IASB/FASB Joint Meeting
weeks beg. 15 and 22 March 2010
FASB ED Session
March 11, 2010

IASB agenda reference **7A**

FASB memo reference **128A**

Project	**Revenue Recognition**
Topic	**Disclosure**

Objective

1. This paper asks the boards to approve the revised disclosure requirements in Appendix A for the forthcoming revenue recognition exposure draft.

Background

2. At the January 2010 meeting, the boards discussed the disclosure requirements for the forthcoming exposure draft. The boards tentatively decided:

   (a) to specify a high-level disclosure objective similar to the objectives in FASB Accounting Standards Codification (ASC) Section 605-25-50 *Revenue Recognition—Multiple-Element Arrangements—Disclosure* and IFRS 7 *Financial Instruments: Disclosures*

   (b) to require an entity to disclose:

      (i) the nature of its contracts with customers and the related accounting policies;

      (ii) the principal judgements used in accounting for contracts with customers;

      (iii) a reconciliation of the beginning and ending net contract position(s);

(iv) the total amount of remaining performance obligations and the expected timing of their satisfaction (maturity analysis); and

(v) information about onerous contracts, including the extent and amount of such contracts and the reasons for them becoming onerous.

3. In addition, the boards asked the staff to address the following concerns with the disclosure requirements:

   (a) *Disaggregation* – The boards requested clarification of the proposed disaggregation principle and how it interacts with the proposed disaggregation requirements in the Financial Statement Presentation (FSP) project.

   (b) *Overall volume and structure of disclosure requirements* – The boards were concerned about the amount of proposed disclosures and whether they would all result in useful information. The boards asked the staff to streamline the disclosure requirements.

Revised disclosure requirements

4. The staff has consulted selected IASB members and the FASB Board Advisors. In the light of the comments received, together with the feedback from the January board meeting, the staff has developed the revised set of disclosures set out in Appendix A.

5. The staff has made the following main changes:

   (a) revised the objective to focus on the timing and amount of revenue recognition.

   (b) streamlined many of the proposed risk disclosures and enhanced the disclosures for onerous contracts.

   (c) eliminated the requirement to disaggregate revenue and introduced a requirement to reconcile the proposed disclosures to revenue amounts disaggregated in accordance with other Standards.

(d) included a requirement to disclose the amount and expected timing of satisfaction of remaining performance obligations (maturity analysis), but limited it to performance obligations in contracts expected to be fulfilled after more than one year from contract inception.

(e) streamlined the requirements and removed redundancies.

6. Specific disclosures for the boards' consideration are:

(a) Disaggregation (paragraphs 7–15)

(b) Maturity analysis (paragraphs 16–23).

Disaggregation

7. In January's Agenda Paper 4A/Memo 125A, the staff recommended that an entity should:

(a) disaggregate revenue for the period based on the categories of goods or services identified as part of its disclosure of the nature of its contracts, and

(b) disaggregate other revenue disclosures based on what would be most useful in meeting the disclosure objective.

8. The boards raised concerns about:

(a) whether this disaggregation would be the most appropriate,

(b) the ambiguity about the level (ie granularity)of disaggregation required,

(c) whether a consistent basis should be used for the disaggregation of all the proposed revenue disclosures (ie linking disclosures together), and

(d) the interaction of the proposed requirements with revenue disaggregation requirements in IFRS 8 *Operating Segments* and ASC Topic 280 *Segment Reporting* and the disaggregation principles that the boards are developing in the FSP project.

Disaggregation of revenue recognised

9. Both IFRS 8 and ASC Topic 280 require a listed entity to (a) disclose revenue for each operating segment (reconciled to total reported revenue) and (b) to disaggregate its total reported revenue by (group of similar) products/services and by geography (each of these are separate requirements, not a matrix). IFRS 8 and ASC Topic 280 also require related disclosures about the entity's types of products and services and its major customers. IFRS 8 is effective from 1 January 2009. The IASB noted in its consideration of disaggregation in the FSP project that it should amend IFRS 8 only as part of a post-implementation review.

10. The FSP project is developing a core principle that requires an entity to disaggregate information so that it is useful in assessing (a) an entity's financial position and financial performance and (b) the amount, timing and uncertainty of future cash flows. This core principle is further expanded by a sub-principle requiring disaggregation of income and expense by nature and by function. Nature refers to the economic characteristics or attributes that distinguish assets, liabilities, and income and expense items that do not respond equally to similar economic events. Function refers to the primary activities (and the items used in those activities) in which a reporting entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration.

11. In the light of the requirements in existing standards and developments with respect to disaggregation in the FSP project, the staff recommends that the exposure draft for the revenue recognition project should not require further disaggregation of the revenue amount.

Disaggregation of other disclosures

12. Regarding the disaggregation of other disclosures in the requirements, the staff thinks that prescribing an appropriate level of disaggregation may be difficult because a specified disaggregation for one disclosure, say the roll-forward, may

not be the most meaningful disaggregation for another disclosure such as the use of judgements.

13. However, the staff believes that an entity should explain the relationship between:

    (a) the disclosures proposed in the revenue recognition exposure draft; and

    (b) the amounts that have been either presented in the statement of comprehensive income or disclosed in the notes in accordance with other standards (such as the disclosures required by IFRS 8/ASC Topic 280).

14. Therefore, the staff recommends that an entity should:

    (a) be required to disaggregate other disclosures on the basis of what would be most useful in meeting the disclosure objective, and

    (b) show the relationship between the disclosures provided in accordance with the proposed disclosure requirements and the revenue amounts presented or disclosed in accordance with other Standards.

15. The objective of such a disclosure would be to improve the cohesiveness of disclosures that relate to revenue. An entity could do this by grouping the proposed disclosures using the same criteria specified by other Standards or by reconciling the difference between disclosures that use two different sets of groupings. For example:

    (a) the disclosure of the maturity analysis could be disaggregated by operating segment, by goods or services or by geography using the same criteria as IFRS 8/ASC Topic 280;

    (b) if an entity disaggregates its disclosures about estimates based on some particular characteristic of its contracts (eg by type of customer), the entity could highlight the IFRS 8/ASC Topic 280 operating segments, goods or services, or geographic locations containing (or that contain) contracts with those particular characteristics.

Maturity analysis

16. At the January meeting the boards decided to require an entity to disclose the amount and expected timing of satisfaction of remaining performance obligations. Since January the staff has received feedback from constituents indicating that:

    (a) requiring this disclosure for all remaining performance obligations may be too burdensome,

    (b) this disclosure may not be as useful to users for all types of performance obligations (such as those satisfied within a short period of time).

17. The staff believes that users want this disclosure for the following reasons:

    (a) to understand the timing and amount of revenue to be recognised from existing contracts,

    (b) to analyse trends in the amount and timing of revenue,

    (c) to introduce consistency in the reporting of 'backlog' which is often disclosed by entities as part of management's discussion,

    (d) to understand how changes in judgements or circumstances might affect the pattern of revenue recognition.

18. The disclosure of the amount and expected timing of satisfaction of remaining performance obligations may not meet these objectives in all circumstances. For instance a retailer may enter into contracts that are satisfied shortly after contract inception. For such short-term contracts, the above disclosures would impose a cost on preparers that would outweigh the benefits to users. Feedback received from users indicates that this information would be more useful for construction and long-term service arrangements. This appears to suggest that the usefulness of the information increases as the duration of the contract increases. Users have also indicated that this information may be more useful for particular industries irrespective of the duration of the contract.

19. The staff believes that it was not the intention of the boards to require the disclosure of the amount and timing of *all* remaining performance obligations. Therefore the boards could consider limiting the disclosure to the following as a minimum:

    (a) all performance obligations in contracts that an entity expects to fulfil after more than one year from the reporting date.

    (b) all performance obligations in contracts that an entity expects to fulfil after more than one year from the date of contract inception.

    (c) all performance obligations in contracts that expose the entity to significant risk (ie variability in the amount and timing of revenue recognised)

20. The staff recommends one year as the cut-off for (a) and (b) as opposed to another period of time because feedback received from users and preparers suggests that this achieves the right balance between benefits and costs.

21. The advantage of limiting the disclosure based on time (either (a) or (b)) is that less judgement is required when producing the disclosure and, therefore, the cut-off is cleaner, less costly for preparers to implement and provides users with consistent trend information. However a disadvantage of (b) is that contracts with a duration of approximately one year would fall in and out of the disclosure as the entity re-assesses the expected duration of the contract. Similarly a disadvantage of (a) is that as contracts near fulfilment (ie less than one year) the remaining performance obligations would not be disclosed.

22. The advantage of a principle-based approach based on the amount of risk in the variability of the amount and timing of revenue recognised is that it more closely meets the objective of requiring the disclosure. However, this will require an entity to exercise further judgement, so additional disclosure may be required to explain what contracts the entity has included when applying this disclosure requirement.

23. The staff recommends that an entity should be required to disclose, at a minimum, the amount and expected timing of satisfaction of all remaining

performance obligations in contracts expected to be fulfilled after more than one year from the date of contract inception.

Question for the boards

Disclosure requirements
Do the boards agree that the forthcoming exposure draft should propose the disclosures in Appendix A?

Appendix A - Revised disclosures

A1. The revised disclosure requirements for the forthcoming ED are set out below:

Disclosure objective

1. **To help users of financial statements evaluate the timing and amount of revenue recognition in contracts with customers, an entity shall disclose qualitative and quantitative information about:**

   (a) **its contracts with customers (paragraphs** Error! Reference source not found.**–**Error! Reference source not found.**), and**

   (b) **the significant judgments, and changes in judgments, made in applying this Standard to those contracts (paragraph** Error! Reference source not found.**–**Error! Reference source not found.**).**

2. If the disclosures required by this Standard and other Standards do not meet the objective in paragraph **Error! Reference source not found.**, an entity shall disclose whatever additional information is necessary to meet that objective.

3. An entity shall apply the disclosure requirements in such groupings as are considered to be the most useful in complying with the objective in paragraph 1. Other Standards require entities to present and disclose information related to revenue in addition to the requirements of this Standard. An entity shall show the relationship between the disclosures provided in accordance with this Standard and the revenue amounts presented or disclosed in accordance with other Standards.

Example

An entity has identified three operating segments A, B and C in accordance with IFRS 8 *Operating Segments*/ASC Topic 280 *Segment Reporting*. To meet the requirement in paragraph 3 an entity might group its disclosure about the expected timing of satisfaction of remaining performance obligations using the segments identified as follows:

Amounts of remaining performance obligations expected to be satisfied in year:

	1	2	>3	Total
Segment A	X	X	X	X
Segment B	X	X	X	X
Segment C	X	X	X	X
Total	X	X	X	X

Alternatively, if the entity groups its disclosure about the expected timing of satisfaction of remaining performance obligations based on whether the customer is government or non-government, the entity might disclose which segment(s) contain these types of contracts as follows:

Amounts of remaining performance obligations expected to be satisfied in year:

	1	2	>3	Total
Government	X	X	X	X
Non-government	X	X	X	X
Total	X	X	X	X

Government contracts represent 70% and 60% of the revenues in operating segments A and C respectively. The remaining operating segment revenues arise from non-government contracts.

Contracts with customers

4. An entity shall disclose information about its contracts with customers in sufficient detail to help users evaluate the timing and amount of revenue recognition for those contracts including:

   (a) a reconciliation from the opening to the closing balance of total contract assets and contract liabilities (paragraphs 5-6), and

   (b) information about its performance obligations (paragraphs 7-8) including additional information about its onerous performance obligations (paragraph 9-10).

Reconciliation of total contract assets and liabilities

5. An entity shall provide a reconciliation from the opening to the closing balance of total contract assets and contract liabilities. The reconciliation shall show each of the following, if applicable:

   (a) the amount(s) recognized in the statement of comprehensive income arising from:

      (i) satisfaction of performance obligations (revenue);

      (ii) interest income and expense;

      (iii) the effect of changes in foreign exchange rates;

   (b) unconditional rights to consideration transferred to receivables;

   (c) cash consideration received other than for amounts transferred to receivables;

   (d) other non-cash consideration received; and

   (e) contracts acquired in business combinations and contracts disposed.

6. An entity shall reconcile the opening and closing balance of total contract assets and contract liabilities to the amounts presented in the statement of financial position.

Performance obligations

7. An entity shall disclose information about its performance obligations in contracts with customers, including a description of:

   (a) the goods or services the entity has promised to provide including any significant options granted to customers to acquire additional goods or services. If the entity has performance obligations to arrange for another party to provide goods or services (i.e. it is acting as an agent), it shall highlight that fact.

   (b) when the entity typically satisfies its performance obligations and hence recognizes revenue (paragraph 13 requires a disclosure of the methods used to recognize revenue when goods or services are transferred continuously to customers).

   (c) whether the customer typically pays for the goods or services in advance or in arrears, with an indication of any financing terms.

   (d) obligations to permit cancellations and returns, obligations to provide refunds or repairs, and other similar obligations that significantly affect the timing and amount of revenue recognition.

8. For all remaining performance obligations in contracts expected to be completed after one year from contract inception, an entity shall disclose the amount of the transaction price allocated to the performance obligations that are expected to be satisfied:

   (a) within one year,

   (b) between one and two years,

   (c) between two and three years, and

   (d) after three years.

   from the end of the reporting period.

Onerous performance obligations

9. An entity shall disclose the amount of any additional liability recognized for onerous performance obligations together with a discussion of:

   (a) the nature and amount of the performance obligations for which the additional liability has been recognized,

   (b) why those performance obligations have become onerous, and

(c) the time period over which the entity expects to satisfy the additional liability.

10. An entity shall provide a reconciliation from the opening to the closing balance of the additional liability recognized for onerous performance obligations. The reconciliation should include the amounts recognized in the statement of comprehensive income attributable to each of the following, if applicable:

(a) performance obligations becoming onerous during the period,

(b) performance obligations that cease to be onerous,

(c) amount of the additional liability satisfied during the period, and

(d) changes in estimates.

Significant judgments in the application of this Standard

11. An entity shall disclose the significant judgments, and changes in judgments, made in applying this Standard, in sufficient detail to communicate their effect on the timing and amount of revenue recognition in contracts with customers. This disclosure includes information that explains the judgments used in:

(a) determining the timing of satisfaction performance obligations (recognition – paragraph 13); and

(b) determining the transaction price and allocating it to performance obligations (measurement – paragraph 14).

12. An entity shall disclose the information required by paragraph 11in a way that:

(a) explains the effect on the amount of revenue recognized in the current period, including quantitative information about revenue recognized in the current period that relates to performance obligations satisfied in previous periods; and

(b) indicates the expected effect on the timing and amount of revenue recognition in future periods.

13. For performance obligations satisfied continuously, an entity shall disclose the methods used to recognize revenue and an explanation of why such methods are a faithful depiction of the transfer of goods or services.

14. An entity shall disclose information about the methods, inputs and assumptions used:

(a) to estimate the amount of any uncertain consideration and measure non-cash consideration included in the amount of revenue recognized,

(b) to estimate standalone selling prices when allocating consideration to performance obligations,

(c) to estimate obligations for cancellations, returns, refunds, warranties and other similar obligations, and

(d) to measure the amount of the additional liability for onerous performance obligations.