FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Memo

Memo No.	**1**
Issue Date	**March 10, 2015**
Meeting Date(s)	**BM March 18, 2015**

Contact(s)			
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Project	**Revenue Recognition – Noncash Consideration**
Project Stage	**Agenda Decision, Deliberations, and Permission to Ballot**
Issue(s)	**Determining the Measurement Date for Noncash Consideration**

Purpose

1. At the March 18, 2015 Board meeting, the FASB first will be asked whether to add a project to its technical agenda to clarify the guidance in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("the new revenue standard"), for determining the measurement date[1] for promised consideration in a form other than cash ("noncash consideration").[2] If the FASB decides to add this project to its agenda, the FASB then will be asked to make technical decisions about the issues raised in this paper. The staff's intention is that the Board will complete deliberations at the March 18 meeting and will proceed to issuing an Exposure Draft of a proposed Accounting Standards Update for vote by written ballot. The Exposure Draft issued by the FASB may also include other proposed changes to Update 2014-09 that the FASB is expected to discuss at the March 18 meeting.
2. The IASB also will discuss this issue at the March 18 meeting, but will not be asked to make any technical decisions. Rather, the IASB will be asked what, if any, action it will take to address this issue.

[1] The term measurement date in this paper refers to the date at which the fair value of the noncash consideration is fixed. Before the measurement date, the fair value of the noncash consideration is remeasured at each reporting period.
[2] Common examples of noncash consideration include equity (for example, shares or share options) and advertising time.

3. This paper is structured as follows:

   (a) Background

   (b) Accounting Guidance in New Revenue Standard

   (c) Accounting Guidance in Current U.S. GAAP

   (d) Issue Description

   (e) Staff Analysis

   (f) Disclosure

   (g) Transition & Effective Date

Questions for the Board

1. Does the Board want to add a project to its agenda to clarify the guidance for determining the measurement date for noncash consideration?

2. If the Board would like to add a project, which measurement date would the Board like to pursue (that is, Alternative A, B, or C)?

3. Does the Board want to clarify how the constraint is applied to transactions in which the fair value of noncash consideration might vary due to both the form of the consideration and for reasons other than the form of the consideration?

4. Does the Board think that all relevant issues have been deliberated?

5. Have the Board members received sufficient information and analysis to make informed decisions on those issues? If not, what other information or analysis do they need?

6. Subject to what we learn through comment letters and other stakeholder outreach, do the expected benefits of the changes justify the perceived costs?

7. Should the staff proceed to drafting a proposed ASU for a vote by written ballot? If yes, what is the comment period?

Background Information

4. At its January 26, 2015 meeting, the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) discussed potential implementation issues that stakeholders may encounter when applying the guidance in the new revenue standard for determining the measurement date for noncash consideration (TRG Agenda ref 15). The TRG also discussed how the guidance in the new revenue standard regarding the inclusion of variable consideration in the transaction price is applied when the fair value of noncash consideration varies due to both the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer) and for reasons other than the form of consideration (for example, a change in the exercise price of a share option because of the entity's performance). TRG members agreed that the new revenue standard is unclear about the measurement date for noncash consideration. However, TRG members had different views about how frequently transactions involving noncash consideration arise in practice. Some of the U.S.-based TRG members (preparers and practitioners) informed the Boards that arrangements involving noncash consideration are not uncommon in the United States and are common in certain industries (for example, the media and entertainment industry).
5. Following the January 2015 TRG meeting, the staff performed additional research and outreach with stakeholders in the United States. The staff's outreach included discussions with auditors and preparers in the media and entertainment and industrial manufacturing industries. Feedback received through the staff's outreach generally was consistent with the feedback that the Boards received at the TRG meeting. That is, stakeholders do not think the new revenue standard is clear about the measurement date for noncash consideration and noncash consideration transactions are not uncommon in the United States. Participants in the staff's outreach had different views about the appropriate measurement date for noncash consideration.

Accounting Guidance in New Revenue Standard

6. The core principle of the new revenue standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the

consideration to which the entity expects to be entitled in exchange for those goods or services.

7. The new revenue standard includes five steps that are applied to achieve its core principle. Step 3 requires an entity to determine the transaction price of a contract. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash.

8. If the consideration is variable, an entity must estimate the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration is included in the transaction price only to the extent that it is probable[3] that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved ("the constraint").

9. Paragraph 606-10-32-21 [66][4] states that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the noncash consideration (or promise of noncash consideration) at fair value. That is, the noncash consideration shall be measured based on the fair value of the noncash consideration ***received***. Paragraph 606-10-32-22 [67] states that if an entity cannot reasonably estimate the fair value of the noncash consideration, the entity shall measure the consideration indirectly by reference to the standalone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

10. Paragraph 606-10-32-23 [68] addresses application of the constraint when the fair value of noncash consideration varies. It states that if the fair value of noncash consideration promised by a customer varies for reasons *other than only the form of the consideration,* an entity shall apply the constraint. If the fair value of the noncash consideration varies because of the form of the consideration, the constraint would not apply.

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[3] 'Probable' is replaced with 'highly probable' in paragraph 56 of IFRS 15 *Revenue from Contracts with Customers.*
[4] IFRS 15 references are included in '[XX]' throughout this paper.

11. Paragraph BC252 explains that the Boards decided that it would be most appropriate to apply the constraint to the same types of variability, regardless of whether the amount that will be received from a customer will be in the form of cash or noncash consideration. Consequently, the Boards decided to constrain variability in the estimate of the fair value of noncash consideration if that variability relates to changes in the fair value for reasons other than the form of consideration.

12. Paragraph 606-10-32-24 [69] states that when a customer contributes goods or services (for example, materials, equipment, or labor) to facilitate an entity's fulfillment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as noncash consideration.

13. Paragraph BC253 states that, once recognized, any asset arising from noncash consideration is measured and accounted for in accordance with other relevant guidance (for example, Topic 320, Investments—Debt and Equity Securities or IFRS 9 *Financial Instruments*).

14. Paragraph BC254 explains that the noncash consideration guidance in the new revenue standard results in the removal of previous generally accepted accounting principles (GAAP) on the accounting for share-based payments received by an entity in exchange for goods and services. That previous GAAP provided guidance for the measurement and recognition of revenue when the consideration was in the form of shares or share options. The new revenue standard also results in the removal of previous GAAP on the accounting for barter advertising.

15. Paragraphs 606-10-55-248 through 55-250 [IE156-IE158] include an example to illustrate the guidance in paragraphs 606-10-32-21 through 32-24 [66-69] on noncash consideration. That example is included for reference in Appendix A of this paper.

Accounting Guidance in Current U.S. GAAP

16. Current U.S. GAAP (paragraph 505-50-30-18) includes guidance for determining the measurement date when an entity enters into a transaction to provide goods or services in exchange for equity instruments. That guidance states that the grantee shall measure the

fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of either of the following dates (referred to as the measurement date):

(a) The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by the grantee to earn the equity instruments (a performance commitment) is reached

(b) The date at which the grantee's performance necessary to earn the equity instruments is complete (that is, the vesting date).

17. Paragraph 505-50-30-12 states that a performance commitment is a commitment under which performance by the counterparty to earn the equity instruments is probable because of a sufficiently large disincentive for nonperformance. The disincentives must result from the relationship between the issuer and the counterparty. Forfeiture of the equity instruments as the sole remedy in the event of the counterparty's nonperformance is not considered a sufficiently large disincentive for purposes of applying this guidance. In addition, the ability to sue for nonperformance, in and of itself, does not represent a sufficiently large disincentive to ensure that performance is probable.

18. The guidance referenced above in Subtopic 505-50 will be superseded by the new revenue standard upon its effective date.

19. In October 2014, the FASB voted to add a project to its research agenda about potential improvements to the guidance for share-based payments issued to nonemployees. The Board directed the staff to research whether certain transactions currently within the scope of the nonemployee guidance should be included in the scope of the guidance for share-based payments issued to employees. The staff also will research the accounting for nonemployee awards with unresolved performance obligations.

20. In the U.S., it is common for media and entertainment companies to license television content to a broadcaster in exchange for cash and advertising time. The media and entertainment companies will either use the advertising time or may sell the advertising time to a third party. The media and entertainment companies included in the staff's outreach informed the staff that there often are significant uncertainties about the fair value

of the advertising time received at the time the licensing arrangement is executed. For example, the fair value of the advertising time is highly dependent on the success of the television content to which it relates. In some cases, the television content may be new or it may not be aired for several years. Accordingly, the fair value of the related advertising time may be difficult to estimate.

21. Subtopic 926-845 includes accounting guidance for entities in the film production and distribution industry that license programming to television stations in exchange for advertising time.

22. Paragraph 926-845-25-1 states that exchanges in which an entity licenses programming to television stations in exchange for a specified amount of advertising time on those stations shall account for those kinds of exchanges in accordance with Topic 845.

23. Subtopic 926-845 will be superseded by the new revenue standard upon its effective date.

24. Paragraph 845-10-30-17 states that in reporting the exchange of a nonmonetary asset (for example, a television programming license) for barter credits (advertising), it shall be presumed that the fair value of the nonmonetary asset ***exchanged*** (for example, a television programming license) is more clearly evident than the fair value of the barter credits received and that the barter credits ***shall be reported at the fair value of the nonmonetary asset exchanged (emphasis added)***.

25. However, paragraph 845-10-30-18 states that the presumption in paragraph 845-10-30-17 may be overcome if an entity can convert the barter credits into cash in the near term, as evidenced by a historical practice of converting barter credits into cash shortly after receipt, or if independent quoted market prices exist for items to be received upon exchange of the barter credits, it also shall be presumed that the fair value of the nonmonetary asset does not exceed its carrying amount unless there is persuasive evidence supporting a higher value.

26. Paragraphs 845-10-30-17 and 30-18 will be superseded by the new revenue standard upon its effective date.

27. Paragraphs 605-20-25-15 through 25-18 include revenue recognition guidance for advertising barter services. That guidance states that revenue and expense shall be

recognized at fair value from an advertising barter transaction only if the fair value of the advertising surrendered in the transaction is determinable based on the entity's own historical practice of receiving cash, marketable securities, or other consideration that is readily convertible to a known amount of cash for similar advertising from buyers unrelated to the counterparty in the barter transaction. A period not to exceed six months prior to the date of the barter transaction is used to determine whether a historical practice exists of receiving cash or marketable securities for similar advertising.

28. Paragraphs 605-20-25-15 through 25-18 will be superseded by the new revenue standard upon its effective date.

29. For entities in the film industry, application of the guidance discussed above results in those entities measuring (and recognizing revenue for the sale of) advertising time that was received as consideration in a licensing arrangement when the advertising time is sold to a third-party, based on the amount the third-party pays for the advertising time. There is generally no accounting for the advertising time prior to that date because the entities do not meet the revenue recognition requirements in paragraphs 605-20-25-15 through 25-18. If the entity instead retains the advertising time for its own use, there is no accounting for the advertising time. That is, the company never recognizes receipt or subsequent use of the noncash consideration that was received as part of the licensing arrangement.

30. Subtopic 830-20 includes accounting guidance for foreign currency transactions in financial statements of a reporting entity. Paragraph 830-20-30-1 states that at the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date.

31. Paragraph 830-20-35-1 states that a change in exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is a foreign currency transaction gain or loss that generally shall be included in determining net income for the period in which the exchange rate changes.

Issue Description

32. Paragraphs 606-10-32-21 through 32-24 [66-69] and paragraphs 606-10-55-248 through 55-250 [IE156-IE158] are clear that noncash consideration is measured at fair value (or by reference to the standalone selling price of the goods or services promised to the customer if an entity cannot reasonably estimate fair value) and included in the transaction price. The new revenue standard also is clear that, once recognized, any changes in the fair value of an asset arising from noncash consideration should not be recognized as revenue. However, some stakeholders think the new revenue standard is unclear about when noncash consideration is measured.

33. Some stakeholders also have questioned how the guidance in paragraph 606-10-32-23 [68] regarding the constraint on variable consideration is applied in scenarios in which the fair value of noncash consideration varies due to both the form of the consideration and for reasons other than the form of consideration.

Staff Analysis

Issue 1: What is the measurement date for noncash consideration?

34. The staff is aware of the following views:

    (a) *View A* – Noncash consideration is measured at contract inception

    (b) *View B* – Noncash consideration is measured when the noncash consideration is received (or is receivable)[5]

    (c) *View C* – Noncash consideration is measured at the earlier of (i) when the noncash consideration is received (or is receivable) and (ii) when the related performance obligation is satisfied (or as the performance obligation is satisfied, if satisfied over time).

35. The staff has developed the following examples to illustrate how the views would apply to transactions involving of noncash consideration.

[5] Paragraph 606-10-45-4 states that a receivable is an entity's right to consideration that is unconditional. For example, noncash consideration in the form of equity instruments is generally considered as *received* (*or receivable*) at the date on which an entity (or individual) vests in the equity instruments.

Example 1

36. On January 1, 20X0, Company A is engaged to develop a website for Customer X. Company A concludes that the service is a single performance obligation satisfied ratably over time in accordance with paragraphs 606-10-25-14 [22] and 606-10-25-27 through 25-28 [35-37].

37. As consideration for developing the website, Company A will receive $1 million and will vest in 100 options to purchase shares of Customer X. Company A will not receive any consideration if development of the website is not completed.

38. The terms of the arrangement are such that the exercise price of the share options is affected by Company A's performance. The exercise price of the share options is $1 if Company A develops the website by September 1, 20X0, $2 if the website is developed by October 1, 20X0, and $3 if the website is developed by November 1, 20X0. Company A completes development of the website on September 1, 20X0.

39. This contract includes variable consideration because the exercise price of the share options is affected by Company A's performance. Consequently, the entity would need to determine whether the variable consideration should be constrained. Issue 2 below considers the application of the constraint for this example.

    View A

40. Proponents of *View A* think the share options should be measured on January 1, 20X0, which is consistent with when the cash component of the transaction price is measured. Proponents of *View A* think that timing of when payment is received should not affect the amount of revenue recognized, unless the arrangement contains a financing component.

41. Proponents of *View A* also think the fair value of the share options at contract inception best reflects the value that Company A is willing to accept in exchange for its services.

42. Opponents of *View A* think that the fair value of the share options at contract inception is not reflective of the value of the financial asset that Company A will receive. Opponents of *View A* observe that the difference between the fair value of the share options at contract inception and the fair value of the share options upon receipt would be recognized as a gain

or loss in earnings (that is, not revenue), which they do not think is appropriate because the amount involves consideration from a contract with a customer.

43. Opponents of *View A* observe that measurement of the share options at contract inception would represent a change in practice for Company A, which historically has applied the guidance in paragraph 505-50-30-18 and has generally measured the share options upon vesting (that is, when performance was complete).

View B

44. Proponents of *View B* think the share options should be measured on September 1, 20X0, the date at which the website is completed and the asset arising from the noncash consideration is recognized (that is, the noncash consideration is received (or is receivable)).

45. Proponents of *View B* think paragraphs BC253 and 606-10-55-250 [IE158] indicate that changes in the fair value of noncash consideration after it is received (or is receivable) should not affect revenue. Proponents of *View B* think that, absent any explicit guidance to the contrary, the new revenue standard implies that changes in the fair value of noncash consideration before it is received (or is receivable) on September 1 should affect revenue. That is, the measurement date for the share options is September 1, and therefore, changes in the fair value of the share options from January 1 through September 1 should affect revenue.

46. Opponents of *View B* think that changes in the fair value of noncash consideration after contract inception should not be recognized in revenue because those changes are out of the control of Company A and not reflective of the consideration that Company A was willing to accept for its services.

View C

47. Proponents of *View C* think the noncash consideration should be measured using the fair value of the share options on each day as the performance obligation is satisfied (that is, from January 1, 20X0, to September 1, 20X0).[6]

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[6] Some stakeholders think a practical expedient to *View C* is to use the average fair value of the share options during the period over which the performance obligation is satisfied (that is, from January 1, 20X0, to September 1, 20X0).

48. Proponents of *View C* think that a requirement to remeasure the fair value of noncash consideration when the related performance obligation is satisfied (or as the performance obligation is satisfied, if satisfied over time) is similar (although not identical) to the measurement guidance in paragraph 505-50-30-18 and the guidance in Subtopic 830-20.

49. Proponents of *View C* also think the intent of the example in paragraph 606-10-55-250 [IE158] is to illustrate that noncash consideration is measured as the performance obligation is satisfied (that is, "upon completion of each weekly service" in the example).

50. However, proponents of *View C* think that, in certain fact patterns (for example, when the noncash consideration is received (or is receivable) in advance of the performance obligation being satisfied), the guidance in paragraphs BC253 and 606-10-55-250 [IE158] require measurement of the noncash consideration before the related performance obligation is satisfied because that guidance states that changes in the fair value of noncash consideration after it is received (or is receivable) should not affect revenue.

51. Opponents of *View C* think that changes in the fair value of noncash consideration after contract inception should not be recognized in revenue because those changes are out of the control of Company A and not reflective of the consideration that Company A was willing to accept for its services.

52. Opponents of *View C* also think that measuring the share options as the performance obligation is satisfied could be burdensome in situations in which a performance obligation is satisfied over time. An entity might be required to measure the noncash consideration many times, and there would be costs associated with making the estimate and having the estimate audited.

Example 2

53. On January 1, 20X0 Producer A licenses a television show for 4 years to Network B. The license period begins on January 1, 20X0. Network B agrees to provide Producer A $100 cash and the rights to 100 minutes of advertising time during the airing of the television show that Network B has licensed. Producer A has the right to use those 100 minutes to (a) air its own commercials (for example, for a movie it plans to release) or (b) sell some or all of its rights to those minutes to a third party (for example, a retailer that wants to purchase

commercial time). The estimated fair value of advertising time on January 1, 20X0 is $1 million. Producer A concludes that the license is a single performance obligation satisfied at a point in time (January 1, 20X0). On January 1, 20X1, Producer A sells the advertising time to Retailer C for $2 million.

View A

54. Proponents of *View A* think the advertising time should be measured on January 1, 20X0, which is consistent with when the cash component of the transaction price is measured. Proponents of *View A* also think the fair value of the advertising time at contract inception best reflects the value that Producer A is willing to accept in exchange for the licensed content.

55. Opponents of *View A* think that the fair value of the advertising time at contract inception is not reflective of the value of the asset that Producer A ultimately will receive when the minutes are used by the entity or sold to a third party. Opponents of *View A* observe that the difference between the fair value of the advertising at contract inception and the fair value of the advertising upon receipt (use or sale) would be recognized as a gain or loss in earnings (not revenue), which they do not think is appropriate because the amount involves consideration from a contract with a customer.

56. Opponents of *View A* observe that a fair value measurement of the advertising time at contract inception would be highly subjective considering the number of variables that would be included in the fair value measurement. For example, the value of the advertising time will be highly impacted by the success of the licensed television show, which in some cases, may not be televised for a period of time after contract inception. Proponents, however, observe that unless Producer A sells some or all of its rights to those minutes, the fair value measurement of the advertising always would be highly subjective. In other words, any alternative that requires noncash consideration to be measured at fair value (which is what the new revenue standard requires) would require Producer A to measure the fair value of the advertising at some date and that measurement would be highly subjective.

57. Opponents of *View A* also note that measuring the fair value of the advertising time at contract inception would represent a change in practice for Producer A, which historically

has applied the guidance in Subtopic 926-845. Under that guidance, an entity would measure the advertising time when it is sold. If the entity uses the advertising time for its own purposes, there is currently no accounting for the advertising time. Opponents of *View A* observe that, in the example above, Producer A would recognize $1 million of noncash consideration as revenue on January 1, 20X0 under the new revenue standard as opposed to no revenue under today's guidance. Producer A then would recognize additional revenue of $2 million when that advertising time is sold to Retailer C under the new revenue model. Under today's guidance, Producer A would recognize $2 million of revenue when the advertising time is sold to Retailer C.

Views B and C

58. Because Producer A has the unconditional right the advertising time as of January 1, 20X0, the advertising space is considered received on that date. Accordingly, the measurement date would be January 1, 20X0 and the considerations in View A would apply. Some proponents of Views B and C have suggested that the advertising time would be received on the date at which Producer A uses or sells the advertising time. The staff does not agree with this assessment of receipt because it is not consistent with the guidance in paragraph 606-10-45-4 [108], which states that a receivable is an entity's right to consideration that is unconditional.

FASB staff recommendation

59. The FASB staff thinks View A is most consistent with the model in the new revenue standard and best represents the consideration negotiated between the parties in the arrangement. The FASB staff does not think the timing of receipt of noncash consideration should affect the amount of revenue recognized. In addition, those staff members think View A would be the least costly to apply in most cases. This is because View A would require an entity to measure the fair value of noncash consideration once (if there is no variable consideration); whereas, Views B and C might require an entity to measure the fair value of noncash consideration several times (for example, in a contract in which the performance obligation is satisfied over time).

Issue 2: How is the constraint on variable consideration applied to transactions in which the fair value of noncash consideration might vary due to <u>both</u> the form of the consideration and for reasons other than the form of the consideration?

60. The staff is aware of the following views:

    (a) *View A* – The constraint applies to variability resulting from both the form of the consideration and for reasons other than the form of consideration.

    (b) *View B* – The constraint applies only to variability resulting from other than the form of the consideration.

61. To illustrate the views, consider the scenario illustrated in Example 1 above. The contract in Example 1 includes variable consideration because the exercise price of the share options is affected by Company A's performance. The fair value of the consideration varies due to both the form of the consideration and for reasons other than the form of the consideration.

62. Paragraph 606-10-32-23 [68] states that if the fair value of noncash consideration promised by a customer varies for reasons other than *only* (emphasis added) the form of the consideration, an entity shall apply the constraint. Proponents of *View A* think the constraint should be applied to all changes in the fair value of the noncash consideration when *one* of the conditions that results in variability is for reasons other than the form of consideration. Accordingly, proponents of *View A* think the constraint should be applied to changes in the fair value of the share options resulting from variability of Customer X's share price (that is, variability due to the form of the consideration) and to changes in the fair value of the share options resulting from variability of the exercise price (that is, variability due to Company A's performance). Proponents of *View A* think that Company A must evaluate the factors in paragraph 606-10-32-12 [57] to determine whether any of the noncash consideration that varies should be included in the transaction price.

63. Opponents of *View A* note that the existence of an immaterial performance condition could significantly affect the amount of noncash consideration subject to the constraint. For example, assume that the terms of the arrangement in *Example 1* were such that the exercise price of the share options decreased by only $0.10 if Company A developed the

website a day earlier than was required. The entire amount of noncash consideration would be subject to the constraint because the fair value of the noncash consideration might vary due to its form and for reasons other than its form. Conversely, if the arrangement excluded the immaterial performance condition, none of the noncash consideration would be subject to the constraint because changes in the fair value might vary due only to its form.

64. Proponents of *View B* think paragraph BC252 indicates that the constraint should be applied to the same types of variability, regardless of the form of consideration. Proponents of *View B* think that application of *View A* is inconsistent with the Boards' intent. That is, proponents of *View B* observe that application of *View A* could result in differences in the timing of revenue recognition for similar fact patterns that are settled in different forms of consideration (for example, cash and noncash consideration). Accordingly, proponents of *View B* think the constraint should be applied only to changes in the fair value of the share options resulting from variability of the exercise price (that is, variability due to Company A's performance).

65. Opponents of *View B*, however, think that separately identifying changes in the fair value of noncash consideration resulting from the form of the consideration and changes resulting for reasons other than the form of consideration could be complex and costly and it might decrease the usefulness of information provided to financial statement users compared with *View A*.

FASB staff recommendation

66. The staff recommends *View B* because it most consistent with how the Boards intended for the constraint on variable consideration to be applied (as discussed in paragraph BC252). The staff also notes that *View B* is not subject to the potential structuring opportunities illustrated in paragraph 63 of this paper.

Disclosure

67. The staff does not recommend the Board require disclosures that are incremental to those already included in the new revenue standard. For example, paragraph 606-10-50-17 [123] requires an entity to disclose judgements used in determining the transaction price. In

addition, paragraph 606-10-50-20 [126] requires an entity to disclose information about the methods, inputs, and assumptions used for determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring noncash consideration.

Transition & Effective Date

68. The issue described in this paper relates to updates of guidance that is not yet effective. Therefore, the staff recommends that the transition, transition disclosures, and effective date of any proposed updates resulting from this project be identical to those in the new revenue standard.

Appendix A

> > > Example 31—Entitlement to Noncash Consideration

606-10-55-248 [IE156] An entity enters into a contract with a customer to provide a weekly service for one year. The contract is signed on January 1, 20X1, and work begins immediately. The entity concludes that the service is a single performance obligation in accordance with paragraph 606-10-25-14(b). This is because the entity is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the customer over time and use the same method to measure progress—that is, a time-based measure of progress).

606-10-55-249 [IE157] In exchange for the service, the customer promises 100 shares of its common stock per week of service (a total of 5,200 shares for the contract). The terms in the contract require that the shares must be paid upon the successful completion of each week of service.

606-10-55-250 [IE158] The entity measures its progress toward complete satisfaction of the performance obligation as each week of service is complete. To determine the transaction price (and the amount of revenue to be recognized), the entity measures the fair value of 100 shares that are received upon completion of each weekly service. The entity does not reflect any subsequent changes in the fair value of the shares received (or receivable) in revenue.