

MINUTES



MEMORANDUM

**To:** Board Members

**From:** Revenue Recognition—Practical Expedient for Private Company Franchisors

**Subject:** Minutes of July 22, 2020 Board Meeting on Revenue Recognition—Practical Expedient for Private Company Franchisors

**Date:** July 23, 2020

**cc:** Tosches

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board’s 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.*

Topic: Revenue Recognition—Practical Expedient for Private Company Franchisors

Basis for Discussion:

FASB Memo No. 2, “Franchisor Revenue Recognition—Initial Franchise Fees”

Length of Discussion: 9:00 a.m. to 10:00 a.m. EDT

Attendance:

Board Members present:	Jones, Kroeker, Botosan, Buesser, Cosper, Hunt and Schroeder
Staff in charge of topic:	Mazzella
Other staff at Board table:	Kuhaneck, Warger, and Hitchcock
Outside Participants:	None

**Type of Document and Timing on the Technical Plan:**

The Board met to discuss whether to add this project to the technical agenda, to begin initial deliberations on this issue, and to discuss the development of an Exposure Draft.

**Tentative Board Decisions:**

The Board discussed an implementation issue in the franchisor industry related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. The Board decided to:

1. Add a project to its technical agenda to reduce the implementation costs related to applying Topic 606 to initial franchise fees for franchisors that are not public business entities. A franchisor that is not a public business entity may elect the practical expedient to account for initial services as a single performance obligation if:
  - a. Those services are the same as those included in a pre-defined list of services.
  - b. It is probable that the continuing fee will cover the cost of the continuing services provided by the franchisor with a reasonable profit.  
**(Vote: 4-3)**
2. Include the practical expedient for applying Topic 606 to initial franchise fees for franchisors that are not public business entities within Topic 952, Franchisors. **(Vote: 7-0)**
3. Require an entity that elects the practical expedient to disclose that fact. **(Vote: 7-0)**
4. Include implementation guidance by providing separate examples that illustrate the application of Topic 606 for franchisors that are not public business entities that:
  - a. Do not elect the practical expedient
  - b. Elect the practical expedient.  
**(Vote: 6-1)**

*Transition and Effective Date*

The Board decided that:

1. Entities that have not yet adopted Topic 606 should apply the existing transition provisions in paragraph 606-10-65-1. **(Vote: 7-0)**

2. Entities that previously adopted Topic 606 should apply a full retrospective method of transition. The full retrospective method of transition would include the entity's first reporting period under Topic 606. For those entities, the Board decided that the amendments should be effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within that reporting period, with early application permitted. The Board also decided that the transition disclosures in Topic 250, Accounting Changes and Error Corrections, should be required.  
**(Vote: 7-0)**

*Comment Period of the Proposed Accounting Standards Update*

The Board decided to provide a 45-day comment period for the proposed Update. **(Vote: 6-1)**

*Next Steps*

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. **(Vote: 4-3)**