



Implementation: Revenue and Leases

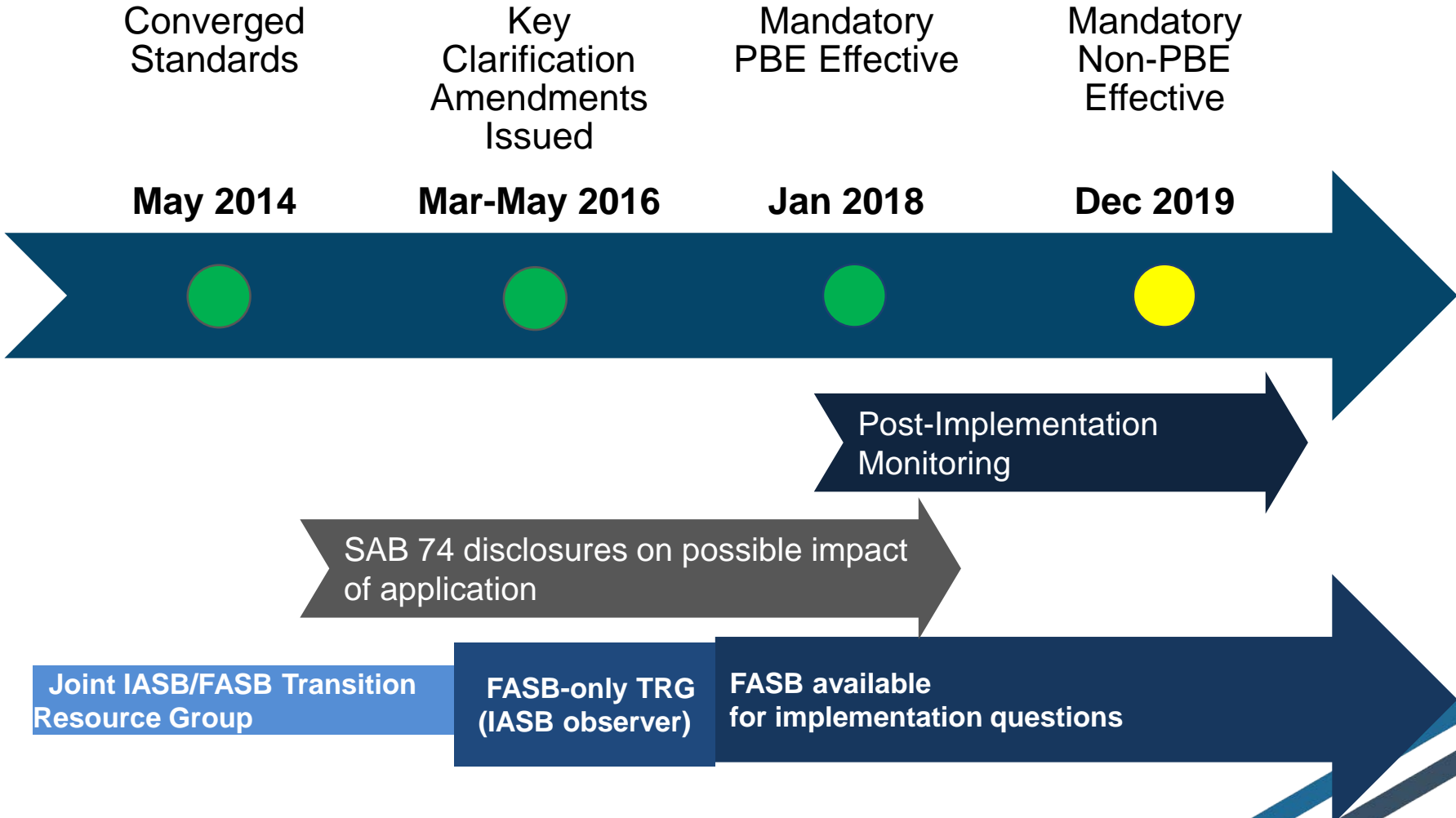
Agenda Ref 12B

**FASB/IASB Joint Board Meeting
June 19, 2018**

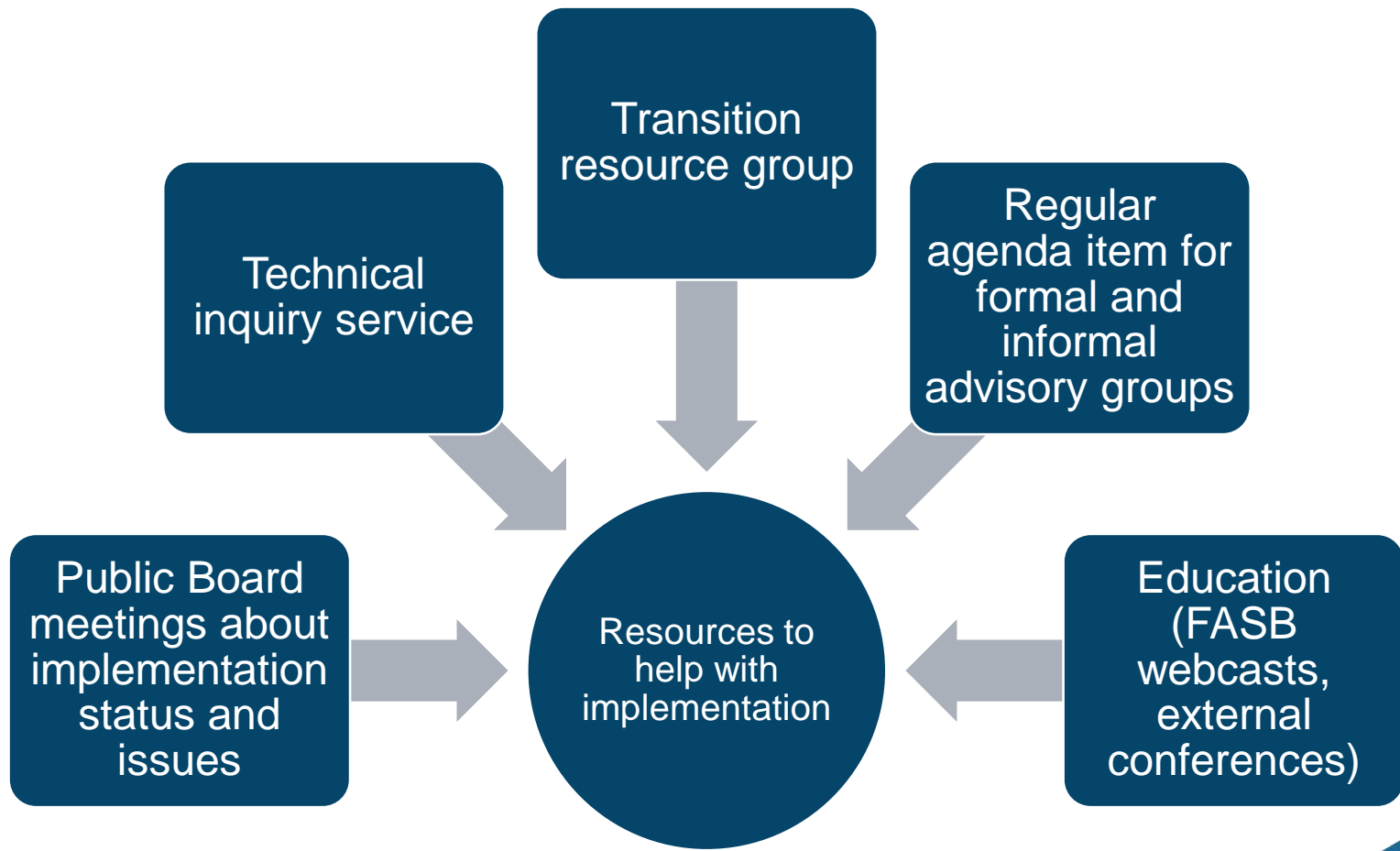
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Revenue

Implementation Progress



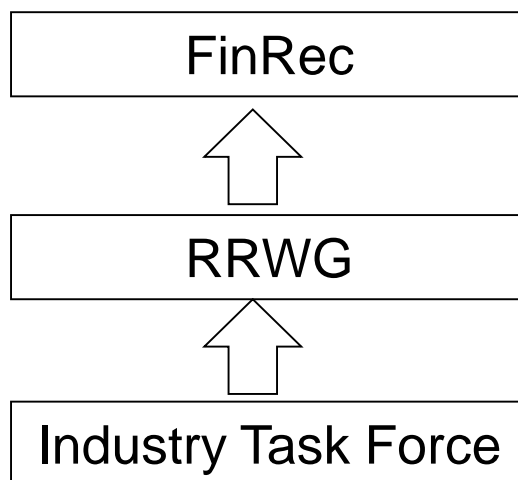
Resources to Help with Implementation



AICPA Process

- The AICPA formed sixteen industry task forces to help develop a new Accounting Guide on Revenue Recognition that will provide illustrative examples for how to apply the new Revenue Recognition Standard.
- FASB Interaction with AICPA groups
 - TRG submissions
 - Technical Inquiries
 - Informal monitoring of AICPA issues and status

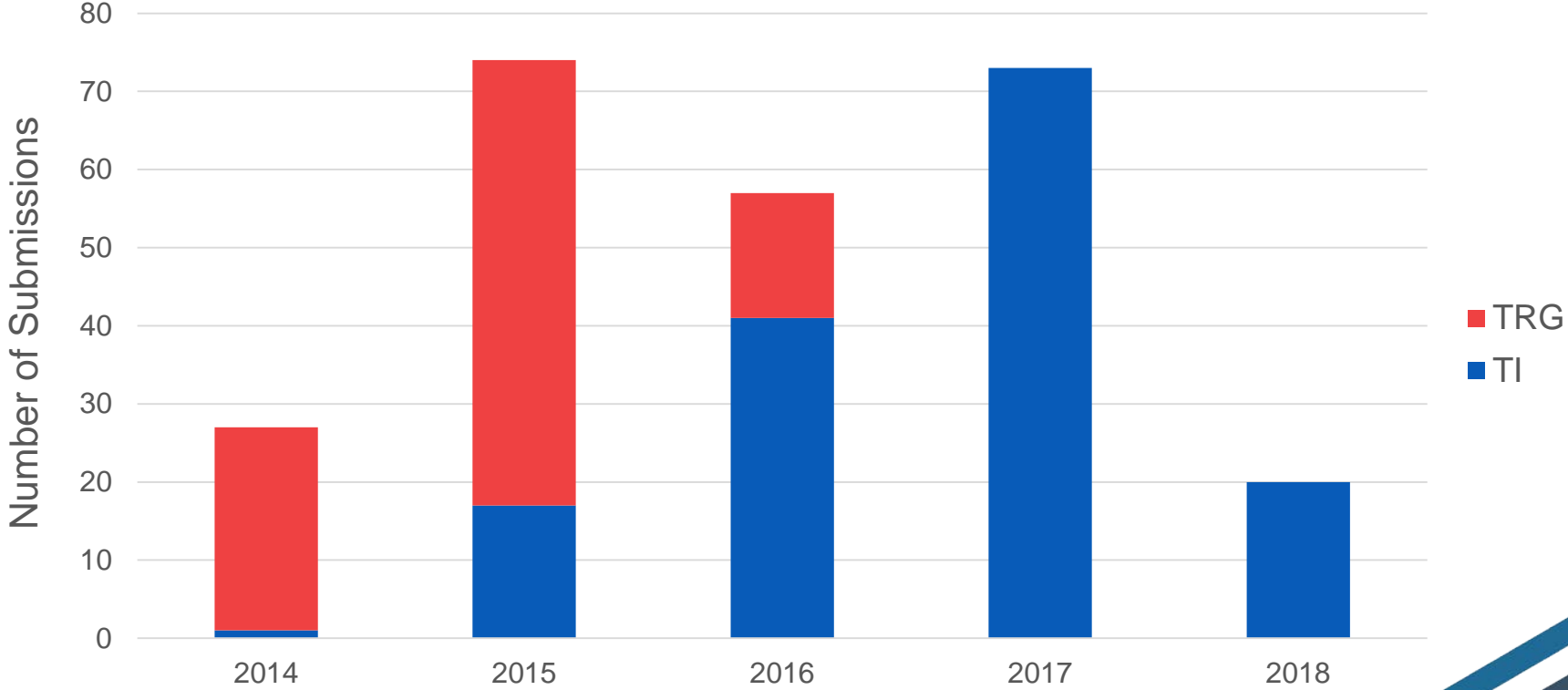
AICPA Structure (Issue Escalation):



Implementation Questions

Number of TRG submissions and technical inquiries received since the issuance of the standard through May 15, 2018.

Technical Inquiries and TRG Submissions by Year



Improvements to the Standard

- Targeted amendments to clarify how certain principles should be applied:

Performance obligations

- Clarify the application of 'separately identifiable' notion

Licensing

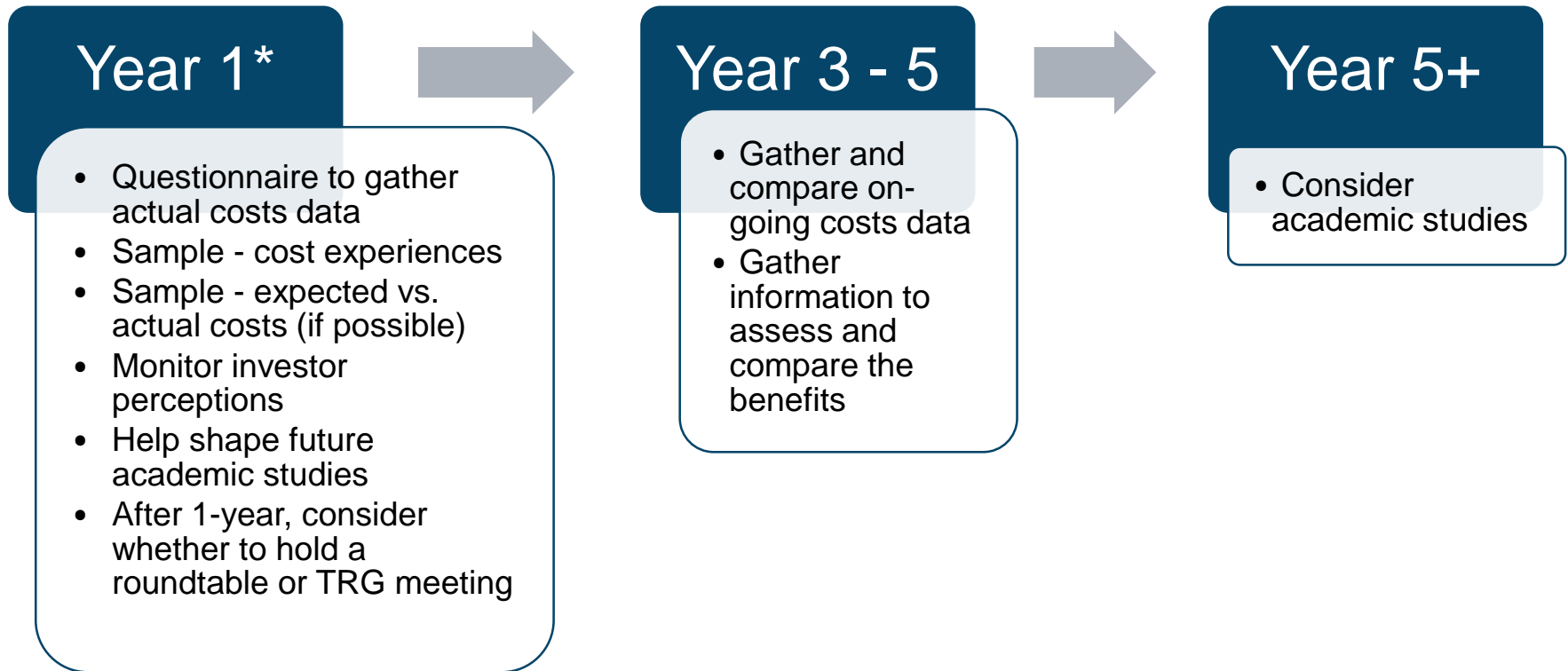
- Clarify the criteria for determining the nature of license of IP and the application of royalty exception

Principal versus agent

- Clarify that the determination is based on the control principle and how that principle is applied

- New practical expedients and transition relief to reduce cost and complexity

Timeline: Post-Effective Date Plans & Processes



* Effective dates for new major standards often are different for public vs non public entities. This process would begin for entities in the year that a standard is initially required (for example for revenue recognition, Year 1 would be 2018 for public entities and 2019 for non public entities).

Post-Implementation Monitoring

- Early-on discussions with advisory groups
 - 1Q'18- Financial Accounting Standard Advisory Council
 - 2Q'18- Small Business Advisory Council
- Initial level of effort for transition was higher than expected
 - Need to review all contracts even if no recognition and measurement effect...but contract review process also provided benefits to companies
- Less impact to IT systems than expected

Leases

Status

- Board and staff stand ready to assist stakeholders on implementation of Topic 842

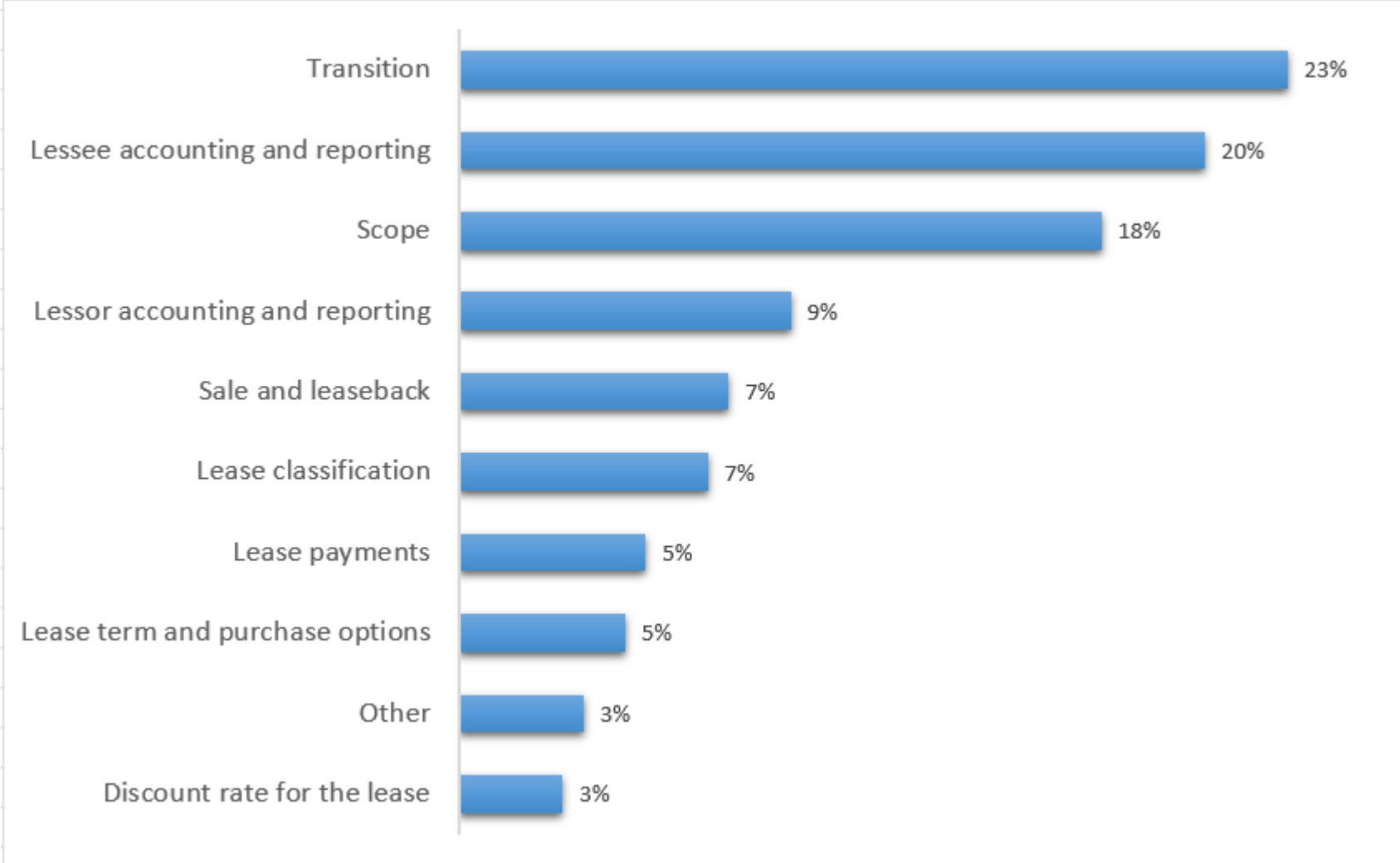
- Board meetings held to-date on Topic 842 implementation:
 - November 2016 (leases implementation update)
 - May 2017 (leases implementation update)
 - June 2017 (technical corrections)
 - August 2017 (land easements)
 - November 2017 (land easements and leases implementation update)
 - January 2018 (technical corrections)
 - March 2018 (targeted improvements)

- Standard setting activities:
 - Land easements ASU (Issued January 25, 2018)
 - Technical corrections Exposure Draft (Comment period ended November 13)
 - Targeted Improvements Exposure Draft (Comment period ended February 5)

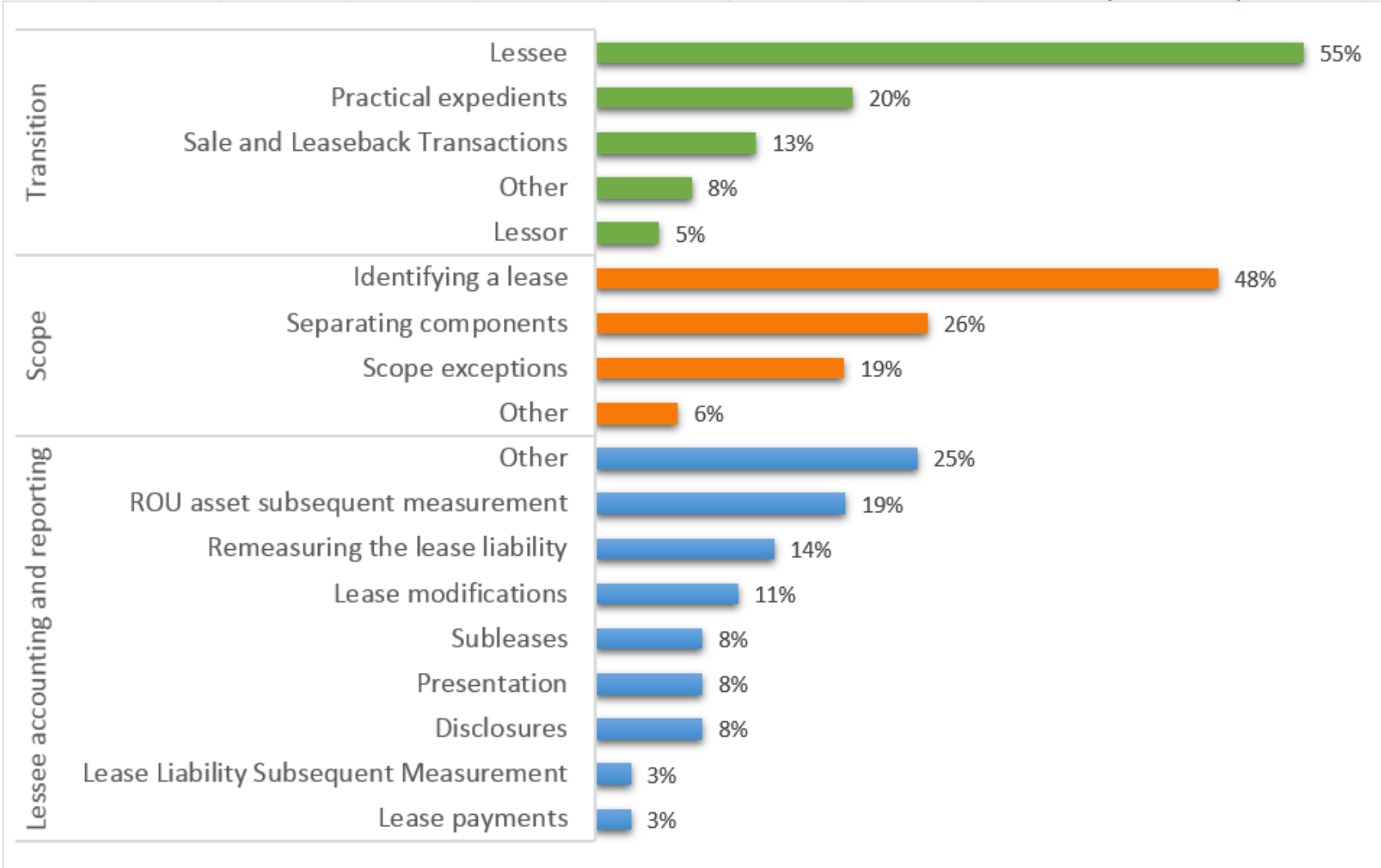
Overview of Inquiries



Overview of Inquiries



Overview of Inquiries



Standard Setting Activities



Scope/Transition – Land Easements

- Accounting Standards Update issued Q1 2018
- Update clarifies that an entity should first apply Topic 842 to determine if a land easement is a lease, because the underlying asset is land
 - Update also amends Example 10 of Subtopic 350-30 (Intangibles) to eliminate the perceived inconsistency between that example and Topic 842
- However, Board decided to provide transition relief to some entities due to diversity in practice today and for cost-benefit reasons
 - An entity may elect an optional transition practical expedient to not evaluate under Topic 842 land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.
 - Continue to apply current accounting policy for accounting for land easements that existed before the adoption of Topic 842.
 - When Topic 842 is adopted, an entity applies Topic 842 to all new (or modified) land easement arrangements.

Targeted Improvements

November 2017 Board Meeting (ED released Q1 2018)

- New transition option
 - The Board proposed a new transition option that would allow entities to adopt Topic 842 with a cumulative-effect adjustment to retained earnings in the period of adoption (consistent with IFRS 16 option)
 - Proposed in response to stakeholder concerns about costs and complexity surrounding comparative reporting
- Lessor separation and allocation
 - The Board proposed a practical expedient to allow lessors to not separate lease and related nonlease component(s) if certain conditions are met
 - Proposed in response to stakeholder concerns about challenges with allocation requirements and costs versus benefits considerations

Targeted Improvements

March 2018 Board Meetings (Redeliberations)

- New transition option
 - The Board affirmed its proposed additional and optional transition method
 - The Board also clarified that if an entity elects this new transition method, the comparative periods should include the disclosures required under Topic 840, Leases, including the operating lease obligations disclosure in paragraph 840-20-50-2

Targeted Improvements

March 2018 Board Meetings (Redeliberations)

- Lessor separation and allocation
 - The Board amended its proposed practical expedient to require:
 - The same timing and pattern of *transfer* instead of *revenue recognition*
 - The lease component, if accounted for separately, must be classified as an operating lease
 - For arrangements that qualify for the practical expedient, a lessor will account for the combined components as a single performance obligation in accordance with Topic 606 when the nonlease component(s) associated with the lease component is the *predominant* component of the combined component
 - Otherwise, the lessor would account for the combined component as an operating lease in accordance with Topic 842.
- Final Update reflecting decisions on transition option and lessor separation practical expedient being drafted.

Sales Taxes and Other Similar Taxes Collected from Lessees

March 2018 Board Meetings (Initial Deliberations)

- Topic 842 requires lessor to report these taxes as lease revenue if lessor is primary obligor
- Determining whether lessee is primary obligor is costly and complex:
 - Number of jurisdictions taxes are collected in
 - Variation and changes tax rates/laws for numerous jurisdictions
- Board decided to provide a policy election to not report these amounts (lease revenue and associated expense net to zero)
- Board directed staff to draft a proposed Update for this issue and “certain lessor costs” (see next slide)

Certain Lessor Costs Paid Directly by Lessees

March 2018 Board Meetings (Initial Deliberations)

- “Lessor Costs” (such as property taxes and insurance) paid directly by a lessee to a third-party generally required to be reported (as revenue with corresponding expense)
- Lessors claim that estimating these costs is costly and complex for a result that is zero on the P&L primarily because:
 - Estimate impacted by numerous factors that are:
 - Lessee specific (for example, insurance costs where different deductibles may exist)
 - Not reported by lessee to lessor
- Board decided that these costs are not variable payments (and thus, not reported) when the uncertainty associated with these payments is not expected to be resolved (consistent with new rev. rec. guidance)
 - When it is not practicable for lessor to reasonably estimate costs

Technical Corrections

- Proposed ASU issued Q3 2017
- Number of minor corrections and clarifications to Topic 842 have been suggested by stakeholders
- Board does not view any of the proposed changes as having a significant effect on the guidance in Topic 842, or resulting in significant administrative costs to entities
- Separate proposed ASU within the FASB's standing project on Technical Corrections and Improvements
- Board redeliberated issues in Q1 2018 and directed staff to draft a final Accounting Standards Update