STAFF PAPER

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Project	**FASB/IASB Joint Transition Resource Group for Revenue Recognition**
Paper topic	July 2014 Meeting – Summary of Issues Discussed and Next Steps

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This meeting summary has been subsequently amended to reflect more clearly staff member views. Amendments are shown "marked" for additions and "struck through" for deletions.

Purpose

1. The first meeting of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) was held on July 18, 2014. The purpose of the meeting was for the TRG members to inform the FASB and the IASB about potential issues with implementing Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and IFRS 15, *Revenue from Contracts with Customers* (collectively referred to as the "new revenue standard") to help the Boards determine what, if any, action may be needed to address those issues.

2. The purpose of this paper is to provide a summary of (a) the issues discussed at the July 18, 2014 meeting (b) views expressed at the meeting by the TRG members and the views of the FASB and IASB staff about those issues, and (~~b~~c) the Boards' planned next steps, if any, for each of those issues.

Background

3. The following four topics were discussed at the July 18, 2014 meeting:

   (a) *Topic 1:* Gross versus Net Revenue

   (b) *Topic 2:* Gross versus Net Revenue: Amounts Billed to Customers

   (c) *Topic 3:* Sales-Based and Usage-Based Royalties in Contracts with Licenses and Goods or Services Other than Licenses

   (d) *Topic 4:* Impairment Testing of Capitalized Contract Costs.

4. The staff paper for each of those topics was made public to all stakeholders before the TRG meeting and is available on the FASB's and the IASB's websites.
5. A replay of the entire meeting is available on the FASB's and the IASB's websites.

Topic 1: Gross versus Net Revenue

6. The TRG discussed potential implementation issues with determining and accounting for whether an entity is a principal or an agent. The TRG discussed the following issues:

   (a) *Issue 1(a)*: How should the principal-agent indicators in paragraph 606-10-55-39 (IFRS 15, paragraph B37) interact with the principle that a principal controls the good or service before its transfer to the customer?

   (b) *Issue 1(b)*: How should those indicators be applied to certain types of contracts (specifically, those for intangible goods or services and those for which the indicators provide contradictory evidence)?

   (c) *Issue 2*: If an entity determines that it is the principal and that the intermediary to which it provides the goods or services is an agent, what amount of revenue should the entity recognize if it receives a net amount of cash from the intermediary (that is, amount from the end customer less commission retained) and does not know the amount payable by the end customer?

(d) *Issue 3*: How should the transaction price allocation guidance be applied to a transaction in which the entity is a principal for some of the goods or services and an agent for others?

7. During the meeting, most of the discussion on this topic focused on Issues 1 and 2. TRG members observed that the principal versus agent analysis requires the use of significant judgment under current IFRS and generally accepted accounting principles in the U.S. (GAAP) and significant judgement likely would be necessary to apply the new revenue standard. Members shared their views that it is sometimes difficult to identify an entity's customer or customers in the transaction and the promised good or service, particularly in service transactions or other transactions that do not involve tangible goods.

8. The TRG members also observed that the principal-agent indicators in the new revenue standard are similar to those in the current revenue guidance. Because of the similarities, some members had an initial perception that the outcomes under the new guidance always or often would be similar to existing practice. Other members highlighted that the outcomes may change under the new guidance due to the introduction of the control principle, which does not exist in current accounting guidance.

9. The discussion helped to inform the Boards about the challenges that are expected to arise in applying the new revenue standard compared with the challenges in applying current GAAP and IFRS. Board members instructed the staff to perform additional research on the topic. The focus of the additional research is to understand whether there are specific improvements the Boards could make that would assist stakeholders with making difficult judgements about the principal versus agent assessment. An update will be provided to all stakeholders after the staff completes the research.

Topic 2: Gross versus Net Revenue: Amounts Billed to Customers

10. The TRG discussed questions about determining whether to present specific types of billings to customers as revenue or as a reduction of the related expense amounts.

Examples of those amounts billed to customers include shipping and handling fees, reimbursements of other out-of-pocket expenses, and various taxes collected from customers and remitted to governmental authorities.

11. The discussion focused on the definition of *transaction price* in paragraph 606-10-32-2 (IFRS 15, paragraph 47) and the principal versus agent considerations in paragraphs 606-10-55-36 through 55-40 (IFRS 15, paragraphs B34–B38). TRG members said that the new revenue standard provides sufficient guidance about determining the appropriate presentation of amounts billed to customers. TRG members also observed that at transition some entities may need to evaluate some types of taxes, such as sales taxes, on a jurisdiction-by-jurisdiction basis to apply the new revenue standard appropriately. That effort may be incremental to what is required under current guidance, especially current GAAP, which permits an entity to make an accounting policy election for the presentation of sales and other taxes collected from customers.

~~11.~~12. The staff agrees with the view of most TRG members that the new revenue standard provides sufficient guidance to determine the gross or net presentation of amounts billed to customers, including shipping and handling fees, reimbursements of other out-of-pocket expenses, and various taxes collected from customers and remitted to governmental authorities.

~~12.~~13. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent with the standard, the staff does not recommend that the Boards take~~the Boards do not plan~~ any further action at this time. [Note: After the July 18, 2014 TRG meeting, some TRG members and other stakeholders requested that the Boards consider including a practical expedient in the new revenue standard about the presentation of taxes collected from customers and remitted to governmental authorities. The staff is performing research on this request for a practical expedient. An update will be provided to stakeholders after the staff completes the research.]

Topic 3: Sales-Based and Usage-Based Royalties in Contracts with Licenses and Goods or Services Other than Licenses

~~13.~~14. The TRG discussed the scope of the guidance on sales-based and usage-based royalties in paragraph 606-10-55-65 (IFRS 15, paragraph B63) (the "royalties constraint"). The TRG's discussion primarily focused on the following three interpretations (or variations of the interpretations) of when the royalties constraint applies:

(a) Whenever the royalty is in a contract that includes a license of intellectual property, regardless of whether (i) the royalty also relates to another non-license good or service or (ii) the license is a separate performance obligation

(b) Only when the royalty relates *solely* to a license of intellectual property and that license is a separate performance obligation

(c) When the royalty relates (i) solely to a license of intellectual property or (ii) the royalty relates to a license and one or more other non-license goods or services, but the license is the primary or dominant component to which the royalty relates.

~~14.~~15. TRG members had different views about how to interpret the scope of the royalties constraint in the new revenue standard. Furthermore, some TRG members raised additional questions about accounting for licenses of intellectual property under the new revenue standard, including:

(a) What constitutes a sales-based or usage-based royalty?

(b) What constitutes a license of intellectual property?

(c) The implementation guidance in the new revenue standard on determining the nature of a license (that is, determining whether an entity's promise to the customer is to provide a right to use or right to access the intellectual property, which affects whether revenue is recognized at a point in time or over time).

~~15.~~16. After the July 18, 2014 TRG meeting, additional implementation issues about licenses were submitted to the staff. Those implementation issues are included on the agenda for the October 31, 2014 TRG meeting.

~~16.~~17. Board members noted that it would be helpful to understand the other additional questions about licenses before deciding what, if any, action would be helpful to stakeholders about the royalties constraint issue discussed at the July 18, 2014 TRG meeting. After the October 31, 2014 TRG meeting, the Boards will provide an update about their plan for the royalties constraint implementation issue and the additional licenses issues discussed at the October TRG meeting.

Topic 4: Impairment Testing of Capitalized Contract Costs

~~17.~~18. The TRG discussed whether the new revenue standard requires an entity to consider contract renewals or extensions in projecting future cash flows when performing an impairment test on capitalized contract costs. TRG members stated that the new revenue standard requires an entity to consider contract renewals and extensions in "the remaining amount of consideration that the entity expects to receive" (paragraph 340-40-35-3(a) / IFRS 15, paragraph 101a). TRG members noted that this view was supported by the discussion in the basis for conclusions (paragraphs BC309 and BC310) and the totality of the guidance in Section 340-40-35, Other Assets and Deferred Costs—Contracts with Customers—Subsequent Measurement (IFRS 15, paragraphs 99–104), which states that the "goods or services to which the asset relates" include goods or services from specifically anticipated future contracts such as renewals or extensions. The staff agrees with the view of most –TRG members that contract renewals or extensions should be considered when estimating future cash flows for an impairment test on capitalized contracts costs.

~~18.~~19. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believes is consistent with the standard, the staff does not recommend that the Boards take ~~the Boards do not plan~~ any further action at this time. However, the Boards will compile issues like this one and decide at a later date whether to make a technical correction or minor improvement to clarify the Boards' intent.