TRG Issue Log – November 2016

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board established the Joint Transition Resource Group for Revenue Recognition (TRG) to inform both boards about issues that arise as entities implement the new revenue recognition standard. The boards will consider this information and determine what action, if any, to take on each issue. TRG met for the eighth time in November 2016 and has discussed a wide variety of issues on almost every aspect of the new standard. No meeting dates have been announced for 2017, although FASB Vice Chairman James Kroeker encouraged preparers to continue to raise issues as they arise. Wesley Bricker, the U.S. Securities and Exchange Commission's (SEC) interim chief accountant, observed the meeting and highlighted SEC guidance to date but did not provide a time frame for additional SEC updates.

> *While the TRG members' views are nonauthoritative, entities should consider them as they implement the new standards. SEC officials expect SEC registrants to use the TRG discussions and meeting minutes to inform their implementation of the standards. Registrants that want to use accounting that differs from TRG views should discuss their accounting with SEC staff.*

November 2016 Meeting

The issues discussed at this meeting will not lead to amendments to the revenue standard.

Topic	Issue Summary	Resolution
Over Time Revenue Recognition **Related Resource:** **TRG Tackles Manufacturing and Distribution (M&D) Revenue Issues**	Can an entity that currently recognizes revenue at a point in time be required to recognize revenue over time under the new standard? In assessing whether an entity's performance creates an asset with no alternative use, should an entity consider the completed assets or the in-production asset? How and when should an entity determine whether it has an enforceable right to payment?	Yes. The assessment is made on a contract-by-contract basis. Variances in contract terms could result in recognizing revenue at a "point in time" for some contracts and "over time" for others. An entity should only consider the characteristics of the asset that will ultimately be transferred to the customer. Application of the guidance will require judgment. An entity should consider whether it has an enforceable right to payment related to its performance completed to date. If the entity's performance obligation is to customize its standard goods for a customer, an entity would evaluate whether it has an enforceable right to payment at the point the entity begins to satisfy the performance obligation to customize the goods for the customer.

Topic	Issue Summary	Resolution
Upfront Payments to Customers **Related Resource:** **[TRG Tackles M&D Revenue Issues]**	Should upfront payments be immediately recognized in income or recognized as an asset and amortized over time?	The determination of assets versus expense is not an accounting policy election. Entities will need to use the approach that best reflects the substance and economics of the payment to the customer. Entities would evaluate the payment's nature, the rights and obligations under the contract and whether the payment meets the definition of an asset. A payment to a customer related to anticipated contracts *could* meet the "asset" definition. An entity's decision on which approach is appropriate may be a significant judgment in determining the transaction price that would require disclosure.
Capitalization and Amortization of Incremental Cost of Obtaining a Contract **Related Resource:** **[TRG Tackles M&D Revenue Issues]**	Which costs to obtain a contract are incremental? How would an entity determine the amortization period for an asset recognized for the incremental costs of obtaining a contract with a customer?	Under current generally accepted accounting principles (GAAP), cost must be both direct and incremental to be capitalized. Under the new standard, costs only must be incremental, and companies may be required to capitalize more commissions than they do currently. Judgment will be required. An amortization period based on an average customer term may be a reasonable application of the guidance unless facts and circumstances indicate otherwise. The "level of effort" to obtain a contract or renewal should **not** be a factor in determining if the renewal commission is commensurate with the initial commission. A renewal commission is commensurate with an initial commission if the two commissions are reasonably proportionate to the respective contract value.

Topic	Issue Summary	Resolution
Sales-Based or Usage-Based Royalty with Minimum Guarantee	How does a minimum guarantee affect the recognition of sales-based and usage-based royalties promised in exchange for a **symbolic** intellectual property (IP) license or a **functional IP license?**	**Functional IP** A minimum guaranteed amount of sales- or usage-based royalties in a functional IP license should be recognized as revenue **at the point in time** the entity transfers control of the license to the customer. Royalties above the fixed minimum would be recognized in accordance with the royalty recognition constraint, *i.e.*, at the latter of when the sale or usage occurs or when the entity satisfies the performance obligation to which some or all of the royalty has been allocated. **Symbolic IP** Various recognition approaches could be acceptable for minimum guarantees in symbolic IP licenses, which require revenue to be recognized over time.

Below is a status summary for previously identified issues that relate to U.S. GAAP. BKD will continue to monitor the revenue recognition standard process. Visit our Hot Topics page to learn more.

Accounting Standards Updates Issued

Topic	Issue Summary	Resolution
No. 1 – Identifying Performance Obligations & Licensing (ASU 2016-10 Issued April 2016)		
Licenses	When is a contract in the scope of the sales- and usage-based royalty exception, and how is the exception applied? How should contractual usage restrictions be evaluated? Does underlying IP inherently need to have potential to “change” in form or function to conclude a license represents the right to access IP? How should licensors evaluate the significance of activities expected to be undertaken concerning the licensed IP during the license’s term?	The Accounting Standards Update (ASU) clarifies how an entity should evaluate the nature of its promise in granting an IP license. FASB’s proposal segregates IP into two categories—functional and symbolic—to help determine revenue recognition. An entity **would not** split a sales-based or usage-based royalty into a portion subject to the guidance on sales- and usage-based royalties and a portion not subject to the guidance. The guidance on sales- and usage-based royalties would apply to a sales- or usage-based royalty whenever the predominant item to which the royalty relates is an IP license.

Topic	Issue Summary	Resolution
Performance Obligations	How should goods and/or services, delivered and undelivered, be evaluated to determine if they are distinct within the context of the contract?	The ASU clarifies when a promised good or service is separately identifiable, *i.e.*, distinct within the context of the contract, and would allow entities to disregard items immaterial in the context of the contract.
Shipping Service	Is the shipment of goods, or arrangement of the shipment, a separate performance obligation?	An entity would be permitted to account for shipping and handling activities occurring after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good, rather than as an additional promised service.
No. 2 – Principal Versus Agent Considerations (ASU 2016-08 Issued March 2016)		
Principal Versus Agent	Principle for determining whether an entity's promise is to provide or arrange promised goods or services	**Principal** – An entity's promise is to provide a **specified** good or service to a customer when it controls the specified good or service before that good or service is transferred to the customer. **Agent** – An entity's promise to **arrange** for another party to provide that good or service when it does not control the specified good or service before it is transferred to the customer.
	Unit of account for the principal versus agent evaluation	A specified good or service is a distinct good or service to be provided to a customer. If a contract includes more than one distinct good or service, it could be a principal for some and an agent for others.
	Control indicators	The indicators have been amended as to when an entity is a principal rather than an agent. Amendments would clarify: ▪ How indicators assist in the evaluation of control, rather than override or replace the control evaluation ▪ How each indicator relates to the control concept One or more indicators may be more relevant to the control evaluation in different contracts.

Topic	Issue Summary	Resolution
No. 3 – Narrow-Scope Improvements & Practical Expedients (ASU 2016-12 Issued April 2016)		
Gross Versus Net Revenue – Amounts Billed to Customers	How should entities determine the presentation of amounts billed to customers, *e.g.*, shipping and handling, reimbursement of out-of-pocket expenses, taxes or other assessments, under the new standards, *i.e.*, as revenue or a reduction of costs? Should revenue be presented gross or net of excise taxes by jurisdiction?	FASB only chose to address presentation of sales taxes; no other clarification was warranted on the other items. The ASU adds an accounting election allowing an entity to present revenue net of certain types of taxes, including sales, use, excise, value-added and franchise taxes, with disclosure of the policy.
Noncash Consideration	What is the measurement date for noncash consideration received from a customer?	Noncash consideration should be measured at contract inception. Subsequent changes in fair value of noncash consideration will be recognized as gain or loss in net income.
	When and how should an entity recognize changes in the fair value of noncash consideration when those changes are solely due to the form of the consideration?	Variable consideration constraint only applies to variability resulting from reasons other than the form of consideration.
Collectibility	How should an entity account for cash received in a long-term contract when collection of the entire transaction price is not probable?	Entities should consider the ability to demand advance payment or stop providing goods or services if the customer stops paying. "Contract termination" means an entity is allowed to stop and has stopped transferring goods or services to a customer. The contract does not need to be legally terminated, and the entity does not need to stop pursuing collection from the customer for the contract to be considered "terminated" for purposes of recognizing the cash collected as revenue.
Contract Modifications Transition	How should entities evaluate contract modifications—often numerous—that occurred prior to the date of the initial application of the new revenue standard, and when would it be deemed impracticable?	The ASU creates a practical expedient eliminating the need to separately evaluate each contract modification's effect when determining the transaction price upon the standard's initial adoption. An entity could perform a single standalone selling price allocation (with the benefit of hindsight) to all of the contract's satisfied and unsatisfied performance obligations.

Topic	Issue Summary	Resolution
Completed Contracts at Transition	When is a contract considered "completed" for purposes of applying the transition guidance? How should an entity account for completed contracts after adopting the new standard?	A completed contract is defined as a contract where all—or substantially all—of the revenue was recognized under legacy GAAP before the date of initial application. An entity would be permitted to apply the modified retrospective transition approach either to all contracts or only to completed contracts.

Proposed Accounting Standards Updates

Topic	Issue Summary	Resolution
No. 4 – Technical Improvements (Exposure Drafts Issued May 18, 2016 & September 19, 2016)		
Scope – Insurance	Are all contracts in the scope of *Financial Services–Insurance* (Topic 944) excluded from the scope of Topic 606?	Update the scope of Topic 606 to specify that **all** contracts, not only insurance contracts, within the scope of the guidance in Topic 944 are excluded from the scope of Topic 606.

Topic	Issue Summary	Resolution
Impairment Testing of Capitalized Costs	What is the correct order of impairment testing between *Intangibles—Goodwill and Other* (Topic 350), *Property, Plant, and Equipment* (Topic 360) and *Inventory* (Topic 330) to recognize an impairment on an asset recognized for incremental cost of obtaining a contract? Is impairment testing required for capitalized upfront commissions?	Update guidance in Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers,* to clarify: ▪ Contract renewals and extensions should be considered when measuring the remaining amount of consideration an entity expects to receive ▪ An entity would include the amount of consideration it already has received but has not recognized as revenue. In addition, the amount the entity expects to receive in exchange for the goods or services, which the contract asset relates when measuring the consideration the entity expects to receive ▪ The order of impairment testing: 1. Assets outside the scope of Topic 340, *e.g.*, inventory within the scope of Topic 330 2. Assets within Topic 340's scope 3. Asset groups or reporting units within the scope of Topic 350 and Topic 360
Gaming **Related Resources:** **New Revenue Rules Cover Fixed-Odds Wagering**	Should gaming transactions be within the scope of Topic 606 or are they accounted for as derivative transactions under Topic 815?	FASB's intent was not to change accounting for gaming revenue. FASB will create a new subtopic, *Entertainment—Casinos—Derivatives and Hedging* (Subtopic 924-815), that would include a scope exception from derivatives guidance in Topic 815 for fixed-odds wagering contracts of entities within the scope of Topic 924.
Cost Capitalization – Advisors to Private and Public Funds	A consequential amendment in ASU 2014-09 relocated cost guidance from Subtopic 946-605 to Subtopic 946-720. This change could result in inconsistent accounting for offering costs among advisors to public and private funds and change current practice, which was not FASB's intent.	Cost capitalization guidance for advisors to both public and private funds in Topic 946 will be aligned.

Topic	Issue Summary	Resolution
Scope – Guarantees **Related Resources:** **Revenue Rules Scope Clarified for Bank Fees**	Consequential amendments to ASU 2014-09 imply that fees from financial guarantees should be accounted for under Topic 606.	The amendments clarify that guarantee fees within the scope of Topic 460—other than product or service warranties—are not within the scope of Topic 606.
Disclosure of Remaining Performance Obligations	Topic 606 requires an entity to disclose information about its remaining performance obligations, including the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied—or partially unsatisfied—as of the reporting period's end. Topic 606 also includes practical expedients to that disclosure for contracts with an original duration of one year or less and performance obligations in which revenue is recognized in accordance with paragraph 606-10-55-18. Stakeholders requested the board consider whether specific practical expedients could be added to the guidance for contracts in which an entity does not need to estimate variable consideration to recognize revenue.	The amendments in this proposed update would provide practical expedients to the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. The amendments also would expand the information disclosed when an entity applies one of the practical expedients.
Contract Asset Versus Receivable	Example 38 on contract assets indicated an entity cannot record a receivable before its due date.	The amendments provide a better link between the analysis in example 38 and the receivables presentation guidance in Topic 606.
Refund Liability	Example 40 indicated a refund liability should be characterized as a contract liability.	The amendments remove from the journal entry in example 40 the reference to the term contract liability.

Topic	Issue Summary	Resolution
Advertising Costs	ASU 2014-09 superseded much of the guidance in Subtopic 340-20, *Other Assets and Deferred Costs—Capitalized Advertising Costs*, because it would have conflicted with new cost capitalization guidance in Subtopic 340-40. An entity that previously capitalized advertising costs in accordance with Subtopic 340-20 would apply the capitalization guidance in Subtopic 340-40 upon the adoption of ASU 2014-09. Guidance on when to recognize a liability had been included within Subtopic 340-20 and was superseded by ASU 2014-09.	The guidance on the accrual of advertising costs is reinstated.
Preproduction Costs	Does Topic 606 apply to the accounting for preproduction costs, including tooling, by automotive suppliers? ASC Subtopic 340-10 appears to conflict with the new revenue standard. The new revenue standard might result in the recognition of revenue from the transfer of control of a piece of equipment, while Subtopic 340-10 would indicate the related costs should be capitalized. ASC 340-10's threshold for capitalization differs from the threshold in the cost guidance in the new revenue standard.	FASB will eliminate guidance in Subtopic 340-10. An entity would apply the guidance in Subtopic 340-40.

No Further Action – General Agreement Reached

Topic	Issue Summary	Resolution
Impairment	Does using the "principles for determining the transaction price" to ascertain the future cash flows from the contract for impairment testing of capitalized contract costs mean an entity cannot assume contract renewal or extension?	Entities can consider contract renewals and extensions in determining whether capitalized contract costs exist, as the objective is to determine if those costs are recoverable.

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<tr><th>Topic</th><th>Issue Summary</th><th>Resolution</th></tr>
<tr><td>Options to Acquire Additional Goods/Services</td><td>When does an option given to acquire additional goods or services provide a “material right” to the customer?</td><td>To determine when an option is a material right, an entity should:
Consider all relevant transactions with the customer, not just the current transaction
Assess both quantitative and qualitative factors, not just a quantitative evaluation of the option’s standalone selling price</td></tr>
<tr><td rowspan="3">Material Rights</td><td>Should this be accounted for as a contract modification, continuation of existing contract or variable consideration?</td><td>More than one interpretation could be accepted. Entities should determine an appropriate approach and consistently apply it.</td></tr>
<tr><td>If a material right is a performance obligation, do entities need to evaluate if a significant financing component exists?</td><td>Yes.</td></tr>
<tr><td>When should nonrefundable, upfront fees not associated with transfer of a good or service be recognized?</td><td>A nonrefundable upfront fee should be recognized over the contract period if the fee does not provide a material right. Entities should consider these quantitative and qualitative factors:
An entity’s historical renewal experience
Whether the customer could obtain substantially equivalent services from another service provider without paying a similar nonrefundable upfront fee
Comparability of the renewal rate to the amount a new customer would be required to pay</td></tr>
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Topic	Issue Summary	Resolution
Offsetting of Contract Positions	Should the contract assets, contract liabilities and receivables be offset and a net asset or liability be presented in the statement of financial position?	Contract assets or liabilities are presented for each contract on a net basis. For contracts meeting the criteria for combination under the new guidance, a contract asset or liability would be presented for the combined contract net.
	In contracts with multiple performance obligations, how should a contract liability, *e.g.*, advance received, be set off as the entity satisfies performance obligations?	The contract—not individual performance obligations—is the unit of account for presenting contract assets and liabilities.
Contract Enforceability and Termination Clauses	How should termination clauses be evaluated in determining contract duration?	If either party can terminate a contract by compensating another party, the contract's duration is either the specified contractual period or the period up to the point the contract can be terminated without compensation to the other party.
Collectibility	When should an entity reassess collectibility?	Entities need to exercise judgment based on facts and circumstances.
	How should an entity assess collectibility for a portfolio of contracts?	When collectibility is probable for a portfolio of contracts, the expected amount should be recognized as revenue and the uncollectible amount recorded as a bad debt expense.
	How should an entity assess whether a contract includes a price concession?	The assessment is complex but can be performed in practice.
Variable Consideration	Should the constraint of variable consideration be applied at the contract or performance obligation level?	The constraint on variable consideration should be applied at the contract level, as it is the unit of account for determining the transaction price.

Topic	Issue Summary	Resolution
Consideration Payable to a Customer	Which payments to a customer are in scope?	Entities should make a "reasonable" approach, based on an entity's internal processes and controls. Entities could consider **all** consideration payable to a customer or only payable within the context of a contract or combination of contracts with a customer.
	Does it apply to customers in distribution chain or any customer or an entity's customer?	A contractual obligation to provide consideration to a customer's customer, *e.g.*, beyond the distribution chain, would be considered a payment to a customer.
	How do entities determine timing of recognition payable to a customer?	Amounts should be recognized at the latter of the date the related revenue is recognized or the entity pays or promises to pay the promised consideration. This would apply to a narrow set of circumstances, as not all consideration payable to a customer is variable.
Stand-Ready Obligation	To determine the appropriate pattern of revenue recognition for various types of stand-ready obligations, is the nature of the good or service underlying the performance obligation the mere act of standing ready or is it the actual delivery of the underlying goods or services the entity stands ready to provide?	The promise in a stand-ready obligation is the assurance the customer will have access to the good or service, not the actual delivery of that good or service. FASB did not intend to change current practice under U.S. GAAP for determining when software transactions include specified upgrade rights (separate performance obligation) or unspecified upgrade rights (stand-ready obligation).

Topic	Issue Summary	Resolution
Significant Financing Component	For payments significantly before or after transfer of goods or services, is there a broad or narrow interpretation of "reasons other than financing"?	Advance payments are not excluded from review for significant financing; judgment is required.
	If promised consideration is equal to cash price, does a financing component exist?	Entities should not automatically assume there is no significant financing component. This fact should be considered but is not determinative.
	Does the standard preclude accounting for insignificant financing components?	No. Application to insignificant financing should be consistent for all similar contracts.
	How should entities consider if the practical expedient applies to a single payment for multiple performance obligations?	Entities can apply consideration to the earliest good or service delivered or proportionately apply it depending on facts and circumstances. TRG staff noted, "it might be possible to determine that a significant financing component relates specifically to one (or some) of the performance obligations," adding, "attribution of a financing component to one (or some) of the performance obligations will require the use of judgment."
	If a significant financing component exists, how should an entity calculate adjustment to revenue?	A financing component will be accreted as an interest expense for advance payments or interest income for payments in arrears over the term of the financing arrangement.
	How should an entity allocate a significant financing component when there are multiple performance obligations in a contract?	It would be reasonable to apply other guidance in the new standard related to variable consideration or discounts.

Topic	Issue Summary	Resolution
Costs to Obtain a Contract	Do certain commissions earned after the initial contract is obtained or contingent payments meet the requirements for capitalization? If so, what amounts should be capitalized and what is the appropriate amortization period?	TRG members noted there is no need for prescriptive guidance on amortization periods and methods. The standard is clear that an entity's method should be on a systematic basis and period should reflect the pattern of transfer of goods and services to a customer.
	1. Commission paid on renewals after the initial contract is obtained	1. Capitalize commissions paid for the new customer contract at contract inception. Capitalize commission for each renewal upon renewal, because it is considered an incremental cost that would not have been incurred if the renewal contract were not obtained.
	2. Commissions on contract modifications	2. Even if a contract modification is not accounted for as a separate contract, an increase in the contract price that results in an incremental cost, *i.e.*, additional commission, should be capitalized.
	3. Commission payments contingent on future events	3. The total commission from the contract, *i.e.*, the initial and each subsequent payment, should be capitalized at contract inception. If the customer fails to perform, any unamortized capitalized costs would be considered for impairment.
	4. Types of costs to capitalize—should entities consider fringe benefits in determining the amount of commissions to record as incremental costs, *e.g.*, payroll taxes, pension/401(k) match, FICA, etc.?	4. Some stakeholders believe the new revenue guidance overrides existing guidance on liability recognition. Entities should continue to refer to existing GAAP on liability recognition—commission, payroll taxes, 401(k) match—to determine when a liability needs to be recorded with a customer contract.

Topic	Issue Summary	Resolution
Contributions **Related Resources:** **Clarification: Contributions Excluded from Revenue Standard**	Request for specific scope exclusion from revenue standard	Contributions are not in scope since they are not given in exchange for goods or services that are not an output of normal business activities. FASB declined a more specific scope exemption. A clarification will be made in the next release of the American Institute of Certified Public Accountants (AICPA) not-for-profit accounting guide.
Warranties **Related Resources:** **Warranty Accounting Under New Revenue Standard Clarified**	Evaluation for a service-type warranty not separately priced	While warranty accounting remains unchanged, additional warranties may need to be accounted for as separate performance obligations if the warranty provides the customer with additional assurance services. Entities will need to evaluate each type of warranty offered to determine the proper accounting, including warranties not separately priced.
Allocation of Variable Discount	When a transaction includes a discount that also is variable, should an entity look to the guidance for allocating a discount or the guidance for allocating variable consideration to determine if the variable discount should be allocated to the entire contract or to a specific part of the contract?	Entities are required to identify and allocate variable consideration to performance obligations before applying other guidance. An entity first would determine if a discount is variable consideration. If so, it would apply the variable consideration allocation guidance. If not, it would look to the discount allocation guidance. If a discount or rebate is fixed and not contingent, it is **not** variable consideration.
Partial Satisfaction of Performance Obligation Prior to Contract Identification	How should revenue be recognized? How should costs be recognized?	Revenue should be recognized on a cumulative catch-up basis at the contract inception date. Precontract costs incurred that relate to goods or services to be transferred to a customer after contract inception may be capitalized, but they still must meet all other capitalization criteria.

Topic	Issue Summary	Resolution
Series of Distinct Goods and Services	Must goods or services be consecutively transferred to apply the series guidelines?	No. Goods or services do not need to be consecutively transferred to qualify as a series of distinct goods or services under the new revenue standard. The series guidelines must be applied when there is a gap or an overlap in an entity's transfers, provided other criteria are met.
	Does the accounting result need to be the same to apply the series guidelines?	The accounting results do not need to be substantially the same, and the entity is not required to prove the result would be the same.
Measure of Progress	Can an entity apply more than one method to measure the progress of a performance obligation containing multiple goods or services bundled and recognized over time?	TRG staff believe the new revenue standard clearly indicates, "using multiple methods of measuring progress for the same performance obligation would not be appropriate."
Restock Fees and Related Costs	How should an entity account for restocking fees and costs?	Restocking fees should be similarly treated to a partial right of return. The restocking fee should be included in the transaction price if an entity is entitled to that amount, regardless of whether the amount is explicitly stated as a restocking fee or the entity offers customers less than a full refund for product returns. Entities should accrue for restocking costs at the time the product is transferred to the customer.
Credit Cards **Related Resources:** **Credit Card Scope Clarified for Revenue Recognition**	Is a card-issuing bank's contract with a cardholder within the scope of the new standard? What about associated rewards programs?	Credit card annual fees are not within the scope of Topic 606, and rewards programs associated with such cards are excluded. TRG members reiterated entities should not default to the guidance in ASC 310–*Receivables* for all credit card arrangements. Instead, if the transaction includes goods or services "clearly unrelated" to the credit card arrangement, entities would need to perform additional analysis.

Topic	Issue Summary	Resolution
Over-Time Recognition – Commodities **Related Resources:** **Timing of Commodity Revenue Recognition Clarified**	How do entities determine transfer of control for a commodity?	Entities should consider all relevant facts and circumstances, including inherent characteristics of the commodity, contract terms and information about infrastructure or other delivery mechanisms.
Nonrefundable Fees	How should an entity reflect a nonrefundable upfront fee on a contract with a renewal option?	A nonrefundable upfront fee that does not relate to a promised good or service is considered an advance payment. The period the fee is recognized over may extend beyond the initial contract period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right.

Topic	Issue Summary	Resolution
Portfolio Method and Constraint	When should the evaluation of the variable consideration constraint be performed at the individual contract level or using a portfolio of contracts?	TRG members agreed with the staff's view that the use of a portfolio of data is not the same as applying the portfolio practical expedient.
	What is the appropriate transaction price when the entity has multiple similar and independent contracts?	If an entity has concluded the expected value approach is the appropriate method to estimate variable consideration, application of the constraint also is performed based on the expected value method. An entity is not required to switch from an expected value method to the most likely amount for purposes of applying the constraint. If an entity applies the expected value method (and uses a portfolio of data in determining the expected value) for a particular contract, the estimated transaction price might not be a possible outcome in an individual contract. An entity still must consider the constraint on variable consideration. An entity might constrain an expected value estimate when determining the transaction price.
	When is an entity required to use the expected value method versus the most likely amount method to estimate variable consideration?	The expected value method may better predict the amount of consideration to which the entity will be entitled if an entity has a large number of contracts with similar characteristics. The determination of which method to use in estimating variable consideration will require judgment.
Practical Expedient for Measuring Progress	Does a minimum payment requirement or volume discount term in a contract negate the ability to use the practical expedient, *i.e.*, to recognize revenue in the amount an entity has a right to invoice? Does it result in the need for disclosure of the transaction price related to unsatisfied performance obligations at a reporting period's end?	An entity is not precluded from applying the practical expedient in situations where the price per unit changes during the contract's duration. Using the practical expedient in those situations involves an analysis of the arrangement's facts and circumstances. The analysis should determine if the amount invoiced for goods or services **reasonably** represents the value to the customer of the entity's performance completed to date.

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<tr><th>Topic</th><th>Issue Summary</th><th>Resolution</th></tr>
<tr><td>Application of the Series Guidance</td><td>In what circumstances could a service's arrangement with a single performance obligation include a series of distinct goods or services substantially the same with the same pattern of transfer, and how should the variable consideration guidance be applied to those arrangements?</td><td>TRG members believe day-to-day activities do not need to be identical to be "substantially the same."

FASB asked for feedback on whether the series guidance should be optional in its recent proposal of amendments to the revenue standard.</td></tr>
<tr><td>Enforceable Rights and Obligations</td><td>When, if ever, should "optional" goods or services represent enforceable rights and obligations in a contract and be treated as performance obligations?

When optional purchases are treated as performance obligations, is the performance obligation always the "material right," i.e., a right to acquire the goods or services in the future typically due to favorable pricing, or are there instances where the performance obligation is the actual underlying goods or services?</td><td>TRG members agreed with staff's assessment below, and the additional examples provide a framework for analyzing more complicated situations.

Options for additional goods or services: The customer has a present contractual right to choose the amount of additional distinct goods or services purchased. Prior to customer's exercise, the vendor is not obligated to provide—and does not have a right to consideration for delivering—those goods or services.

Variable consideration: The customer previously entered into a contract that obligates the vendor to transfer the promised goods or services. The future events that result in additional consideration occur after/as control of the goods or services have/are transferred. The customer's actions do not obligate the vendor to provide additional distinct goods or services—or change the goods or services to be transferred.</td></tr>
<tr><td></td><td>How should a termination right, including a penalty payment, be considered when determining the enforceable rights and obligations for optional goods or services?

In what scenarios should a right to terminate a contract and incur a penalty be consistently treated with the accounting for optional goods/services, e.g., a material right?</td><td>TRG members generally agree substantive termination penalties create enforceable rights and obligations that affect the determination of the contract term. Assessing if a termination penalty is substantive requires judgment. If a termination penalty is not substantive, it may indicate the contract term is less than the contractual period.</td></tr>
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Topic	Issue Summary	Conclusions/Next Steps
Incentive-Based Capital Allocations	An example in ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), illustrates the application of the constraint guidance to an asset management contract. It does not confirm whether the example applies to equity-based arrangements in which the asset manager is compensated for performance-based fees via an equity interest, *i.e.*, carried interest. Because carried interest reflects the general partner's exposure to the fund's performance and contains characteristics of a financial instrument, some stakeholders questioned whether other GAAP might apply, rather than Topic 606.	Capital allocations are fee-for-services, and an asset manager's performance-based incentive fees are subject to the constraint on variable consideration. Such revenue would not be recognized for incentive fees until the end of a set measurement period, which sometimes is at the investment contract's end.
Contract Modifications	How should an entity account for a contract asset that exists when a contract is modified if the modification is treated as the termination of an existing contract and the creation of a new contract?	The contract asset should be carried forward into the new modified contract and subsequently realized under the new modified contract as receivables are recognized. This approach does not lead to a revenue reversal.
Scoping Considerations for Financial Institutions **Related Resources:** **Revenue Rules Scope Clarified for Bank Fees**	Are servicing and subservicing income in the scope of FASB's new revenue standard? Are fees from financial guarantees in the scope of FASB's new revenue standard? Are deposit-related fees in the scope of FASB's new revenue standard?	No – Use guidance in *Transfers and Servicing* (Topic 860). No – Use guidance in *Guarantees* (Topic 460) or *Derivatives and Hedging* (Topic 815). Yes – FASB concluded *Liabilities* (Topic 405) does not provide a model for recognizing revenue for customer deposit-related fees, *e.g.*, ATM fees, account maintenance or dormancy fees. In addition, no other topics cover revenue recognition for deposit fees. Therefore, deposit fees and charges are in the scope of the new revenue guidance, even though Topic 405 is listed as a scope exception.

Topic	Issue Summary	Conclusions/Next Steps
Evaluating How Control Transfers Over Time	If a performance obligation is satisfied over time, does this imply that control continuously transfers, as performance occurs, over time?	If a performance obligation meets the criteria for revenue to be recognized over time, rather than at a point in time, control of the underlying good or service is not transferred at discrete points in time. Because control transfers as an entity performs, an entity's performance—reflected using an appropriate progress measure—should not result in the creation of a material asset, *e.g.*, work in progress. However, in some cases, the measure of progress may not perfectly match the entity's performance, which might result in an immaterial asset being recognized. An entity could use an output method only if that measure of progress correlates to the entity's performance to date.
Material Rights – Class of Customer	How should an entity consider a class of customer when determining if a customer's option to acquire additional goods or services, *e.g.*, future sales incentives, loyalty programs or renewal options, represents a material right?	This determination will require significant judgment and consideration of all facts and circumstances. The benefits to a class of customers should be evaluated against similar benefits offered to types of customers or potential customers who do not have a pre-existing contract with the entity with that benefit. FASB will reach out to airline, hospitality, casino and hotel companies about loyalty programs and specifications of classes of customers that give right to material rights and, by extension, perhaps lead to liabilities as well as assets.

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