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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **March 2009, London**

Project: **Revenue recognition**

Subject: **Measurement of rights cover note (Agenda paper 6)**

OBJECTIVE

1. The objective of the board meetings is to reach tentative decisions on the main issues relating to the measurement of rights in a contract. That is one of the topics that the boards did not address in their recently published revenue recognition discussion paper.
2. The package consists of three papers:
 - a. Agenda Paper 6A: Effects of the time value of money
 - b. Agenda Paper 6B: Effects of uncertain consideration
 - c. Agenda Paper 6C: Noncash consideration.
3. The boards' preliminary views on these issues will enable the staff to analyze how the boards' proposed revenue recognition model should be articulated at the level of a draft standard. As discussed in the project plan, the staff thinks that articulating the model at that level will identify the parts of the model that require further deliberations by the boards at future meetings.

BACKGROUND

4. In the boards' proposed model, an entity accounts for its net position in a contract with a customer. The net contract position is the combination of the remaining rights and performance obligations in the contract. An entity recognizes revenue when its net contract position increases from the satisfaction of performance obligations.
5. However, when it comes to measurement, an entity does not measure its net contract position directly. Rather, the entity measures its rights and performance obligations separately.
 - a. *Measurement of performance obligations*—In their discussion paper, the boards focus on the measurement of performance obligations. The boards' preliminary view is that performance obligations should be measured by allocating the transaction price (i.e. the customer consideration) to the performance obligations.
 - b. *Measurement of rights*—The discussion paper does not specify how an entity would measure its rights. But implicit in the discussion paper is the idea that the initial measurement of the rights would equal the amount allocated to the performance obligations. In other words, the boards were clear that an entity's net contract position at inception would be nil. Consequently, an entity would not recognize revenue at contract inception but only when its contract position increases subsequently through the satisfaction of performance obligations.
6. The boards assume in the discussion paper that the transaction price (i.e. customer consideration amount) is a fixed cash amount and that the net contract position is not affected by the time value of money. However, the boards now must consider how the measurement of rights and performance obligations is affected by the time value of money, uncertain consideration, and noncash consideration. In other words, what is the transaction price? What is the amount that an entity should initially allocate to the performance obligations?
7. One approach would be to measure the rights at fair value. IAS 18 says that revenue is measured at the fair value of the consideration received or receivable. If revenue is the fair value of consideration received as IAS 18 says, and if revenue is the transaction price as the discussion paper notes, then one might conclude that the transaction price is the fair value of the consideration. If so, then that amount could be allocated to the performance obligations.
8. However, rather than recommending fair value as the measurement basis of rights, the staff thinks the boards' discussions would be more focused by breaking down the measurement of rights into main issues and considering each issue separately. Hence, the boards will consider the effects on an entity's net contract position of the time value of money, uncertain consideration, and noncash consideration.

9. One issue that this package of materials does not consider is collectibility and customer credit risk. Agenda Paper 6A on the time value of money considers credit risk in the discussion of the appropriate discount rate. However, the issue of collectibility will be addressed more broadly at a future meeting.

A NOTE ON THE PROJECT PLAN

10. The Discussion Paper is out for comment until 19 June. During this period the staff is researching some of the main issues that were not considered in the discussion paper but need to be addressed in the Exposure Draft, namely:
 - a. measurement of rights
 - b. contract issues (renewals, cancellations, changes, combining and separating)
 - c. presentation
 - d. disclosure.
11. The staff plans to bring papers on these topics to board meetings from April to June.
12. We are also preparing for comment letter analysis and redeliberations.
13. In addition, the staff is undertaking various outreach activities with the purpose of clarifying the proposals in the Discussion Paper and for us to understand the implications of the proposals for various industries. The staff is doing that using four main channels:
 - a. accounting firms
 - b. accounting conferences/webcasts
 - c. targeted focus groups (eg analyst groups, professional associations)
 - d. industry-specific workshops (in the sectors most likely to be affected by the boards' proposals).