recommended that the Issue be further discussed by the Task Force prior to the issuance of the proposed Update.

31. At the September 27, 2018 EITF meeting, the Task Force did not propose an effective date for the amendments resulting from this Issue. Consequently, the Task Force will take into consideration the comments received on the proposed amendments before determining when those amendments would be effective.

32. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure that would require that an entity apply the amendments resulting from this Issue prospectively to all business combinations that occur after those amendments are effective. In reaching this consensus-for-exposure, the Task Force considered previous amendments to Topic 805, which generally followed a prospective transition method. The Task Force also indicated that allowing a choice between prospective transition or modified retrospective transition could result in unnecessary costs and complexity for preparers (for example, restating the subsequent accounting for the assets and liabilities recognized in the business combination), particularly because the Task Force noted that the financial reporting outcome resulting from the amendments resulting from this Issue may not be materially different from current practice.

33. At the September 27, 2018 meeting, the Task Force also reached a consensus-for-exposure not to require any disclosures in the period of adoption because the Task Force believes that the disclosures would not provide incremental information that would be useful to users of financial statements and therefore would result in unnecessary costs for preparers.

Board Ratification

34. At its October 10, 2018 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the FASB staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot. In addition to the consensus-for-exposure being ratified by the Board, the FASB chairman authorized the staff to prepare a Discussion Paper in the form of an Invitation to Comment (separate from the proposed Update) to solicit input about measurement and other topics related to the Task Force's consensus-for exposure.

35. On February 14, 2019, the FASB issued proposed Accounting Standards Update, *Business Combinations (Topic 805): Revenue from Contracts with Customers—Recognizing an Assumed Liability*. The proposed Accounting Standards Update was issued concurrently with a FASB Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*. The comment deadline for both documents was April 30, 2019.

Current EITF Discussion

36. At the June 13, 2019 EITF meeting, the Task Force discussed the comment letter feedback on the proposed Update and on the related Invitation to Comment (ITC). The proposed Update included a question about the implications, if any, of finalizing the proposed amendments on the recognition of a contract liability from a revenue contract with a customer acquired in a business combination without finalizing amendments on measurement and other topics that may result from feedback received as part of the concurrently issued ITC. The Task Force discussed the comment letter feedback on the ITC in advance of its vote on whether to finalize the proposed amendments.

Chapter 1—Payment Terms and Their Effect on Subsequent Revenue Recognized

37. The Task Force discussed the approach illustrated in the ITC (that is, the recognition of an identifiable asset) and the additional approaches suggested by comment letter respondents (the exception approach and net fair value approach) to achieve the objective that payment terms should not affect the subsequent amount of revenue recognized by an acquirer after a business combination. One Task Force member noted that the variety of approaches suggested by stakeholders indicates that the issue is challenging and may be better addressed holistically by the Board. Another Task Force member indicated that all of the suggested approaches have merit; however, the Board may need to evaluate the tradeoff between a practical and conceptually pure solution.

38. Two Task Force members noted that if the approach illustrated in the ITC is pursued, they would struggle conceptually with the recognition of an identifiable asset that would be required to achieve the objective that payment terms should not affect the subsequent amount of revenue recognized by an acquirer after a business combination because it is not clear what that asset would represent.

39. Several Task Force members raised concerns about the exception approach. Those Task Force members noted that allowing an exception to the general guidance in Topic 805 for revenue contracts would raise questions about other circumstances under which an exception could be provided. In addition, one Task Force member noted that the implications of requiring an exception approach would need to be further researched, as it may have different implications for entities with different types of contracts. One Task Force member also indicated that an exception approach would result in a deviation from international standards. A few Task Force members expressed support for the net fair value approach or a fair value-based approach. One Task Force member who is a preparer indicated that they do not believe such an approach would be overly complex, particularly if a portfolio approach that groups contracts with similar payment terms is permitted. Another Task Force member who is a user noted that they have concerns about users misinterpreting fair value adjustments; however, they prefer a fair-value based approach to the other approaches suggested.

40. Task Force members generally agreed that the approaches suggested to achieve the payment terms objective should be further researched to understand the implications of the various approaches. One Task Force member suggested that the staff conduct outreach with users and valuation professionals to better understand the merits of each approach. Another Task Force member noted that the Board's decision on an approach should be determined based on what is valuable to users.

Chapter 2—Costs to Fulfill a Performance Obligation in Measuring the Fair Value of a Contract Liability for a Revenue Contract under Topic 805

41. The Task Force discussed the circumstances under which an entity should include a contributory charge for the use of a related asset in measuring the fair value of a contract liability acquired in a business combination. One Task Force member indicated that a contributory charge

generally should be included in the valuation of an asset and that there should be no difference between a tangible asset and an intangible asset. Two Task Force members noted that determining an appropriate contributory charge is not complex for many types of contracts. However, both of those Task Force members noted that determining the value of a contract liability that requires the use of a unique asset to fulfill an obligation would be challenging. One of those Task Force members noted that this issue is most pronounced for licensing and royalty arrangements.

42. One Task Force member noted that it is important to apply a method that is consistent with estimated cash flows that are included in the valuation model at the time of acquisition. That Task Force member specifically noted that it would be inappropriate for an entity to recognize revenue after a business combination for a license in which the intellectual property was provided before the business combination. That Task Force member also suggested that the staff focus on how a user would develop an expectation about future revenue when further developing alternatives related to measurement.

43. One Task Force member indicated that the performance obligation unit of account used in Topic 606 should be the unit of valuation in a business combination under Topic 805.

Issue 1: Recognition of an Assumed Liability from a Revenue Contract

44. The Task Force decided not to affirm its consensus-for-exposure at this time and to wait and see what the Board decides about the measurement of contract liabilities and other issues described in the ITC. The Task Force continued to support the use of the performance obligation definition as the recognition criteria for a revenue contract with a customer acquired in a business combination. However, the Task Force indicated that the appropriate path forward would be to address the issues in the proposed Update and ITC holistically. One Task Force member noted that if the proposed amendments were finalized, the population of liabilities that would be recognized in a business combination would increase. Therefore, diversity in practice would increase by finalizing the consensus without additional measurement guidance. Another Task Force member indicated that requiring entities to undergo two transitions for interrelated issues would be burdensome.

45. Although a consensus was not reached on Issue 1, Task Force members proceeded to provide their views to the Board on Issues 2 and 3.

Issue 2: Scope

46. One Task Force member noted that contracts in the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and contracts that are accounted for under other topics that apply the principles of Topic 606 should be included in the scope of the amendments resulting from this Issue. Another Task Force member indicated that the scope of any amendments resulting from this Issue should be clear rather than left to the interpretation of stakeholders.

Issue 3: Disclosures

47. Two Task Force members indicated that incremental disclosures should be considered, once recognition and measurement conclusions are reached, to facilitate a user's understanding of how the contract liability for a performance obligation assumed a business combination would subsequently affect the amount of revenue recognized by the acquirer.

Status

48. The FASB Chairman asked whether the Task Force had feedback for the Board about accounting for business combinations generally. The FASB Chairman noted that there are multiple projects on the FASB's technical agenda that relate to business combinations and solicited Task Force recommendations about how feedback on those projects should be considered moving forward.

49. The Board will consider the comment letter feedback and Task Force discussion at a future Board meeting to determine an appropriate path forward for this Issue and the related Board research project on measurement and other topics related to revenue contracts with customers under Topic 805.

Issue No. 19-A

Title: Financial Instruments—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815

Date Discussed: June 13, 2019

Background

1. The FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, in January 2016. The amendments in that Update retained the current framework for accounting for financial instruments in GAAP but made targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Equity investments that do not result in the consolidation of an investee and are not accounted for under the equity method of accounting are generally accounted for under Topic 321, Investments—Equity Securities. The scope of Topic 321 includes equity securities, as defined in the Master Glossary of the Codification, and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures, and limited liability companies.

2. Before the adoption of Update 2016-01, certain equity securities that did not have a readily determinable fair value and that were not accounted for under the equity method were measured at cost, less any impairments that were determined to be other than temporary. The amendments in Update 2016-01 require that an entity measure investments within the scope of Topic 321 with a readily determinable fair value at fair value, with changes in fair value included in net income each reporting period. For investments within the scope of Topic 321 without a readily determinable fair value, an entity may elect to measure those investments at their cost minus impairment (if any). Paragraph 321-10-35-2, as amended, states that if an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it should measure the equity security at fair value as of the date that the observable transaction occurred.

3. Topic 323, Investments—Equity Method and Joint Ventures, provides guidance on the equity method of accounting, which applies to investments in common stock or in-substance common stock (or both), including common stock of corporate joint ventures. The equity method of accounting is applied when an investor has the ability to exercise significant influence over the operating and financial policies of an investee. Topic 323 does not apply to investments accounted for in accordance with Topic 810, Consolidation.

4. Stakeholders raised several questions about the interactions between the measurement alternative in Topic 321 and the equity method of accounting in Topic 323. Stakeholders noted that the measurement alternative was introduced by Update 2016-01 and that, in certain instances, diversity in its application has emerged in practice when applying and discontinuing the equity method of accounting. Furthermore, stakeholders noted that they expect the frequency of these circumstances to increase as more entities adopt the amendments in Update 2016-01 and apply the measurement alternative.

5. Stakeholders also raised questions about the interactions between Topic 321, Topic 323, and Topic 815, Derivatives and Hedging, related to the application of the guidance for certain forward contracts and purchased options to purchase securities within the scope of Topic 321. Topic 815 provides guidance on the accounting for forward contracts and purchased options that have all of the characteristics in paragraph 815-10-15-141, including the characteristic that the contract is entered into to purchase securities that *will* be accounted for under either Topic 320, Investments—Debt and Equity Securities, or Topic 321. Stakeholders noted that diverse views have emerged about the accounting for forward contracts and purchased options on securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method. Specifically, those stakeholders questioned whether these forward contracts and purchased options should be accounted for in accordance with Topic 321 or another Topic.

6. On May 8, 2019, the Board added this narrow-scope project to the EITF agenda to clarify certain interactions between Topic 321, Topic 323, and Topic 815.

Issues

7. The following issues were included in Issue Summary No. 1, dated May 30, 2019, and were discussed at the June 13, 2019 EITF meeting:

- Issue 1: Accounting for equity securities upon the application and discontinuation of the equity method of accounting
- Issue 2: Recognizing investee losses when an investor has other equity investments in the investee
- Issue 3: Scope considerations for certain forward contracts and purchased call options on equity securities.

Current EITF Discussion

<u>Issue 1: Accounting for Certain Equity Securities upon the Application or Discontinuation of the Equity Method of Accounting</u>

8. An increase in the investment in an investee that was not previously accounted for under the equity method may result in a required change in accounting to the equity method for the investor. For example, an investor acquiring additional voting stock of the investee, the investee acquiring or retiring voting stock, or other capital transactions may result in the investor obtaining significant influence over the investee. Similarly, a decrease in the investment in an investee that was previously accounted for under the equity method may result in the discontinuance of the equity method for the investor. For example, an investor's sale of a portion of an investment in the investee, sale of additional stock by the investee, or other capital transactions may result in the investor losing significant influence over the investee.

9. Stakeholders asked whether an observable transaction that results in an investor gaining (or losing) significant influence over the investee and, therefore, results in the investor applying (or discontinuing) the equity method should be considered for purposes of applying the measurement alternative in Topic 321. That is, should an investor remeasure its equity security in accordance

with the measurement alternative upon the application or discontinuance of the equity method due to an observable transaction?

10. The Task Force reached a consensus-for-exposure that an entity should consider observable transactions that would require an investor to apply (or discontinue) the equity method of accounting for the purposes of applying the measurement alternative under Topic 321 immediately before applying (or upon discontinuing) the equity method.

11. In reaching its consensus-for-exposure, the Task Force considered the Board's basis for conclusions in Update 2016-01 in which the Board noted that equity securities not accounted for under the equity method of accounting should be measured at fair value through earnings because fair value is a more relevant measurement attribute for equity investments and would be a benefit to financial statement users. On that basis, the Task Force determined that an equity security accounted for in accordance with the measurement alternative should be measured at fair value upon the occurrence of an observable transaction that results in an investor applying or discontinuing the equity method. The Task Force observed that disregarding an observable transaction related to changing measurement methodologies (that is, the application or discontinuation of the equity method) is not consistent with the Board's intent when it issued Update 2016-01. The Task Force also noted that its consensus-for-exposure would align with the accounting for equity securities with readily determinable fair values, which in practice are remeasured immediately before applying and upon discontinuing the equity method. The Task Force also decided to clarify this accounting in the Codification.

12. The Task Force also determined that remeasuring an equity security before applying (or upon discontinuing) the equity method of accounting would provide users with the most decision-useful information.

Issue 2: Recognizing Investee Losses When an Investor Has Other Equity Investments in the Investee

13. The Task Force was unable to reach a consensus-for-exposure on whether to require accumulated equity method losses that have not been allocated to an investor's investments in the investee (that is, accumulated investee losses in the memo account) to be offset against any unrealized gains resulting from remeasurement of the investments due to an observable transaction in accordance with the measurement alternative in Topic 321. Task Force members expressed different views about whether investments related to an equity method investee should be accounted for as separate or combined units of account, and if the investments are considered a combined unit of account, the sequence of applying equity method losses and unrealized gains to the other investments. Task Force members expressed uncertainty about the pervasiveness of situations in which (a) an investor has additional investments in an equity method investee that do not qualify for the equity method of accounting and (b) the investee's equity method losses have resulted in a zero carrying amount for the investor's equity method investment. The Task Force decided to remove this issue from the scope of Issue 19-A and recommended that the staff perform additional research on the pervasiveness of these situations.

Issue 3: Scope Considerations for Forward Contracts and Purchased Options on Certain Securities

14. The scope of Topic 321 includes equity securities that, as defined in the Master Glossary and amended by Update 2016-01, include rights to acquire an ownership interest in an entity at a fixed or determinable price (for example, forward purchase contracts and call options). The scope of Topic 321 excludes, among other items, (a) investments accounted for under the equity method in Topic 323 and (b) derivative instruments that are within the scope of Topic 815.

15. Topic 321 also notes that certain forward contracts and purchased options that are not derivative instruments subject to Topic 815, but that involve the acquisition of securities that will be accounted for under Topic 321, are accounted for in accordance with the Certain Contracts on Debt and Equity Securities Subsections of Subtopic 815-10. For those forward contracts and purchased options that are within the scope of Subtopic 815-10 to purchase securities within the scope of Topic 321, the guidance requires that those contracts be measured at fair value in a manner consistent with the guidance in Topic 321.

16. The guidance in the Certain Contracts on Debt and Equity Securities Subsections of Subtopic 815-10 applies only to those forward contracts and purchased options that have all of the characteristics in paragraph 815-10-15-141. The characteristic in paragraph 815-10-15-141(a) states that the contract is entered into to purchase securities that will be accounted for under either Topic 320 or Topic 321.

17. Stakeholders questioned the interaction of the scope guidance in Topic 321, Topic 323, and Topic 815 for forward contracts and purchased options on securities that, upon settlement or exercise, will be accounted for under the equity method of accounting. Specifically, those stakeholders questioned whether those forward contracts and purchased options would be outside the scope of Subtopic 815-10 because the underlying securities would not be within the scope of Topic 321 upon the settlement of the forward contract or exercise of the purchased option (that is, the contract does not meet characteristic (a) in paragraph 815-10-15-141).

18. The Task Force reached a consensus-for-exposure that an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would, individually or with existing investments, be accounted for under the equity method for purposes of evaluating characteristic (a) in paragraph 815-10-15-141.

19. In reaching this consensus-for-exposure, the Task Force considered that entities are required to disregard any potential voting privileges that may become available to holders of securities of an investee when evaluating the requirements to qualify for the equity method in Topic 323. Furthermore, the Task Force concluded that a requirement to consider whether the securities underlying the forward contract or purchased option would be accounted for under the equity method could result in additional complexities in applying the guidance. For example, continuously determining whether an entity would have significant influence over the investee upon settlement of a forward contract or exercise of a purchased option could be complex and operationally burdensome because of changes in the capital structure of the investee.

20. Additionally, the Task Force noted that if the forward contracts or purchased options are measured under the equity method of accounting or another cost method, those instruments would

be recorded at their initial cost. Generally, at-the-money forward contracts have no cost, or a de minimis cost. For at-the-money purchased options, a premium may be paid to the option writer, but those amounts are generally insignificant compared with the total amount of the purchased securities. As such, the measurement of those forward contracts and purchased options likely would be insignificant while the economics of those instruments potentially could be significant.

21. One Task Force member indicated that the consensus-for-exposure could result in an acquirer being required to measure a forward purchase agreement (or contingent forward purchase agreement) for a controlling financial interest in the acquiree at fair value. That Task Force member noted that practice, in general, has not accounted for these contracts at fair value and that, therefore, the amendments in the proposed Update resulting from this Issue would change practice for those contracts. However, the Task Force noted that the scope of the proposed amendments resulting from this Issue should clarify, and be limited to, circumstances for which the underlying securities, upon settlement of the forward contract or exercise of the purchased option, individually or with existing investments, would be accounted for under the equity method. The Task Force determined that those proposed amendments would not result in a change in practice for the acquirer's accounting for forward contracts to purchase a controlling financial interest in an acquiree.

Effective Date and Transition

22. The Task Force did not propose an effective date for the amendments in the proposed Update resulting from this Issue or decide on the ability to early adopt those proposed amendments. Consequently, the Task Force will consider the comments received on the proposed amendments before determining when those amendments would be effective and whether to permit early adoption.

23. The Task Force reached a consensus-for-exposure that would require that an entity apply the amendments in the proposed Update resulting from this Issue prospectively. In reaching its consensus-for-exposure, the Task Force considered requiring retrospective or modified retrospective application but decided that adjusting the cost basis of an equity method investment for which an entity previously applied the measurement alternative before applying the equity method could be operationally challenging for some financial statement preparers. The Task Force also determined that remeasuring an equity security (including a forward contract or purchased option) to a previous observable transaction would result in a current-period adjustment for a historical fair value measurement that may not be indicative of the current fair value of the equity security and, therefore, may not provide decision-useful information to financial statement users.

24. The Task Force reached a consensus-for-exposure not to require any additional recurring disclosures related to equity method investments or equity securities that are accounted for under the measurement alternative because of the limited scope of the amendments in the proposed Update resulting from this Issue. The Task Force also reached a consensus-for-exposure to require that an entity disclose in the period of adoption the nature of and reasons for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change.

Board Ratification

25. At its June 26, 2019 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the FASB staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot.

Status

26. Upon issuance of the proposed Update, a 30-day comment period will commence. Further discussion is expected at a future EITF meeting.

Issue No. 19-B

Title: Revenue Recognition—Contract Modifications of Licenses of Intellectual Property

Date Discussed: June 13, 2019

Background

1. The core principle for revenue recognition in Topic 606, Revenue from Contracts with Customers, is to 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 transferring control of those goods or services. Topic 606 provides implementation guidance on revenue recognition for licenses of intellectual property (IP) because the nature of licensing arrangements can make it difficult to determine when control of the license has been transferred to a customer.

2. A license establishes a customer's rights to the IP (such as software, franchises, trademarks, and motion pictures) of an entity. Topic 606 includes implementation guidance for licensing arrangements in paragraphs 606-10-55-54 through 55-65B and provides that, depending on the nature of the IP to which the customer will have rights, the IP is either functional IP (a right to use) or symbolic IP (a right of access).

3. An entity's promise to grant a customer a license to symbolic IP (that is, a right to access the entity's IP) includes supporting or maintaining that IP during the license period. Therefore, the nature of the entity's promise to the customer is both to (a) grant the customer rights to use and benefit from the entity's IP and make that underlying IP available for the customer's use and benefit and (b) support or maintain the IP during the license period (or over the remaining economic life of the IP, if shorter). Consequently, the customer will simultaneously receive and consume the benefit from the entity's performance as the performance occurs, and the criterion in paragraph 606-10-25-27(a) for revenue recognition over time will be met.

4. A license to functional IP provides a customer with a right to use an entity's IP as it exists at the point in time when the license is granted. The entity's promise to provide the customer with a license to functional IP (or the right to use its IP) is satisfied at the point in time when the customer obtains the control of the license (per paragraph 606-10-25-30).

Revenue recognition for license renewals

5. Under paragraph 606-10-55-58C revenue from a license of IP cannot be recognized before (a) an entity provides (or otherwise makes available) a copy of the IP to the customer and (b) the beginning of the period during which the customer is able to use and benefit from its right to access or its right to use the IP. Paragraph 606-10-55-58C also specifies that an entity should recognize revenue from a license renewal no earlier than the beginning of the renewal period.

Contract modification guidance

6. Topic 606 includes guidance on determining how to account for contract modifications. A contract modification is defined in Topic 606 as a change in the price or scope of the contract. Analysis of whether the additional goods or services are distinct and whether the pricing of the

modification is consistent with the standalone selling price (SSP) of the additional goods or services determines how to account for the modification.

7. Paragraph 606-10-25-12 requires a contract modification to be accounted for as a separate contract when distinct goods or services are added and the increase in the price of the contract reflects the entity's SSP of those additional goods or services adjusted to reflect the circumstances of the contract.

8. If the modification does not result in a separate contract, paragraph 606-10-25-13 is applied to determine whether the modification is (a) the termination of the existing contract and the creation of a new contract, (b) a part of the existing contract, or (c) a combination of both.

Contract modifications involving licenses of IP

9. A modification of a license of IP may include an extension to the term of the original license along with other changes (for example, adding or removing other goods or services from the contract or changing the pricing of the original license of IP granted to the customer). Stakeholders have highlighted diversity in practice in how modifications of licensing arrangements are accounted for under Topic 606.

10. On May 8, 2019, the Board added this new narrow scope Issue to the EITF agenda to address revenue recognition for contract modifications of licenses of intellectual property, which will primarily affect licenses to functional IP.

Issues

11. The following issues were included in Issue Summary No. 1, dated May 30, 2019, and were discussed at the June 13, 2019 EITF meeting:

Issue 1: Accounting for contract modifications under which the contract term for existing rights is extended, while also adding rights

Issue 2: Accounting for the revocation of licensing rights (including conversion of term software licenses to SaaS [software as a service] arrangements).

Issues 1 and 2 were discussed at the June 2019 meeting but no technical decisions were made.

Current EITF Discussion

12. At the June 13, 2019 EITF meeting, the staff provided the Task Force with background on Topic 606, introduced the underlying issues, and provided analysis of the preliminary alternatives. The Task Force was not asked to reach any conclusions at this time.

Issue 1: Accounting for Contractual Modifications under Which the Contract Term for Existing Rights Is Extended, While Also Adding Rights

13. This issue relates to the accounting for contract modifications involving licenses of IP that extend the original license term and grant additional rights. There is diversity in the application and interpretation of contract modification guidance and licensing guidance in cases in which a modification to a license arrangement involves extensions of the original license term and granting

additional rights to the licensee (that is, the renewal is not at the *same* terms and conditions as the original licenses). The diversity primarily results from different views about whether revenue resulting from the modification should be recognized at the date of the modification (because the modification is accounted for as the termination of the existing contract and the creation of a new contract) or at the start of the renewal period (because of the guidance on license renewals).

14. In discussing the potential alternatives in Issue Summary No. 1, one Task Force member noted that until the issuance of Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which added the renewals guidance, the FASB's accounting guidance on revenue recognition was converged with the IASB's revenue recognition guidance. That Task Force member asked whether the FASB staff had considered removing the renewals guidance as an alternative, and the staff noted that removing the renewals guidance was not a potential alternative because the amendment in Update 2016-10 was intended to reduce diversity and therefore removing that guidance would reintroduce the diversity that existed prior to the issuance of that Update.

15. Another Task Force member requested that if a Working Group is formed, as recommended by the FASB staff, participants be given materials related to the Board's decisions that resulted in Update 2016-10. That Task Force member noted that those materials would help the Working Group as it discusses the potential alternatives. One Task Force member also indicated that the Working Group should include participants from industries outside the software industry.

Issue 2: Accounting for the Revocation of Licensing Rights (Including Conversion of Term Software Licenses to SaaS Arrangements

16. An emerging issue in the software industry is the existence of contracts that include, whether from inception or by subsequent modification, a feature that allows a customer to convert from an on-premise software license to a hosted software solution (such as SaaS arrangements). Revenue from a license to functional IP is recognized at a point in time when the entity provides a copy of the IP to the customer and the period in which the customer is able to use and benefit from the license has begun. Revenue from SaaS arrangements is typically recognized over time because the performance obligation likely would meet the criteria for over time recognition. Therefore, questions have arisen about how to account for the conversion of a point-in-time license to a service provided over time.

17. One Task Force member noted that similar situations exist in the healthcare and pharmaceutical industries. Specifically, these industries deal with chargebacks and returns that can be a significant portion of the reconciliation of gross sales to net sales. That Task Force member asked the staff to look at how this Issue may affect those industries.

18. Some Task Force members noted that when developing the existing guidance on accounting for licenses and SaaS arrangements, there was an emphasis on consistency between the accounting from the vendor's perspective and the customer's perspective. Those Task Force members suggested that the FASB staff consider the customer's perspective as it develops the alternatives.

19. One Task Force member encouraged the staff to consider the economics of the transaction (for example, pricing structures and options) and how the potential alternatives would reflect those economics.

20. A Task Force member suggested that the staff consider another potential alternative under which the term of the license is considered to be one day, so the entity would only recognize revenue for that day. That Task Force member stated that this alternative would remove many of the complexities associated with the issue.

Status

On July 16, 2019, the FASB held a nonpublic Working Group meeting to gather feedback and further develop the alternatives for this Issue. The Working Group's feedback will be reported in an issue summary supplement. Further discussion is expected at a future EITF meeting.