
FASB | IASB Education Meeting

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Project **Post-implementation Review of Topic 606, Revenue from Contracts with Customers**
Topic **FASB Standard-Setting Update**
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Purpose

1. The purpose of this memo is to summarize the FASB's standard-setting activities related to revenue since the issuance of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.
2. This memo is organized as follows:
 - (a) Background
 - (b) Updates by the FASB since the Issuance of the Guidance on Revenue from Contracts with Customers (Topic 606) in 2014
 - (c) Other Technical Activities
 - (d) Recent Agenda Requests and Standard-Setting Activities.

Background

3. Since the initial issuance of Topic 606, the FASB has issued various amendments to clarify the revenue guidance. Some of the amendments were issued during the implementation period, addressed broad principles, and were applied by a wide range of companies. Other amendments were narrow in scope, for example, providing deferrals of the effective date or clarifying the interaction of the guidance in Topic 606 with other Topics. The amendments in some of the FASB Updates were substantially converged with amendments issued by the IASB, while others were not. The FASB continues to monitor practice issues and evaluate potential additional standard-setting projects received through agenda requests, technical inquiries, and other stakeholder feedback.

Updates by the FASB Since the Issuance of the Guidance on Revenue from Contracts with Customers (Topic 606) in 2014

4. In this section, the staff has summarized all amendments to Topic 606 issued since 2014. The staff also has summarized Updates that amended other Topics to clarify the interaction of those Topics with the revenue guidance. The amendments issued in 2015 and 2016 were intended to address application issues identified by the joint transition resource group on revenue recognition (TRG) and were substantially converged between Topic 606 and IFRS 15. The remaining Updates are unique to GAAP and addressed the specific needs of stakeholders in the U.S. reporting environment. Please see Appendix A of Agenda Paper 6 for a summary of differences between Topic 606 and IFRS 15.

Accounting Standards Update No. 2015-14, Deferral of the Effective Date¹

5. Update 2015-14 deferred the effective date of Topic 606 for all entities by one year.

Accounting Standards Update No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

6. Update 2016-08 improved the operability and understandability of the implementation guidance on principal versus agent considerations, including the indicators that support the assessment of control. The amendments also updated and added certain illustrative examples to assist stakeholders in applying the guidance. The amendments made by the FASB were entirely converged with the IASB's amendments in this area.

Accounting Standards Update No. 2016-10, Identifying Performance Obligations and Licensing

7. Update 2016-10 clarified the guidance on identifying performance obligations and the implementation guidance on licensing. Many of the amendments were substantially converged with amendments issued by the IASB in *Clarifications to IFRS 15 Revenue from Contracts with Customers* (April 2016). The FASB introduced the following amendments that were incremental to or different from those issued by the IASB:
 - (a) The FASB decided to clarify that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.² As explained in paragraph BC11, the FASB determined that it did not intend that an

¹ The FASB staff has omitted "Revenue from Contracts with Customers (Topic 606)" from the Update titles for those Updates that only affect Topic 606.

² In addition, the FASB staff notes that materiality is an overarching principle to be assessed in preparing the financial statements under both IFRS Accounting Standards and GAAP.

entity would identify significantly more performance obligations under the new revenue standard than under previous revenue guidance.

- (b) The FASB decided to permit an accounting policy election to account for shipping as a fulfillment activity. As explained in paragraph BC20, some entities did not account for shipping as a separate deliverable under previous revenue guidance and changing this accounting to require entities to separately account for shipping would have been costly to implement and apply going forward and would have provided financial statement users with little or no benefit.
- (c) The FASB decided to clarify that a renewal or extension of a license is subject to the use and benefit guidance in paragraph 606-10-55-58C, which results in revenue recognition at the beginning of the renewal period. As explained in paragraph BC50, the FASB concluded that this approach was more consistent with the overall licensing model.
- (d) The FASB decided to clarify that revenue for all licenses to symbolic intellectual property is recognized over time. As explained in paragraphs BC64 and BC65, the FASB considered but decided not to specify that revenue may be recognized at a point in time in those cases in which the entity will undertake no activities that significantly affect the ability of the customer to obtain benefit from the symbolic intellectual property during the license period (“override”). The FASB concluded that the clarity and the simplicity of the requirement that all licenses to symbolic intellectual property be recognized over time were more important than the identified conceptual rationale for including the override.
- (e) The FASB decided to clarify the scope and applicability of the guidance on sales-based or usage-based royalties promised in exchange for a license of intellectual property. The amendments clarify that the guidance applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates. As explained in paragraph BC66, the FASB concluded that not considering the nature of the entity’s promise in granting the license that is part of the single performance obligation in some cases would result in accounting that does not best reflect the entity’s performance.

Accounting Standards Update No. 2016-12, Narrow-Scope Improvements and Practical Expedients

8. The purpose of these amendments was to reduce diversity in practice and the cost and complexity of applying the guidance related to certain issues identified by the TRG. The FASB clarified how the guidance should be applied to contract modifications at transition, which was converged with an amendment issued by the IASB. The FASB introduced the following amendments that were incremental to or different from those issued by the IASB:

- (a) The FASB decided to include implementation guidance and illustrative examples about how an entity should assess collectibility. As explained in paragraph BC12, the FASB intended the

collectibility criterion to be applied to the portion of consideration to which the entity will be entitled in exchange for the goods or services that will be transferred to the customer.

- (b) The FASB decided to clarify when revenue would be recognized for a contract that fails to meet the criteria in Step 1. As explained in paragraph BC24, the FASB did not intend that revenue should remain unrecognized solely because the entity has not legally terminated the contract with the customer so that it can continue to pursue collection (or its other rights) under the contract.
- (c) The FASB decided to permit an entity to elect to exclude sales taxes and other similar taxes from the measurement of the transaction price. As explained in paragraphs BC31 and BC32, outreach with financial statement users indicated that presentation of such taxes on a net basis (that is, excluded from both revenues and costs) would provide the most useful financial information.
- (d) The FASB decided to require that noncash consideration be measured at contract inception. As explained in paragraphs BC37 and BC38, the FASB concluded that the measurement date of the transaction price should not vary on the basis of the nature of the promised consideration. The FASB also decided to clarify that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration. As explained in paragraph BC42, the Board observed that applying the variable consideration guidance to variability resulting both from the form of the consideration and for reasons other than the form of consideration might not provide users of financial statements with useful information.

Accounting Standards Update No. 2016-20, Technical Corrections and Improvements

- 9. The purpose of the amendments was to clarify the Codification or to correct the unintended application of guidance related to loan guarantee fees; impairment testing of contract costs; interaction of contract cost impairment testing with other guidance; provisions for loss contracts; scope exception for insurance contracts; disclosure of remaining performance obligations and prior-period performance obligations; illustrative examples on contract modifications; contract assets and receivables; refund liabilities; guidance on advertising costs; and certain industry Subtopics. The majority of the amendments relate to Topics other than Topic 606 and to guidance that is specific to GAAP.

Accounting Standards Update No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

- 10. The amendments clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and added guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 along with the issuance of Topic 606, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers.

Accounting Standards Update No. 2017-10, Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services

11. The amendments clarified that an operating entity should identify the public-sector entity grantor (government), rather than the third-party users of the infrastructure, as the customer of the operation services in all cases for service concession arrangements within the scope of Topic 853. The FASB noted stakeholder observations that there is diversity in practice in how an operating entity determines the customer of the operation services for service concession arrangements. The amendments resulted in differences between the FASB's guidance in Topic 853 and the IASB's guidance in *IFRIC 12 Service Concession Arrangements and SIC-29, Service Concession Arrangements: Disclosures*, but did not result in a difference between the revenue models.

Accounting Standards Update No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

12. The purpose of the amendments was to assist entities in (a) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (b) determining whether a contribution is conditional. The FASB noted that the new revenue guidance placed an increased focus on existing challenges in practice for nonprofit entities in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in determining whether a contribution is conditional.

Accounting Standards Update No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606

13. The amendments clarified that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. The amendments also added unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 (that is, the unit of account is a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606. Finally, the amendments require that, in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer.

Accounting Standards Update No. 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer

14. The amendments require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured based on the grant-date fair value of the share-based payment award in accordance with Topic 718. The amendments clarify that the grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award, and that the classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer. (See discussion below about an agenda request submitted in 2023 to clarify one element of this guidance.)

Accounting Standards Update No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities

15. In response to the business and capital market disruptions caused by the COVID-19 pandemic, the FASB issued a limited deferral of the effective dates of the revenue and leases standards (including amendments issued after the issuance of the original standards).

Accounting Standards Update No. 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient

16. The amendments introduced a new practical expedient that permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance. Additionally, the amendments provided an accounting policy election to recognize the pre-opening services as a single performance obligation.

Accounting Standards Update No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

17. The amendments provided an exception to the principles in Topic 805 by requiring that an entity (an acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts.

Other Technical Activities

18. In May 2019, the FASB Emerging Issues Task Force (EITF) added EITF Issue No. 19-B, “Revenue Recognition: Contract Modifications of Licenses of Intellectual Property,” to its technical agenda. The EITF discussed two issues related to the licensing model as part of this agenda item. In 2021, the EITF decided to refer this issue back to the FASB and the FASB decided to subsume the issue into the post-implementation review (PIR) of Topic 606. During the staff’s research and outreach as part of the PIR, this issue, and related issues about licensing, have not been commonly identified as a priority for standard setting.

Recent Agenda Requests and Standard-Setting Activities

19. In November 2023, a stakeholder submitted an agenda request on the guidance in Topic 606 and Topic 718. The stakeholder requested standard setting to address whether warrants paid to customers in a revenue transaction contain a service condition or a performance condition under Topic 718 when those warrants vest based upon the customer’s purchase of a specified volume or dollar amount of goods and services from the seller (the grantor). This agenda request is being separately evaluated by the staff and is expected to be discussed with the Board during the second quarter of 2024.
20. In September 2023, several stakeholders submitted agenda requests asking that the Board clarify the applicability of Topic 606 to Common Interest Realty Associations (CIRAs). Before the issuance of Topic 606, revenue guidance for CIRAs resided in Topic 972-605, Real Estate—Common Interest Realty Associations—Revenue Recognition. This agenda request is being separately evaluated by the staff and is expected to be discussed with the Board during the second quarter of 2024.
21. In 2023, the FASB staff received a technical inquiry about how an entity should account for warrants granted by its customer in a revenue contract when the warrants vest upon the entity’s satisfaction of its performance obligation. This question was later raised at the November 10, 2023 public roundtable meeting on FASB’s PIR of Topic 606. Stakeholders noted that there is a lack of clarity in GAAP on which guidance an entity should apply when recognizing share-based payments, such as warrants or shares, that are received by an entity from a customer in a revenue contract. For example, if an entity (the grantee) receives share-based payments from a customer (the grantor) when providing goods or services and those share-based payments vest when the entity satisfies its performance obligations, some stakeholders indicated that it is unclear whether the entity (a) should recognize the share-based payments at contract inception as a derivative asset under Topic 815, Derivatives and Hedging, or as an equity security under Topic 321, Investments—Equity Securities, or (b) should not recognize the share-based payments until the entity satisfies its performance obligations under Topic 606. At its April 10, 2024 Board meeting, as part of the Derivative Scope Refinement project, the Board decided to clarify that an entity (the grantee and the provider of goods or services) that receives a share-based payment

from a customer in a revenue contract should apply the guidance in Topic 606. Accordingly, an entity that receives a share-based payment from a customer in a revenue contract would not apply the guidance in Topic 815 and Topic 321 unless and until the share-based payment is recognized under Topic 606. This proposed change will be included in a proposed Update (along with clarifications to the definition of a derivative), which is expected to be issued in the coming months.