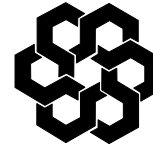




Financial Accounting
Standards Board

401 Merritt 7, PO Box 5116, Norwalk, CT 06856,
USA
Tel: +1 203 847 0700
Fax: +1 203 849 9714
Website: www.fasb.org



International
Accounting Standards
Board

30 Cannon Street, London EC4M 6XH,
United Kingdom
Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Website: www.iasb.org

This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB). These notes are based on the staff papers prepared for the IASB and FASB. Paragraph numbers correspond to paragraph numbers used in the joint IASB-FASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 22 October 2007, Norwalk

Project: Revenue Recognition

Subject: Due Process Document (Agenda paper 5A)

INTRODUCTION

1. This paper describes the staff's plan to publish a due process document by the end of the first quarter 2008. At the October joint FASB-IASB Board meeting, the staff will seek the Boards' approval of this plan.
2. Key aspects of that plan follow:
 - a. At the joint meeting in October, the staff will provide a brief overview of two revenue models—the Measurement model (formerly the fair value model) and the Allocation model (formerly the customer consideration model). (The change in names is explained in the accompanying memos.)
 - b. At the November and December Board meetings, the staff will present more thorough explanations of each model. Based on the Boards'

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feedback, the staff will make changes to the draft chapters of the due process document and present those chapters to the Boards in early 2008.

3. Previously, the Boards decided (October 2006) that the due process document should explain, illustrate, and compare both revenue models. At the October joint meeting, the staff will seek the Boards' affirmation of that decision.

BACKGROUND

4. In 2002, the Boards commenced a joint project on revenue recognition. The objective of the project is to develop coherent conceptual guidance for revenue recognition and a comprehensive standard on revenue recognition that would be based on those concepts. In February 2006, the Boards published a Memorandum of Understanding (MoU) in which they set a goal of issuing "one or more due process documents relating to a proposed comprehensive standard" on revenue recognition by 2008.
5. The Boards discussed revenue recognition issues throughout 2003–2005. Progress was limited due to fundamental differences in Board members' views on several key issues. Board members seemed to fall within one of two camps, with some Board members preferring a so-called fair value model for revenue recognition and others preferring a so-called allocated customer consideration model.
6. In October 2006, the Boards decided that the staff and a group of Board advisors would work together to develop two coherent revenue recognition models rather than try to forge a compromise on an issue by issue basis. Both could be described in a due process document. The thinking was that a due process document that explained the two alternative models would provide a better and more immediate basis for constituent feedback than seeking a preliminary view in favour of one model.
7. The staff and Board advisors have now completed their consultations and the staff is ready to present the two models for the Boards' consideration.

PLAN FOR PUBLICATION OF DUE PROCESS DOCUMENT

8. The staff recognizes that there are a number of new Board members who are unfamiliar with this project, and there are others who have (happily, no doubt) allowed any thoughts of revenue recognition to melt away over the past year. Because Board members may be unfamiliar with the models that have been developed this past year, the staff decided to make the October joint meeting an educational session. That is, before analyzing either model, the staff wants to ground all Board members with the same basic understanding of both models.
9. The staff prepared short summaries of each model along with a set of three examples that illustrate each model (see accompanying memos) as a basis for the

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- October discussion. The summaries are not meant to delve into every nook and cranny of the models, nor are they meant to fully explain the rationales underlying each aspect of the models. Their purpose is to bring all Board members up to speed on the key features of the Measurement and Allocation models.
10. To be clear, the purpose of the October joint meeting is not to deliberate the merits of either model relative to each other or to current practice. Instead, the purpose is to highlight the key features of each model by illustrating how they would be applied in three common revenue recognition situations. The staff welcomes the Boards' questions or comments on issues they would like to see addressed in the coming months when a more thorough presentation and discussion of each model takes place.
 11. In November and December, the staff will present a more complete analysis of the Measurement and Allocation models, respectively. That analysis will include:
 - a. A more detailed description of the model (key principles)
 - b. The completeness and coherence of the model, and issues of practicability
 - c. Whether and how each represents an improvement over current practice (the staff does not believe the due process document should include a prominent discussion of a model if the Boards conclude it is not an improvement over what we have today).
 12. The staff has no doubt that the Boards could easily spend another year fine tuning the Measurement and Allocation models. The staff, however, does not think that the benefit of such fine tuning would be worth the time it would require. The staff thinks the project has reached a point wherein the Boards can publish a due process document with a sufficiently clear, complete, and internally consistent description of two revenue model. The feedback received would be used as a basis for selecting one model (or a variant of it) for further development, refinement, and eventual publication in an exposure draft.
 13. With this thought in mind, the staff proposes that the Boards' discussions in November and December focus strictly on the model being considered those months. The Boards should not compare the Measurement model to the Allocation model in those meetings. Nor should the Boards make suggestions for changes to the models themselves, except to suggest where a model may be incomplete, internally inconsistent, or otherwise poorly explained.
 14. To be clear, the due process document will not be an exposure draft or final standard, so the models do not have to be perfectly and completely articulated. Rather, the staff recommends the Boards view the due process document as the opportunity to seek input on either one or both of two different revenue recognition models, either one of which would be an improvement over existing practice. Thus, the questions before the Boards will be (a) whether each model is internally consistent with its stated principles, (b) whether each model has dealt

with all significant issues, and is thus sufficiently described, and (c) whether the model, on balance, would represent an improvement over current practice. The Boards' comments on these issues will help the staff prepare a due process document to be published in the first quarter of 2008.

Question 1: Do the Boards agree with the timeline outlined above in which the staff plans to move toward publication of a due process document?

Question 2: Do the Boards agree to focus their comments on the internal consistency, sufficiency, and clarity of each model?

WHAT ABOUT THE DUE PROCESS DOCUMENT?

15. Because the next two months will be the first time the Boards will have seen both models worked out in their entirety (including subsequent accounting), it will be the first time the Boards can form an opinion of each model as a whole. In doing so, the Boards may be able to coalesce around one of the models as a clear improvement over current practice.
16. Regardless of whether such a preliminary view is reached, the staff thinks that each model should be illustrated in the due process document. The document would explain how certain features of the two models represent improvements over current practice, and whether the Boards think one or both of the models (on balance) represent an improvement to current practice.
17. Because the document would illustrate both models, constituents will be able to express their views about which model they think represents the greater improvement to current practice. The Boards can then use this input in the next stage of the project as they go on to develop a single, converged general standard on revenue recognition.
18. The Boards have previously noted that constituents are better able to respond constructively to due process documents that contain a preliminary view because there is a clear focus. In this instance, however, given the trade-off between reaching a preliminary view and issuing an initial due process document, the staff thinks that it would be more productive to articulate the two models rather than trying to reach agreement on a single model (which could easily take another year). In this way, we can initiate the debate with our constituents.
19. In addition, the due process document would demonstrate that the Boards have narrowed the field of possible implementations to two asset and liability models, even if they have not decided between the two. And it is likely to be easier for constituents to respond constructively to two models than to a neutral discussion paper since the focus will be limited to only two alternatives.

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Question 3: Do the Boards still agree that the due process document should seek comment on both revenue models?

20. The following is a list of the memos/agenda papers that the staff plans to discuss at the October joint meeting:

Memo #90 / agenda paper 5A	<i>Revenue Recognition: Due Process Document</i>
Memo #91 / agenda paper 5B	<i>Revenue Recognition: Measurement Model Summary</i>
Memo #92 / agenda paper 5C	<i>Revenue Recognition: Allocation Model Summary</i>
Memo #93 / agenda paper 5D	<i>Revenue Recognition: Summary of the Key Features of the Measurement and Allocation Models</i>
Memo #94 / agenda paper 5E	<i>Revenue Recognition Examples</i>