Boards continue to deliberate final revenue standard

What you need to know

- In response to concerns raised by constituents, the Boards continue to discuss how their joint revenue recognition standard will address collectibility, the constraint on variable consideration and the accounting for revenue from licenses of intellectual property.
- The Boards have decided that further discussions are necessary.
- Because additional meetings are needed to reach conclusions on these topics, the final standard is not expected to be issued until late 2013, at the earliest.

Highlights

At their September joint meeting, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (collectively, the Boards) decided to extend their discussion on certain topics within the proposed revenue recognition standard. This decision may result in a delay to the issuance of a final standard until late 2013, at the earliest.

The Boards announced in early 2013 that they had substantially completed their re-deliberations on the proposed revenue recognition standard. However, during the drafting process, the Boards’ staffs identified specific areas that need additional Board discussions. Those areas are: the assessment of collectibility; the application of a constraint on the amount of variable consideration that can be recognised; and the accounting for licences of intellectual property.
The Boards have deliberated these three topics several times, but have continued to receive feedback from constituents on both the conclusions reached and the operability of those conclusions. At the September meeting, the staffs presented these three topics and identified possible paths forward. The Boards agreed on the options for the staffs to explore in advance of future deliberations.

In light of the Boards’ plans for further discussions, keeping to the workplan timeline for issuing a new standard in Q4 2013 could be challenging.

**How we see it**

We commend the Boards for taking the time needed to fully consider the unresolved issues. As the new revenue standard will be broadly applicable, it is imperative that the Boards take the time needed to develop a high-quality standard that will work for all revenue transactions across all industries.

**Remaining topics to be addressed**

**Collectibility**

In previous meetings, the Boards had tentatively concluded that concerns about a customer’s ability to perform under a contract (i.e., to pay the transaction price) could indicate that a contract may not exist. However, the Boards also concluded that concerns about a customer’s ability to fully perform, (i.e., that the customer may pay only a portion of the transaction price) do not indicate that the customer is not committed to the contract.

When a customer is likely to pay some, but not all, of the transaction price, an entity will likely conclude that it has a contract that is within the scope of the proposed standard. However, the entity would have to consider the effect of the collectibility concerns when determining the transaction price. Entering into a contract with a customer, despite known collection concerns, may indicate that the entity intends to grant a price concession to the customer. In such situations, the Boards tentatively concluded that the initial collection concerns may represent variable consideration rather than a bad debt.

The Boards have subsequently received feedback on this proposed approach. While the respondents understand the issue the Boards were trying to address, they have a number of concerns about the operability of the proposed approach. This includes, how an entity would determine that collectibility concerns represent a price concession, rather than a bad debt. Based on this feedback, the staffs asked the Boards to consider whether drafting improvements alone would address the concerns raised or whether potential changes to the Boards’ proposal were needed.

At the September 2013 joint meeting, the Boards decided to continue deliberating this topic and to consider potential changes to the tentative conclusions. The staffs were directed to bring drafting improvements back to the Boards and to explore a potential collectibility threshold (similar to existing IFRS and US GAAP) in step 1 of the model, for consideration at the October joint meeting.

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1 See our previous publications summarising these discussions: IFRS Developments Issue 64: Boards near completion of the revenue recognition standard; IFRS Developments Issue 60: Revenue recognition – credit card rewards and transition, IFRS Developments Issue 55: Final revenue standard is taking shape; IFRS Developments Issue 51: Boards address various application issues in the revenue proposal; IFRS Developments Issue 49: Boards progress further on revenue re-deliberations; IFRS Developments for Media & Entertainment and Technology: The Boards explore a new direction on licence arrangements; and IFRS Developments Issue 46: The Boards progress on revenue recognition re-deliberations.
**Constraint on variable consideration**

As currently drafted, the proposed model requires an entity to exclude any variable consideration that could result in a significant revenue reversal in the future from the estimated transaction price. Many respondents expressed confusion over this proposed requirement, saying, among other things, that it isn't clear how confident an entity would have to be when estimating an amount that wouldn't be subject to significant reversal. Based on this feedback, the Boards decided to discuss this further, focusing on whether a level of confidence needs to be included or if the overall objective of the constraint needs to be clarified.

The proposed model also indicates that, if the entity believes that a portion of the variable consideration would not be subject to subsequent reversal, that amount should be included in the transaction price (i.e., a minimum amount). Certain respondents expressed concerns about a number of issues, including: the ability to estimate minimum amounts; the ability to audit such estimates; and the information value (or lack thereof) of such amounts to users of financial statements. The Boards will reconsider whether to require a minimum amount to be included in the estimated transaction price in all situations.

**Licences of intellectual property**

In many industries, it is common for entities to license intellectual property to customers. If an entity determines that the licence is a distinct performance obligation, the Boards tentatively concluded that an entity should evaluate whether the licence provides a customer with either access to the entity’s intellectual property, as it exists at any given time, or a right to use the entity’s intellectual property, as it exists at a point in time. The proposed standard would provide certain criteria to help entities make that determination.

Many respondents raised concerns that, for the purpose of differentiating between the differing types of licences, the proposed criteria were not operational. Some respondents were also concerned about the resulting pattern of revenue recognition. The Boards decided to retain the concept that a licence of intellectual property would be treated as either a ‘right’ transferred to a customer at a point in time or a promise to provide ‘access’ over time, depending on the nature of the licence. The staffs were instructed to refine the language in the proposed standard to clarify several aspects, including the intent and wording of the criteria used to determine whether a licence provides a customer with access. The Boards will discuss this matter during the October joint meeting.