STAFF PAPER

Week of 18 February 2013

FASB | IASB Meeting

FASB Education Session 13 February 2013
IASB Education Session 19 February 2013

Project	**Revenue Recognition**		
Paper topic	Cover memo		
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Introduction

1. This paper provides:

   (a) background on the revenue redeliberations period;

   (b) an overview of the papers for the February 2013 meeting; and

   (c) next steps in finalizing the revenue standard.

Background

2. The Boards published the revised exposure draft *Revenue from Contracts with Customers* in November 2011 ("the 2011 ED"), with a comment period that ended on March 13, 2012.

3. In May 2012, the staff presented to the Boards a summary of the feedback from comment letters and a project plan for completing the redeliberations of the revenue project and finalizing a common revenue standard for IFRSs and US GAAP.

4. Thereafter, the Boards discussed and made tentative decisions on several topics. The staff have included summaries of those tentative decisions to date on the IASB and FASB websites.

Overview of February 2013 revenue recognition papers

5. The February agenda papers analyze the proposed disclosure requirements as well as the proposed transition method, including the Boards' decisions on early adoption and the effective date. These papers should be considered in conjunction with the January 2013 agenda paper 7E/166E. That paper included a summary of feedback, including an update on outreach performed, regarding the proposed disclosure and transition requirements.

6. The staff have analyzed the proposed disclosure requirements in separate papers. However, given the feedback from respondents who thought that the combined disclosure requirements outlined in the 2011 ED would be overly burdensome, the staff ask that the Boards also consider the disclosure papers holistically.

7. As part of their comments on disclosure overload, the January 2013 agenda paper 7E/166E explained that many respondents suggested that paragraph 109 or 110 of the 2011 ED should be clarified, so as to minimize the likelihood that the disclosures listed in the 2011 ED come to be viewed as required minimum disclosures or a checklist. Paragraph 109 of the 2011 ED states that the objective of the proposed disclosure requirements is "to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information…" Paragraph 110 of the 2011 ED states that "an entity shall consider the level of detail necessary to satisfy the disclosure objective" and to "aggregate or disaggregate disclosures so that useful information is not obscured by the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics."

8. Some respondents also explained that the words "an entity shall" in paragraph 109 of the 2011 ED and before each disclosure increases the likelihood that those disclosures could be seen as minimum disclosures or a checklist. To address this problem, these respondents suggested that it might be helpful to explicitly state that the proposed disclosure requirements should not be interpreted as minimum

requirements or a checklist in the standard itself. Paragraph BC248 of the 2011 ED explains that, "For the purposes of applying the disclosure requirements, the Boards noted that an entity should consider materiality in determining how much information to provide." The staff think it is important to make the point in the standard that the disclosures should not be taken as a checklist and that an entity should consider materiality when determining the information to disclose. The staff think that, along with the disclosure objective, this would significantly reduce excessive, immaterial information in the financial statements. The staff think that these concerns can be addressed in drafting.

9. The staff have prepared the following papers for discussion at the February 2013 joint Board meeting:

Paper summary	Staff recommendation
AP 7A/167A – *Disclosures: disaggregation of revenue* considers possible refinements to the requirement to disclose disaggregated revenue as proposed in ¶114 – 116 of the 2011 ED.	The staff recommend that the disclosure for the **disaggregation of revenue** be retained, the objective clarified and implementation guidance added.
AP 7B/167B – *Disclosures: reconciliation of contract balances and analysis of remaining performance obligations* considers potential amendments to the 2011 ED that would require an entity to disclose the following information: (a) a reconciliation of contract balances (¶117 of the 2011 ED); and (b) an analysis of remaining performance obligations (¶119 – 121 of the 2011 ED).	The staff recommend that the Boards replace the **reconciliation of contract balances** disclosure as proposed in the 2011 ED with the following: (a) A narrative explanation of the changes in contract balances, comprising the following types of information: (i) The opening and closing balances for an entity's contract assets and contract liabilities (this would be disclosed as quantitative data). (ii) A description of an entity's contracts and typical payment terms (already required by ¶118 of the 2011 ED) and an explanation of the effect that those factors typically would have on the entity's contract balances. (iii) An explanation of the significant changes in the opening and closing balances of contract assets and liabilities. (b) Disclosure of revenue recognized in the period that arises from the amounts allocated to performance obligations satisfied in previous periods.

	The staff recommend that the Boards clarify in the **remaining performance obligations** disclosure that: (a) Renewals are not included in the disclosure of remaining performance obligations. (b) The amount of the transaction price that is allocated to the remaining performance obligations is not subject to a revenue reversal. (c) An entity is not precluded from disclosing contracts less than 12 months.
AP 7C/167C – *Disclosures: contract costs, onerous performance obligations, and qualitative information* considers possible modifications to the proposed disclosure requirements in the 2011 ED relating to: (a) the disclosures about assets recognized from the costs to obtain or fulfill a contract with a customer (¶128 – 129 of the 2011 ED); (b) onerous performance obligations (¶122 – 123 of the 2011 ED); and (c) qualitative disclosures about performance obligations (¶118 of the 2011 ED) and significant judgments (¶124 – 127 of the 2011 ED).	The staff recommend that the Boards: (a) Modify the **contract costs** disclosure in ¶128 of the 2011 ED and retain ¶129 of the 2011 ED. This modification would remove the requirement in the 2011 ED to provide a reconciliation of the beginning and ending asset balances. Instead, entities would be required to disclose the ending asset balances, the amount of amortization, and the amortization method used. The modified wording is provided in the agenda paper. (b) Remove the proposed disclosure requirements for **onerous performance obligations** in ¶122 and 123 from the 2011 ED and rely on the existing guidance for presentation and disclosure related to the onerous test, which include IAS 37 and ASC ¶605-35-45-1 and 605-35-45-2. (c) Retain the **qualitative disclosures** in ¶118 and ¶124 – 127 of the 2011 ED, and ensure that an entity's policy footnote includes an entity's election of a practical expedient.

AP 7D/167D – *Disclosures: interim requirements* considers possible refinements to the proposals in the 2011 ED that specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements.	The staff recommend that the Boards retain the logic from the 2011 ED, which required an entity to provide, at a minimum, the same quantitative revenue disclosures in interim financial statements as those required in annual financial statements. Following amendments made in other agenda papers, the staff recommend that the following revenue disclosures be required in Topic 270 *Interim Reporting* and IAS 34 *Interim Financial Reporting*: (a) Disaggregation of revenue. (b) The balance of contract assets and liabilities and an explanation of any significant movements in those balances between the current and previous interim period. (c) The remaining performance obligations disclosure.
AP 7E/167E – *Transition method, effective date and early application* considers possible improvements to the requirements for transition and early adoption in the 2011 ED. The other objective of this paper is to set the effective date of the new standard.	The staff recommend the Boards: (a) Retain the requirement in the 2011 ED that an entity apply the revenue standard retrospectively in accordance with Topic 250 Accounting Changes and Error Corrections (under U.S. GAAP), or IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (under IFRS); (b) Expand the practical expedient in paragraph 133(a)/C3(a) of the 2011 ED to allow entities to apply the standard as follows: (i) An entity should apply the revenue standard to all contracts in existence as of the start of the annual reporting period beginning on or after the effective date (ie the current year) and to all contracts entered into after that date;

(ii) The entity should recognize the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings for the current year; and

(iii) For the current year, an entity should disclose how all of the financial statement line items of the current year have been affected as a result of applying the revenue standard rather than legacy revenue guidance;

(c) Assuming that the revenue standard is issued in the first half of 2013, set an effective date for annual reporting periods beginning on or after 1 January 2017;

(d) Affirm the FASB's proposal to prohibit early application; and

(e) Affirm the IASB's proposal to permit early application.

Next Steps

10. After this meeting, the Boards will have completed their substantive redeliberations of the 2011 ED and the staff will seek the Boards' direction to start drafting the final revenue standard. In future months, the staff will bring to the Boards remaining and any new "sweep issues". In addition, the staff will complete the steps required by each respective Boards' due process, including an analysis of the costs and benefits of the final revenue standard and its potential effects.