

Board Meeting Handout
Revenue Recognition Implementation
November 29, 2017

Meeting Purpose

1. The purpose of the November 29, 2017 Board meeting is for the staff to provide the Board with an update on implementation activities related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (and other revenue-related Updates), since the May 10, 2017 Board meeting. This Board meeting is a non-decision-making Board meeting. The staff will seek input from the Board members about any other information they would like about the implementation status of the new revenue standard.

Background Information

2. On May 28, 2014, the FASB and the International Accounting Standards Board (IASB), jointly issued a converged standard on the recognition of revenue from contracts with customers. The FASB's amendments were issued in Update 2014-09 and the IASB's amendments were issued in IFRS 15, *Revenue from Contracts with Customers*. Topic 606 and IFRS 15 are the result of the FASB's and the IASB's joint project to improve the financial reporting of revenue under GAAP and IFRS in the following ways:
 - (a) Provide a more robust framework for addressing revenue recognition issues.
 - (b) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
 - (c) Simplify the preparation of financial statements by reducing the amount of guidance to which entities must refer.
 - (d) Enhance disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized.
3. This handout provides a summary of implementation activities performed by the FASB staff and Board members since the May 2017 Board meeting and is organized as follows:
 - (a) Topic 1: Transition Resource Group
 - (b) Topic 2: Standard Setting

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

- (c) Topic 3: Technical Inquiry Service
- (d) Topic 4: Convergence
- (e) Topic 5: Regulators
- (f) Topic 6: AICPA
- (g) Topic 7: Early Adoption
- (h) Topic 8: SAB 74 Disclosures
- (i) Topic 9: Other Education.

Question for the Board

1. Is there any additional information Board members would like about the status of implementation of the new revenue standard?

Topic 1: Transition Resource Group

- 4. Since the May 10, 2017 Board meeting, the staff has not received any transition resource group (TRG) submissions. In fact, no TRG submissions have been received since the last TRG meeting in November 2016. Therefore, no future TRG meetings are scheduled.

Topic 2: Standard Setting

- 5. The staff is unaware of any needed standard setting other than the potential for future technical corrections. The staff also is unaware of any open technical corrections. The staff expects that any future technical corrections would be minor and would be addressed through the FASB's ongoing technical corrections and improvements project (that is, not through a separate revenue project).

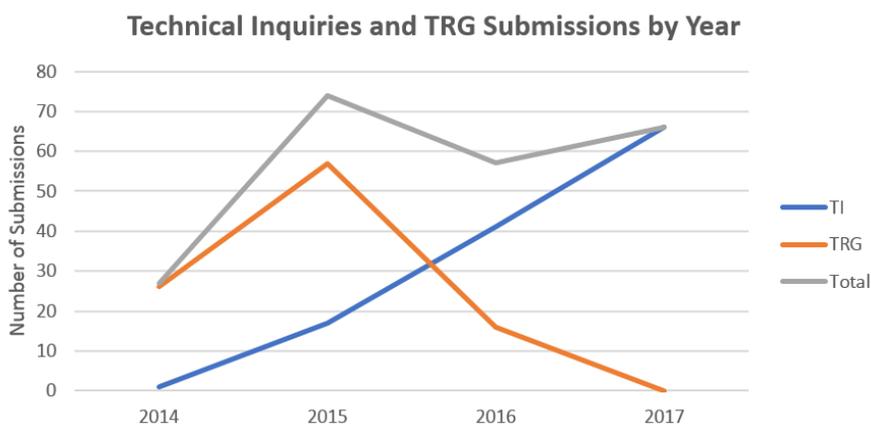
Topic 3: Technical Inquiry Service

- 6. The FASB staff provides its Technical Inquiry Service to help stakeholders understand FASB standards. The objective of this service is to clarify existing guidance or provisions within the *FASB Accounting Standards Codification*[®]. While this process is not unique to the revenue project, the staff will describe revenue-related technical inquiries in this section of the handout. The staff has received approximately 125 inquiries total since the standard was issued, 51 of those have been received since the May 2017 Board meeting.¹ These inquiries

¹ The metrics presented in this handout are as of November 1, 2017.

come from a variety of sources including (a) accounting firms, (b) preparers, and (c) AICPA industry task force groups. This technical inquiry count excludes hundreds of minor questions the project team has received on an informal basis since the issuance of the standard.

7. The following chart depicts the number of TRG submissions compared with the number of technical inquiries received since the issuance of the standard. As the effective date approaches, questions have shifted from TRG submissions to technical inquiries and the nature of the questions has narrowed.



8. While the nature of the technical questions has narrowed over time, the staff has noticed some trends in the consultations. In particular, the staff continues to receive questions about areas of the guidance that require applying judgment, for example, identifying performance obligations. The staff observes that the accounting outcomes in those scenarios depend on the facts and circumstances of the arrangement, such as the contractual terms. That is, there are no presumptions in the guidance on how many performance obligations are included in certain arrangements. For example, since the last Board meeting in May, the staff has received several inquiries from stakeholders in the franchising industry.
9. One of the most prevalent questions from the franchising industry involves determining whether or not pre-opening activities constitute a distinct performance obligation. Under current GAAP, franchisors generally recognize the initial fee when the location opens and recognize the subsequent royalty stream over time. Because industry-specific GAAP exists, franchisors historically have not had to assess whether the pre-opening services are a separate deliverable. In making this determination under the new standard, the first step for the franchisor is to determine if the pre-opening activities contain any distinct services. If none of the pre-opening services are distinct, then the initial fee would be part of the

transaction price for the combined performance obligation of the license and services and, thus, recognized over the entire license period. If the franchisor determines that some or all of the pre-opening services are distinct, then it would allocate a portion of the transaction price to that performance obligation and recognize revenue when (or as) those services are performed.

10. The franchisor scenario illustrates the following key takeaways when implementing the revenue standard:
 - (a) Topic 606 does not include presumptions about how many performance obligations are in an arrangement.
 - (b) When assessing the standard, an entity should review the specific facts and circumstances of the arrangement and not over-generalize.

Topic 4: Convergence

11. As the FASB staff continues to work through technical inquiries, it periodically reaches out to the IASB staff to get its views on the issues. The FASB staff tries to understand if the questions are being raised internationally, whether the IASB has provided any views on these issues previously, and if there is any additional background on the development of the guidance. Additionally, the FASB staff has been following the efforts of the International Financial Reporting Interpretations Committee (IFRIC).

Topic 5: Regulators

12. The FASB staff continues to collaborate with the Securities and Exchange Commission (SEC) staff and the Public Company Advisory Oversight Board (PCAOB) staff.

Topic 6: AICPA

13. The AICPA formed 16 industry task forces to help develop a new Accounting Guide on Revenue Recognition that will provide illustrative examples for how to apply the new revenue recognition standard. The FASB staff works with the task forces to the extent that there are technical inquiries, as described in Topic 3. The FASB staff also is monitoring the status of outstanding issues and papers posted for public comment.

Topic 7: Early Adoption

14. The staff has been conducting research to identify companies that prepare GAAP financial statements that have early adopted or plan to early adopt the new revenue recognition

standard. Based on the results of data collected, most public companies do not plan to early adopt the new revenue recognition standard; however, some companies do plan to early adopt (some already are applying the standard as of January 2017). Those entities electing to early adopt represent a variety of industries (technology, aerospace and defense, health care, and automotive).

Topic 8: SAB 74 Disclosures

15. SAB 74 (codified in SAB Topic 11-M) addresses disclosure of the effect that recently issued accounting standards will have on the financial statements of the registrant when adopted in a future period. The SEC staff has indicated that it expects these disclosures to evolve over time as companies begin to better understand how the standard will affect their financial statements. The FASB staff read some companies' SAB 74 disclosures and also read studies compiled by accounting and consulting firms about companies' SAB 74 disclosures.
16. The FASB staff notes that the amount of information companies included in SAB 74 disclosures has increased since the staff's last review in May 2017. Additionally, the majority of companies that have disclosed their transition method have selected the modified retrospective method of transition and the number of companies that have disclosed material effects of the standard is low.

Topic 9: Other Education

17. Earlier sections of this memo describe some of the education the staff and Board members have provided on technical issues, such as through discussions with stakeholders on technical inquires. Apart from discussing specific issues, the staff and Board have been educating stakeholders broadly on the new guidance over the past three years. The staff observes that, as the effective date of the standard approaches, investors' interest in understanding the new guidance has been increasing. The staff has increased the level of education provided to investors recently. For example, in October 2017, two investor podcasts were posted on the FASB website, focusing on the health care services and airline industries.