boards discussed possible refinements and clarifications to the proposals in the 2011 ED for allocating the transaction price to separate performance obligations (that is, Step 4 of the revenue model).

The Boards tentatively decided to retain the residual approach in paragraph 73(c) of the 2011 ED as an appropriate technique to estimate the standalone selling price of a good or service if that standalone selling price is highly variable or uncertain. The Boards also clarified that the residual approach may be used in contracts in which there are two or more goods or services that have highly variable or uncertain standalone selling prices, if at least one of the other goods or services in the contract has a standalone selling price that is not highly variable or uncertain. When there are two or more goods or services with highly variable or uncertain standalone selling prices, the Boards clarified that an entity could use a combination of techniques to estimate their standalone selling prices by:

(a) First applying the residual approach to estimate the aggregate of the standalone selling prices for all of the goods or services with highly variable or uncertain standalone selling prices; and
(b) Then using another technique to estimate the individual standalone selling prices relative to the aggregate standalone selling price estimated in (a) above.

The Boards also tentatively decided to retain the criteria in paragraph 75 of the 2011 ED for determining when an entity can allocate a discount to one (or some) performance obligation(s) in the contract, and the criteria in paragraph 76 of the

2011 ED for determining when an entity can allocate contingent consideration to distinct goods or services. The Boards also clarified that:

(a) An entity should apply paragraph 75 (that is, allocation of a discount) before using a residual approach to estimate a standalone selling price for a good or service with a highly variable or uncertain standalone selling price; and
(b) In accordance with paragraph 76 (that is, allocation of contingent consideration), an entity can allocate contingent consideration to more than one distinct good or service in the contract.

Contract Costs

The Boards tentatively decided to retain the proposal in the 2011 ED that an entity should recognize as an asset the incremental costs of obtaining a contract with the customer if the entity expects to recover those costs. The Boards also tentatively decided to retain the practical expedient that permits an entity to recognize those costs as an expense when incurred, if the amortization period of the asset the entity would have otherwise recognized is one year or less.

Effect of the Revenue Recognition Model on Some Bundled Arrangements

The Boards discussed possible amendments to the proposals in the 2011 ED for (a) allocating the transaction price and (b) accounting for costs of obtaining a contract in bundled arrangements in which an entity promises to transfer services to the customer together with a distinct good that relates to the provision of those services (those bundled arrangements are common to the telecommunications and satellite television industries). The Boards tentatively decided to retain the proposals in the 2011 ED and not make any amendments specifically for these bundled arrangements (in particular, not to amend the proposals in the 2011 ED for (a) allocating the transaction price, subject to the clarifications noted above, and (b) accounting for the costs of obtaining a contract).

The Boards also tentatively decided to clarify that in the revenue standard an entity could apply the proposals in the 2011 ED to these bundled arrangements using the portfolio approach described in paragraph 6 of the 2011 ED (that is, an entity may apply the principles in the 2011 ED to a portfolio of contracts with similar characteristics if the entity reasonably expects that the result of doing so would not materially differ from the result of applying the proposals to each of the entity's contracts or performance obligations).

Constraining the Cumulative Amount of Revenue Recognized —Licenses

The Boards discussed paragraph 85 of the 2011 ED which constrains the amount of revenue that can be recognized for licenses of intellectual property when the consideration varies on the basis of the customer's subsequent sales of a good or service (for example, a sales-based royalty). In those cases, notwithstanding the requirements in paragraphs 81–83 of the 2011 ED that constrains the cumulative amount of revenue recognized, paragraph 85 of the 2011 ED specifies that an entity should not recognize revenue until the customer's subsequent sales occur.

The Boards tentatively decided to delete paragraph 85 of the 2011 ED and instead, for all licenses of intellectual property, rely on the general principles of the constraint on revenue recognized in paragraphs 81–83 of the 2011 ED (as revised by the Boards' tentative decisions in November 2012). The Boards also tentatively decided to:

a) Refine the indicator in paragraph 82(a) of the 2011 ED, which describes some factors outside an entity's influence that may require an entity to constrain the cumulative amount of revenue recognized, to include the actions of third parties (for example, the customer's subsequent sales); and
b) Explain that when an entity applies the general principles of the constraint on revenue recognized in paragraphs 81–83 of the 2011 ED (as revised by the Boards' tentative decisions in November 2012) and is required to recognize a minimum amount of revenue based on its estimate of the amount of consideration to which it expects to entitled, that minimum amount may, in some cases, be zero.

Next Steps

The Boards have completed their substantive redeliberations of the recognition and measurement principles in the 2011 ED. They will redeliberate the remaining topics, including scope, disclosure and transition in 2013.

General Announcements: None